

## **SECTION ONE**

# **INTERNATIONAL AFFAIRS AND EUROPEAN INTEGRATION**

## **SUBSECTION**

### **International Affairs**

## Analysis Correlation Between Accommodation in Function and Number of Tourists Arriving in Romania during 2000–2008

ANDREI Ruxandra

Romanian-American University of Bucharest  
ruxandrei@yahoo.com

### Abstract

*Romania's progress demands to be included the principals of sustainable development in it's development strategy. Within this framework the importance of studying and analyzing the tourism evolution can be noted.*

*The need of knowledge regarding the fluctuations canned by the results of the tourism related activities allowed the approach of the issue related to the correlation stage of the accommodation capacity and the number of tourists arrived within the accommodation structures in Romania during the 2000-2008 period.*

*The mutual involvement relationship, existence, direction form and intensity of the connection between the two indicators are analyzed within this paper.*

*The conclusions following the analysis of the obtained results, shape as an upper phase in filling in the image of the Romanian tourism, bearing in mind the establishment and application of sustainable development strategies.*

**Key words:** tourism evolution, accommodation structures sustainable development strategies.

**JEL Classification:** L83

### 1. Introduction

Tourism is considered as one of the "wonders" of the modern world, by it's size and the coverage of activities. Tourism appeared since antiquity, but wore different forms, specific to the changes of times which it served, enlarging it's content and the sphere of activity. It strated as a form of entertainment for the elite, but in time by the diversity of the participants, became a mass activity. Nowadays, tourism is one of the greatest sectors with the fastest growth in international bussines.

At the moment, representing one of the biggest industries in the world, is considered one of the most important factors in global economic development. Tourism, represents a social and economic phenomenon specific to modern civilisation, well anchored in the life of society, as such beeing influenced by it's evolution. Targeting large segments on the market and fully answering to their needs, tourism detaches itself through a high dinamism, both national and international.

Analized in the relationship with national economy, tourism acts like a dynamic element of the global sistem. Tourism involves a specific request of goods and services, request that means a growth in the production sector of these goods.

Given that is more obvious the relationship between tourism and the sustainable development of the human society, we will understand, with ease, the concerns for especially presenting the landscape and the enviormnet, of natural values.

Romania's progress means including the principles of sustainable development in it's development strategy. In this context the importance of studying and analyzing the evolution of turistic activities, of the past years, can be seen.

The necessity of knowing the fluctuations recorded by the results of tourism activities, allowed the aproach of the problem regrading the relationship between the working accomodation capacity and the number of tourists received by Romania between 2000 and 2008.

Adaptation of the tehcnical and material inventory to the turistic request represents one of the basic particularities of tourism, from which the accomodation, an essential component, makes an equilibrium point for the touristic activity.



## 2. Analysis correlation between accommodation in function and number of tourists arriving in Romania during 2000 – 2008

Essential element in running the accommodation process, capacity of working accommodation is an indicator that has deep implications in establishing the efficiency of the turistic activity.

Studying the evolution of the working accommodation capacity from Romania involves an analysis in the dynamics of this indicator:

*Table 1 Capacity of working accommodation and number of tourists received by turistical structures in Romania*

Years	Working accommodation (thousands places/days) $x_i$	Number of tourists in accommodation (thousands) $y_i$
2000	50,20	4,92
2001	51,88	4,88
2002	50,75	4,85
2003	51,63	5,06
2004	53,99	5,64
2005	54,98	5,81
2006	56,50	6,22
2007	57,14	6,97
2008	59,19	7,13
Total	486,26	51,48

Sursa: *Breviarele statistical, Romanian tourism* " - National Institute of Statistics, editions: 2001-2009.

The statistical data presented in table 1, allowed a graphic representation with the purpose of highlighting the evolution tendency of the analyzed indicator.

The evolution tendency of working accommodation, indicates a growth of working accommodation in Romania, between 2000 and 2008. This growth of the number of places/days is the result of the efforts made by the people involved in the running of turistic activities with the purpose of giving to tourists as many places as possible in the 365 days of one year.

The second approached indicator for establishing the relationship is the number of tourists received by the turistical structures in Romania between 2002 and 2008 (table 1).

The Reciprocal relationship of involvement, existence, direction, form and

intensity of the bond between the capacity of working accommodation and the number of tourists received by the accommodation is studied by applying a few correlation methods.

In general, links between phenomena are based from the fact that each phenomenon occurs under the influence of a complex of factors, some essential, others with a smaller influence and less significant. Research these links are based on the use of methods and simple methods for the interpretation of the links or the applicable analytical methods and processes by using mathematical functions.

Linear regression method involves determining the form and analyze the links between indicators, based on an algorithm applied and presented in Table 2.

*Table 2 Algorithm for calculating the linear regression and correlation ratio*

Years	$x_i^2$	$x_i y_i$	$y_i$
2000	2520,04	246,98	4,68
2001	2691,53	253,17	5,13
2002	2575,56	246,14	4,83
2003	2665,66	261,25	5,07
2004	2914,92	304,50	5,70
2005	3022,80	319,43	5,97
2006	3192,25	351,43	6,38
2007	3264,98	398,27	6,56
2008	3503,46	422,02	7,11
Total	26351,2	2803,19	
Years	$(y_i - \bar{y})^2$	$(y_i - \bar{y})^2$	$y_i^2$
2000	0,0576	0,64	24,2064
2001	0,0625	0,5376	23,8144
2002	0,0004	0,7569	23,5225
2003	0,0001	0,4356	25,6036
2004	0,0036	0,0064	31,8096
2005	0,0256	0,0081	33,7561
2006	0,3481	0,25	38,6884
2007	0,1681	1,5625	48,5809
2008	0,0004	1,9881	50,8369
Total	0,6664	6,1852	300,8188

Solving the normal equation system to determine the parameters a and b, as follows:

$$\begin{cases} na + b \sum x_i = \sum y_i \\ a \sum x_i + b \sum x_i^2 = \sum x_i y_i \end{cases} \Rightarrow \begin{cases} a = -8,87 \\ b = 0,27 \end{cases}$$

So the linear equation:

$$\hat{y} = -8,87 + 0,27x_i$$

The existence and the intensity of the bonds between the capacity of working accommodation and the number of tourists

received by the accommodation in Romania, were analyzed through applying the method of linear regression, the ratio of correlation and the correlation coefficient.

Determination of the ratio of correlation (R) involves, first of all, finding the determination coefficient ( $R^2$ ).

$$R = \sqrt{R^2}$$

$$R^2 = 1 - \frac{\sum(y_i - \hat{y})^2}{\sum(y_i - \bar{y})^2} = 1 - \frac{0,6664}{6,1852}$$

$$R^2 = 0,8923 \quad (89,23\%)$$

The number of tourists received by the accommodation is influenced in proportion of 89.93 % by the capacity of working accommodation, the rest being influenced by other factors.

$$R = \sqrt{0,8923} = 0,9464 \approx 0,95$$

Because the regression coefficient is bigger than 0, the bond between the capacity of working accommodation and the number of tourists received by the accommodation is direct. Also, the value of the correlation ratio 0.95, shows us that the bond between the two indicators is very strong.

Applying the correlation method involved determination of the correlation coefficient

*Table 2 Calculation algorithm of the correlation coefficient*

Years	$x_i^2$	$x_i \cdot y_i$	$y_i^2$
2000	2520,04	246,98	24,2064
2001	2691,53	253,17	23,8144
2002	2575,56	246,14	23,5225
2003	2665,66	261,25	25,6036
2004	2914,92	304,50	31,8096
2005	3022,80	319,43	33,7561
2006	3192,25	351,43	38,6884
2007	3264,98	398,27	48,5809
2008	3503,46	422,02	50,8369
Total	26351,2	2803,19	300,8188

Applying the calculation algorithm led to obtaining some results, that were used in the relationship

$$r = \frac{n \sum x_i y_i - \sum x_i \cdot \sum y_i}{\sqrt{[n \sum x_i^2 - (\sum x_i)^2] \cdot [n \sum y_i^2 - (\sum y_i)^2]}}$$

Which led to obtaining the next result :

$$r = \frac{196,046}{\sqrt{40706,183}} = \frac{196,046}{201,7577} = 0,9716$$

Value of the correlation coefficient, 0.97, shows the existence of a strong bond between the working accommodation and the number of tourists received by the accommodation.

Because, the value of the the correlation ratio is equal with the value of the correlation coefficient, we can highlight the tendency of linearity of the bond established between the analyzed indicators.

### 3. Conclusions

We can mention that the bond established between the capacity of accommodation and the number of received tourists by accommodation in Romania, represents an important key for the future of Romanian tourism. Si, in the terms of a sustainable development of tourism in our country it is asked to maintain the best ratio between working accommodation and the number of tourists, because the evolution of one in an opposite direction quickly disturbs the evolution of the other.

We can speak of a best ratio in the conditions of an offer that includes a working capacity at a high standard of quality, with prices that more social categories can afford and a high number of tourists, but inside the boundaries of environmental standards of employment of an area, which allow maintenance, reliability and the quality of the places made available.

In general, the structural changes made to the accommodation since 2000 until 2008 are not significant. This situation is not a favorable situation for Romanian tourism, knowing the advantages that Romania would had economically, in the terms of a significant growth in foreign tourists arrivals in the accommodation.

An important factor that determined this evolution is represented by the loss of financial power of the Romanian population, because of the slow growth of income compared to the leap of the prices and the start of the actual economic crisis.

#### 4. References

[1] R. Andrei, Turismul în contextul dezvoltării durabile, Sesiune anuală de Comunicări Științifice, Universitatea Româno-Americană, Editura ProUniversitaria, București, 2005  
[2] Isaic-Maniu, C. Mitruț, V. Voineagu, Statistică, Editura Universitară, București, 2003

[3] C. V. Hapenciuc, Turismul la începutul mileniului III. Provocări și tendințe, Editura Sedcom Libris, Iași, 2006

[4] Institutul Național de Statistică - Breviarele statistice „Turismul României”, edițiile : 2001-2009

## Thoughts on Globalisation and Equality in Contemporary World

BACA Eleonora  
POPESCU Alina

„Ovidius” University of Constanta  
eleonorabaca@yahoo.com  
alinadpopescu@yahoo.com

### Abstract

*In recent years, it has become increasingly common to raise concerns linking the two main themes of this paper, globalisation and equality. Globalisation is quite often blamed for exacerbating social and economic inequalities both within and between countries. As well as exacerbating pre-existing inequalities, it is also claimed that it is creating new forms of inequality, such as inequalities in power to shape the rules which regulate the emerging global order. Whether or not it is exacerbating pre-existing inequalities, or creating new forms of inequality, this highly debated matter of globalisation certainly makes some inequalities more morally or politically significant than they would otherwise have been.*

**Key words:** globalisation, McDonaldization, society, consumption practice, fast-food industry

**JEL Classification:** Z1

Much has been written on the subject of globalisation, particularly in the past decade, that would make it a ‚trendy’ topic. We are aware of the fact that another addition to the list may appear self-indulgent. However, many topics and aspects still need to be discussed and clarified.

**Definition:** (wiki source) **Globalization** (or **globalisation**) in its literal sense is the process or transformation of local or regional phenomena into global ones. It can be described as a process by which the people of the world are unified into a single society and function together. This process is a combination of economic, technological, sociocultural and political forces.[1] Tom G.

Palmer of Cato Institute defines "globalization" as "the diminution or elimination of state-enforced restrictions on exchanges across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result." [2]

Thomas L. Friedman "examines the impact of the 'flattening' of the globe", and argues that globalized trade, outsourcing, supply-chaining, and political forces have changed the world permanently, for both better and worse. He also argues that the pace of globalization is quickening and will continue to have a growing impact on business organization and practice. [3]

Noam Chomsky argues that the word globalization is also used, in a doctrinal sense, to describe the neoliberal form of economic globalization. [4]

Herman E. Daly argues that sometimes the terms internationalization and globalization are used interchangeably but there is a slight formal difference. The term "internationalization" refers to the importance of international trade, relations, treaties etc. International means between or among nations. "Globalization" means erasure of national boundaries for economic purposes; international trade (governed by comparative advantage) becomes inter-regional trade (governed by absolute advantage). [5]

Globalisation basically describes a process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. However,

globalization is usually recognized as being driven by a combination of economic, technological, sociocultural, political, and biological factors. The term can also refer to the transnational circulation of ideas, languages, or popular culture through acculturation.

Globalization most often refers to the growth of transnational politics, the integration of the world economy, and a subsequent blending of cultures around the world. While there might be remote areas still untouched by free trade, television, or migration, the scope of globalization's impact is by definition global. There are few regions of the world unaffected by the global flows of investment, tourists, pollution, people, crime, and so on.

The world economy is becoming more internationalized and globalised. Trade barriers are lower than ever before and will probably get lower. There are also some technological factors which increased the volume of trade in recent years. First, the vast amounts of data which can be kept on computers and communicated instantly mean that the knowledge of traders of what is available at what prices around the world is widespread. Not only is the flow of information much greater than it used to be, but the ability to handle the large amounts of information provided is much greater, courtesy of the computer. A global market-place in this sense can be a reality. Secondly, the weight to value ratio of many goods is probably much lower than it was. Thirdly, cheap air transport means that perishable commodities like strawberries and flowers can be carried quickly and, again because of a low weight/value ratio, are worth transporting all around the globe. Fourthly, containerisation makes even the trading of heavy commodities by sea much cheaper than it was. Most importantly, the shifting of goods from ships to lorries to trains and so on, which is a very expensive aspect of transportation, is vastly simplified. Finally, the instantaneous movement of information makes it possible to trade services between countries which would have simply been untradeable before.

We can usefully distinguish three sorts of capital movements which are all rather different things. First are movements of capital across state boundaries which are for 'real investment'. Second are exports of capital

goods where the commodities used to make further commodities are exported. Third are speculative moves of capital. The first and second need not be particularly closely correlated. Capital goods may be purchased with money provided internally or by a third party. Conversely loans might be made by one country (that is, capital exports) which are used for consumption purchases in another. Notoriously, loans can be used for military purposes which are not, of course, expanding the productive capacity of the recipient country.

Both capital movements and the movement of capital goods are likely to be increased rather than decreased by the same factors as related to trade in general. The wider the knowledge of opportunities—which is very wide today—the more trading is likely to take place. In addition, the nature of capital goods is altering so that, like consumer goods, they are easier to transport.

Capitalism, as a primary engine of globalization drives the movement of people, the exploitation of resources, the opening of markets, and the diffusion of technology. It extends commodity chains across the planet in search of the lowest price for labour, the greatest expertise, the cheapest materials, and the largest markets.

What does globalization mean to those experiencing it? Above all, many commentators notice that the trend creates cultural possibilities that might have been impossible in the modern era when state, economy, culture and people were more tightly aligned. The effect of globalization is to increase the number of choices for actors to the extent that '[m]ultiple identities and the decentering of the social subject are grounded in the ability of individuals to avail themselves of several organizational options at the same time' (Nederveen Pieterse 1995: 52)[6]. In other words we might say that theoretically it generates a host of new organizational forms that increase the options for local actors, without altering traditional forms. Thomas Friedman considers globalization as the dreamed-of opportunity for economic development and political liberalization for 'backward' peoples around the world. [7] Postcolonial scholars smell crypto-imperialist motives in the exploitation of subaltern labour markets and natural resources (Antonio and

Bonanno 2000)[8]. Arjun Appadurai (1996) sees globalization as the unraveling of the quintessential modern project of nation-building, undermined by a myriad hybrid identities and cultures.[9]

Various points of analysis and perspectives can be invoked and identified, however, since our approach is mainly an economic and cultural one, a main feature needs to be underlined: the key cultural changes of the late twentieth century are the increasing commodification of social life and the increasing velocity and centrality of media. Commodities and media became the material of self-creation as well as legitimate objects of social scientific inquiry.

When focusing on culture and commodities in the late twentieth century one it is difficult to ignore McDonaldization and its relation to globalization. It is a new process and as we learn from Weber, it has a profound effect on the way individuals experience their world. The term describes the rationalization of society—the places and spaces where people live, work and consume—using the fast-food restaurant as a paradigm. The process is a direct consequence of the ascendance of four related processes: a push for greater efficiency, predictability, calculability, and replacement of human with non-human technology (Ritzer 2000a). McDonaldized venues, then, emphasize standardized products and quantity over quality. These practices and values give McDonaldization a competitive advantage over other models of organization; they make it possible to manage large numbers of people (be they employees or customers) in an efficient way. A fifth consequence of McDonaldization is the irrationality of rationality; that is, its principles tend, among other things, to devalue consumers and workers. Promoters of the McDonaldization thesis, George Ritzer and Todd Stillman assert that social life is being accessed by rationalized systems, thus “fundamentally changing the way people work, consume and interact in a wide variety of settings” (2003: 34). This phenomenon, argue the authors of the study on “*Assessing Americanization, Globalization and McDonaldization*” (in Beck et al. (eds) 2003) keep changing traditional ways of life, often to the detriment of local practices.

The McDonaldization thesis is also supported by a group of anthropologists in their study entitled *Golden Arches East* (1997). Their attitude towards the effects the new production/consumption practice is mostly positive. James L. Watson, for example, notes that when it opened in Hong Kong in 1975, McDonald's was the first restaurant to consistently offer clean restrooms, driving customers to demand the same of other restaurants and institutions. Similarly, David Y. H. Wu argues that, during the first few years of the McDonald's franchise in Taiwan, the company was reputed for starting “a revolution in consumers' awareness of public sanitation” (134). This revolution led to improved standards of sanitation and hygiene in the urban areas.

As we have seen in the examples above, some critics suggest that the company should be given credit for increasing the standard of service in the markets that it enters.

On the other hand, when analyzing the impact McDonald's had on East Asia and Hong Kong in particular, the same researchers draw attention on the ‘localization’ of transnational systems (72). In this sense, a classic case of the “localization” of transnational systems is represented by McDonald's experience in Beijing. Two of the most important features of McDonald's in the United States, namely efficiency and economic value, appear to be far less significant in Beijing's cultural setting. “When Chinese workers load their families into a taxi and take them to McDonald's, spending onesixth of their monthly income in the process, efficiency and economy are the least of their concerns. When customers linger in McDonald's for hours, relaxing, chatting, reading, enjoying the music, or celebrating birthdays, they are taking the “fast” out of fast food”, remarks Yunxiang Yan while focussing on the manner the American fast-food system was appropriated in the Chinese capital. The conclusion reached by the critic is that “the McDonald's restaurants in Beijing have been transformed into middle-class family establishments, where people can enjoy their leisure time and experience a Chinese version of American culture” (73).

Most leading transnational corporations,

McDonald's included, rely their development on their capacity to increase consumer demand and expand the fast food market. In other words, to build on their initial success, McDonald's restaurants must localize their foods (and some of their cultural associations as well), converting them into something that is routine and ordinary for the residents, while somehow maintaining their image as the symbol of the American way of life. To his purpose, McDonald's management has made remarkable efforts to fit into the host cultural setting.

Moreover, a key feature of this localization process is that McDonald's has been regarded as a model of management and food hygiene by local imitators as well as by government officials.

If so far the focus has been on presenting the positive impact of transnational corporations on the local society and economy, we should also give credit to the critics brought against the process of globalization. Among the many accusations proliferated stand the introduction of unhealthy eating habits and the introduction of unhealthy eating habits. Besides, McDonald's has been the target of criticism for allegations of exploitation of entry-level workers, use of sweatshop labor to produce "happy meal" toys, ecological damage caused by agricultural production and industrial processing of its products, selling unhealthy food, production of packaging waste, exploitative advertising (especially targeted at children, minorities, and low-income people), and contributing to suffering and exploitation of livestock.

The main service features of McDonald's establishments, as we have seen, are based on cleanliness, efficiency, and economy. These characteristics affect the ways in which such food service is perceived by people in the indigenous culture. Cleanliness may turn out to be extremely important, but not always. Efficiency may or may not matter to clients in different cultural settings.

Economy, so critical in fast food service competition in the United States, does not seem to be quite relevant elsewhere, because all Western fast foods are likely to be

relatively expensive for consumers abroad. Consequently, the success of United States fast food outlets overseas is not at all necessarily a function of the features for which they are originally advertized. These are just some of the concerns which have an effect on the problem of food culture and globalization. Many more arise as a result of the introduction of fast food restaurants like McDonald's into diverse cultures around the world. Some changes are embraced by the residents while others are seen as a threat to the traditional way of life. Some are adverse to the idea of globalization as a hold and perceive McDonald's as a representation of this ideal and as a result hold them responsible.

The cases presented here are all East Asian. But we should point out that, other than geographically, the term does not connote much that is useful for our analysis. East Asian or East European, such lifestyle changes presuppose among other things a clientele economically able and willing to try new foods, who do not perceive their behavior in this regard as intentionally deviant. What they are trying is *new* as they see it, not *bad*. Those who see their innovative behavior as positive, however, may be flanked by other customers for whom such retail outlets are attractive precisely *because* they are viewed—by them and by some nonpatrons—as socially negative or questionable. That is to say, these new institutions may serve (as new things may, anywhere) as media of protest or resistance, and certainly of change.

## References

- [1]<http://en.wikipedia.org/wiki/Globalization>
- [2][Globalization Is Great!](#) by Tom G. Palmer, Senior Fellow, Cato Institute
- [3]Friedman,Thomas L. "The Dell Theory of Conflict Prevention". *Emergin: A Reader*. Ed. Barclay Barrios. Boston: Bedford, St. Martins, 2008. 49
- [4] [ZNet, Corporate Globalization, Korea and International Affairs, Noam Chomsky interviewed by Sun Woo Lee, Monthly JoongAng, 22 February 2006](#)
- [5] Daly, Herman E., Globalization versus Internationalization, 1999, at <http://www.globalpolicy.org/component/content/article/162/27995.html>
- [6] Pieterse, Nederveen,"Globalization and Culture: Global Melange", Rowman & Littlefield, 2003, p 45.

- [7] Friedman, Thomas (1999), *The Lexus and the Olive Tree*. New York: Farrar, Strauss, and Giroux, p. 134.
- [8] Antonio, Robert J., and Alessandro Bonanno (2000), 'A New Global Capitalism? From "Americanism and Fordism" to "Americanization-Globalization"', *American Studies* 41(214): 33-77.
- [9] Appadurai, Arjun *Modernity at Large*. Minneapolis: University of Minnesota Press, (1996), pp. 56-60
- [10] Beck, Ulrich, Sznaider, Natan, Winter, Rainer, *Global America? The Cultural Consequences of Globalization*, Liverpool University Press, 2003
- [11] Yan, Yunxiang, "McDonald's in Beijing: The Localization of Americana", in Watson, James L. (ed.), *Golden Arches East: McDonald's in East Asia*, Stanford University, Stanford, 1997, pp. 39-76
- [12] Wu, David Y. H., "McDonald's in Taipei: Hamburgers, Betel Nuts, and National Identity", in Watson, James L. (ed.), *Golden Arches East: McDonald's in East Asia*, Stanford University, Stanford, 1997, pp. 110-135
- [13] Watson, James L., "McDonald's in Hong Kong: Consumerism, Dietary Change, and the Rise of a Children's Culture", in Watson, James L. (ed.), *Golden Arches East: McDonald's in East Asia*, Stanford University, Stanford, 1997, pp. 77-109



## Measuring the Creative Europe

BOBIRCA Ana  
MICLAUS Paul-Gabriel  
DUMITRESCU Sorin  
*Academy of Economic Studies of Bucharest*  
*ana.bobirca@rei.ase.ro*  
*pmiclaus@gmail.com*  
*sorinase@gmail.com*

### Abstract

*Our research aims at constructing a creativity composite index designed to capture the growing role of creativity in driving economic and social development for the 27 European Union countries, including Romania.*

*The paper proposes a new approach for the measurement of EU-27 creative potential and for determining its capacity to attract and develop creative human capital. We apply a modified version of the 3T model developed by Richard Florida and Irene Tinagli for constructing a Euro-Creativity Index.*

*The present research represents the first attempt to apply the 3T framework at the EU-27 European level and in a dynamic manner, covering an extended period of time.*

*The resulting indexes establish a quantitative base for policy makers, supporting their efforts to determine the contribution of creativity to economic development.*

**Key words:** creativity, EU-27 creative potential, creativity index .

**JEL Classification:** L80

### 1. Context

It became apparent nowadays that Europe's position in the world is increasingly determined by its capacity to innovate, both socially and economically. The role of creativity in this perspective was so far largely overlooked, with the mainstreaming of creativity in policies to foster innovation and with the move towards measuring the socio-

economic performance of the sector growing to be a recent concern.

While the perception of creativity as having only a marginal economic contribution still persists, this may explain to a certain extent the lack of statistical instruments to quantify the contribution of the creative sector to economic growth.

Our research represents an attempt to remedy this situation and aims to contribute towards filling this gap, by constructing a creativity composite index designed to capture the growing role of creativity in driving economic and social development for the 27 European Union countries, including Romania.

According to recent research undertaken by the European Commission [5], the creative sector is a growing one, developing at a higher pace than the rest of the economy. Also, the sector growth in terms of jobs out-performs the rest of the economy. Furthermore, it drives many other sectors of the European economy, and in particular innovation and ICT sectors.

By attending to these considerations, our paper is mainly focused on exploring measurement possibilities of creativity in a European comparative manner, with the final goal of positioning Romania's creative sector in the European creative economy.

We attempt to answer the following questions: is it possible to assess creativity by using existing statistical data series and large scale surveys? Is it possible to measure creativity in a comparative manner at European level?

Therefore, in the following sections, we highlight the methodology used to construct

creativity indexes, as well as the main results obtained. We also provide an interpretation of our findings and conclude by emphasizing on the potential of creativity to promote and sustain competitiveness.

## 2. Methodology and Data

Our research proposes a new approach for the measurement of EU-27 creative potential and for determining its capacity to attract and develop creative human capital. We apply a modified version of the 3T model developed by Richard Florida and Irene Tinagli [2] for constructing a Euro-Creativity Index.

Our work extends and adapts to the current European and Romanian context the conceptual framework and indicators introduced by Richard Florida [1] and further adapted by Florida and Tinagli [2], as well as other works such as Europe in the Creative Age [5] and Global Creativity Index [4]. It is based on the 3T model of economic development – talent, technology and tolerance – used to analyze and compare 27 European countries.

A European and Romanian Creativity Index are developed, by adding new relevant indicators to the existing framework, as well as by a dynamic approach to the study of creative sector development for the 2001-2007 period of time.

Our index is based on a wider set of indicators and sub-indicators than those used in previous studies, representing more specific and appropriate tools for capturing the creative vitality of countries in Europe.

The present research represents the first attempt to apply the 3T framework at the EU-27 European level and in a dynamic manner, covering a large period of time.

The resulting indexes establish a quantitative base for policy makers in their efforts to determine the contribution of creativity to economic development.

Our proposed European-Creativity Index has a three-dimensional structure, as follows:

- the Talent Index, based on three indicators: the creative class index, the human capital index and the scientific talent index;
- the Technology Index, composed of three indicators: the innovation index, the technology innovation index and the research&development index;

- the Tolerance Index, based on three dimensions: the tourism openness index, the students index and the creative talent index.

For the purpose of the study, we are calculating nine component sub-indexes, which represent the annual composite indexes mentioned above; annual aggregated creativity indexes, which represent the annual European Creativity Indexes; a global aggregated creativity index, which is the European Creativity Index corresponding to the entire period of time analyzed; trend indexes, both at composite index level and at aggregated level (i.e. the European Creativity Trend Index and the Global European Creativity Trend Index), as well as the Creativity Matrix.

The talent measures include:

- the Creative Class Index, which measures the number of people employed in creative occupations as percentage of total employment. The data used is drawn from the International Labor Organization statistics for the 27 European countries. A similar procedure was used by Florida&Tinagli, as well as by the European Commission for approximating statistics for the cultural and creative sector;

- the Human Capital Index represents the percentage of population age 25-64 with a bachelor's degree or above and is based on EUROSTAT data;

- the Scientific Talent Index is calculated as the number of researchers per thousand workers and is based on data collected from EUROSTAT. The data is referring to people employed in research-related activities by sector, expressed in full time equivalents.

The European Talent Index is a composite index that combines these 3 sub-indexes. It is calculated based on a system of scores, the country with the highest values being assigned the highest score (which is 27). For the other countries, a distance indicator is calculated, reflecting their relative difference in values of the sub-indexes from the top.

The technology measures include:

- the Innovation Index, calculated as the number of patent applications to the EPO per million inhabitants and is based on data from EUROSTAT.

- the Technology Innovation Index, calculated as the number of high-tech patent applications to the EPO per million inhabitants

and is also based on EUROSTAT data.

- the R&D Index, which represents the R&D expenditure as percentage of GDP and is drawn from the EUROSTAT data.

The European Technology Index combines the three measures illustrated above. It is based on a scale from 0 to 27 and is calculated in a similar manner with the European Talent Index.

The tolerance measures include:

- the Tourism Openness Index, calculated as the number of international tourist arrivals as percentage of total population. The choice of this indicator has been determined by the need to illustrate the tolerance to foreigners, as well as the degree of exposure to social and cultural diversity. The data is collected from UNCTAD.

- the Students Index, which represents the number of students studying abroad and the number of foreign students studying on the domestic market, as percentage of the total number of students. The data for constructing this index is drawn from EUROSTAT.

- the Creative Trade Index, calculated as creative goods and services export as percentage of total exports. This is the indicator used by UNTACD [6] to determine the level of development of the creative sector and it was included in our study in order to emphasize the economic dimension and impact of the creative sector. Data is drawn from UNCTAD statistics.

The European Tolerance Index combines the three measures indicated above. It is also based on a system of scores ranging from 0 to 27.

The annual European Creativity Index is computed as follows: the values corresponding to the nine sub-indexes are ranked, the country with the highest value being ranked the first; the ranks are normalized; the index is calculated as the difference from 1 of the average of the nine values calculated.

The methodology for calculating the Global European Creativity Index is similar to the one presented above: the aggregated values are obtained as a difference from 1 of the average of each group of three normalized values.

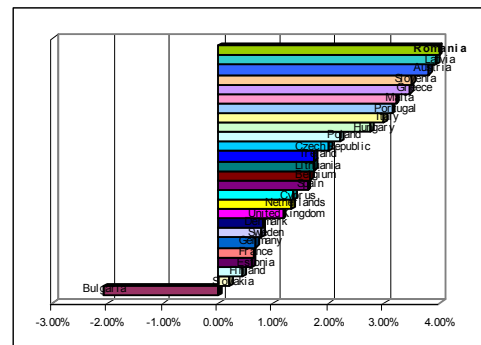
Trend indexes are calculated based on the average annual growth coefficients and following the methodology illustrated above.

The correlation matrix (the Creativity Matrix) is a bidimensional representation of the relationship between the European Creativity Index and the European Creativity Trend Index. It allows for the classification of the countries analyzed in four different categories: *leaders*, which are countries with developed creative economies and with high growth rates in creative potential; *up and comers*, which are countries with lower European Creativity Index scores, but with higher growth rates; *losing ground*, which are countries with relatively high European Creativity Index scores, but cannot sustain the growth of their creative capabilities; and *laggards*, which are countries with low scores for their European Creativity Index and with low rates of creative growth.

### 3. Results and discussion

The values of the Creative Class Index indicate that for some of the European countries the percentage of people employed in creative occupations is constantly over 30% (Sweden, Denmark, the Nederland's, Finland, Germany), demonstrating their orientation towards an occupational structure that favors the development of the creative sector. The involvement of the recent EU member countries like Czech Republic, Slovenia and Slovakia in the development of the creative class is surprising, illustrating their commitment to stimulate creativity and creative talent. The creative class represents only 17% of the working class in Romania, but the growth rhythm is impressive, Romania being on the top position with respect to the growth potential of the creative class.

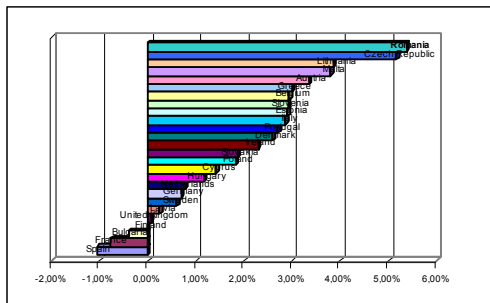
Figure 1. European Creative Class Growth Index



For the composite European Talent Index, a polarization of the European countries is apparent: some countries constantly register high values (e.g. Finland, Denmark, the Netherlands, France), while others are occupying the last positions for the entire period of time (e.g. Spain, Greece, Cyprus, Portugal).

As for Romania, it sits on the 25<sup>th</sup>-26<sup>th</sup> position of the ranking, with low values of the sub-indexes, especially of the Scientific Talent Index (the lowest number of researchers in Europe). Still, Romania ranks the first with respect to its growth rhythm, determined particularly by the trend of the Creative Class and of the Human Talent Indexes.

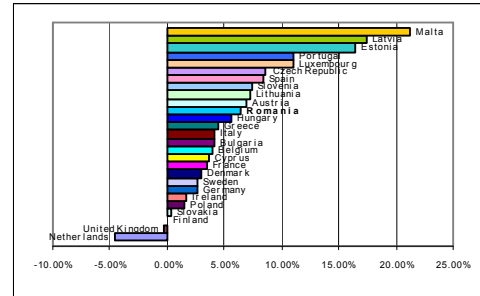
Figure 2. European Talent Growth Index



The results obtained for the European Technology Index indicate that the Nordic countries occupy the first positions. Their orientation towards innovating and developing new technologies is also supported by the amount of expenditure allocated for research and development, illustrated through the respective values of the R&D Index.

Romania sits on the last position, due to the very low number of patent applications, as well as to the extremely low level of R&D expenditure as a percentage of GDP (i.e. 0.45%). With respect to the growth rhythm, Romania is on the middle of the European countries ranking, having a moderate increase, determined especially by the increase in R&D spending.

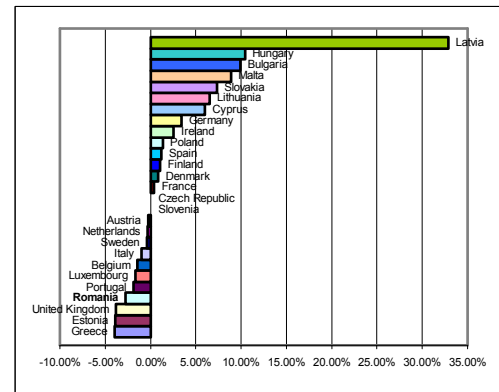
Figure 3. European Technology Growth Index



The results obtained for the European Tolerance Index reveal a change in the ranking of the European countries: Slovenia, Luxembourg, Hungary, Estonia occupy the first positions, particularly as a result of the values registered by the Tourism Index and by the Creative Trade Index. The evolution of the European countries performance is more volatile for this index.

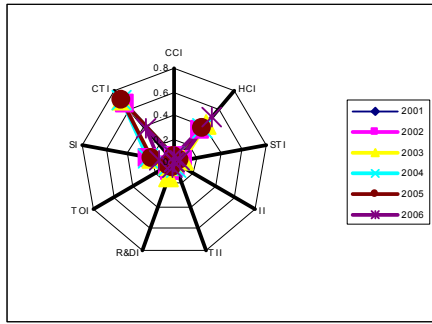
Romania ranks better for this index, especially due to its international trade with creative goods and services. Still, its growth rhythm is negative, indicating a deterioration of its international position, both in terms of international tourism, as well as international creative trade.

Figure 4. European Tolerance Growth index



The results for the European Creativity Index confirm the positioning of the Nordic countries, with Finland as the top performer, followed closely by Sweden, Denmark and the Netherlands. At the other end of the ranking, four nations are laggards: Lithuania, Greece, Bulgaria and Romania.

Figure 5. Evolution of the Romanian Creativity Index



By analyzing the evolution of the Romanian Creativity Index, we can conclude that the best values of the component indexes registered by Romania are for the Creativity Trade Index, for the Human Capital index and for Students Index.

Figure 6 illustrates the contribution of each component of the European Creativity Index (ECI) to the aggregated value. We notice that for the developed economies, the value of the ECI is significantly determined by the Talent and Technology Indexes, while for the countries occupying the middle ground, the contribution of the Tolerance index tends to increase. Romania's ECI score, ranking the last for the entire period analyzed, is largely determined by the Tolerance and Talent Indexes.

Figure 6. The contribution of the ECI components

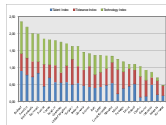
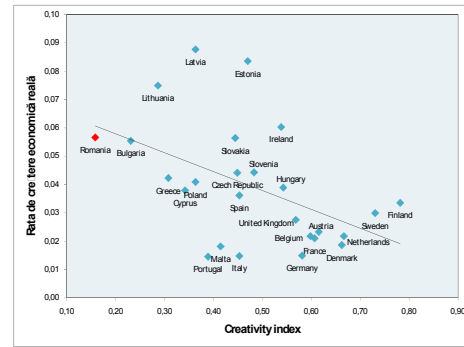


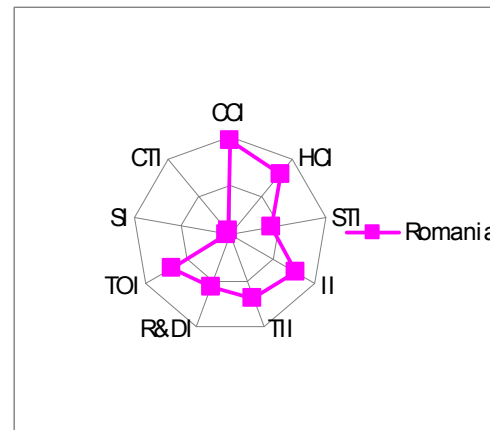
Figure 7 points to an indirect correlation between the values of the ECI and economic growth: the average values for the 2001-2006 period of time indicate that countries with high values of the creativity index had low rates of economic growth.

Figure 7. Correlation ECI – economic growth



The analysis of the trend indexes indicates that Romania is in a much better position, confirming the high growth rates illustrated above for some of the composite indicators. Also, countries that were top performers based on the values of the annual indicators register quite low growth rates.

Figure 8. Romanian Creativity Trend Index



The contribution of the nine indicators to the Romanian Creativity Trend Index highlights the fact that the impressive growth rate of the number of people employed in creative occupations contributed the most to the aggregated value of the trend index, which ranks Romania on the ninth position among the 27 European countries analyzed. The other indexes that contribute towards increasing the aggregate value of the Romanian Creativity Trend Index are the Human Capital Trend Index and the Innovation Index, illustrating the potential of Romania to engage in a catching up process, and the need for policy initiatives aimed at supporting creative sector development.

Figure 9 illustrates the contribution of each component of the trend index to the aggregated value. It is important to emphasize the reverse level of contribution to the aggregated value as compared to the European Creativity Index. Here, we observe an increased contribution of the technology and talent indicators for the highest growth countries, which are mostly the developing ones, as compared to the higher contribution of the tolerance index for the developed countries, representing the laggards of this ranking.

The Creativity Matrix places Romania on the group of countries with low scores of the creativity index, but with high growth rates (“up and coming”), indicating its potential to improve its position among the European countries.

Figure 9. The Contribution of the European Creativity Trend Index components

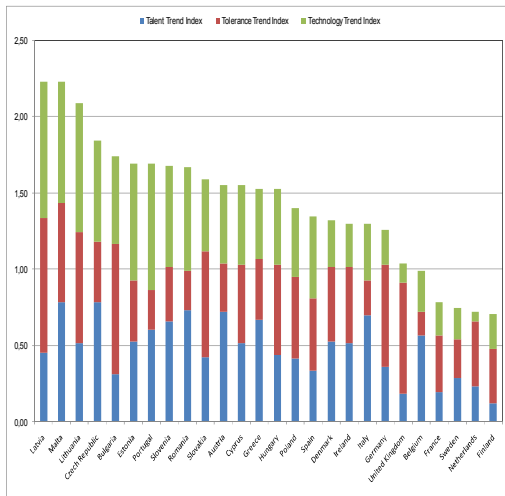
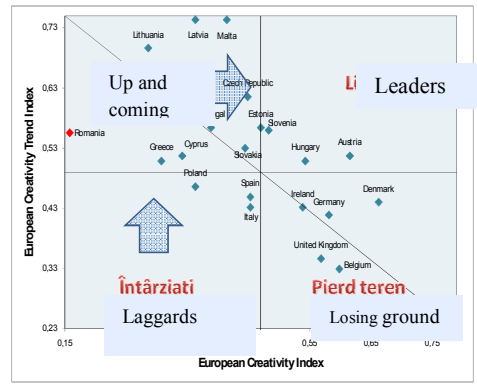


Figure 10. The Creativity Matrix

#### 4. Conclusion

Our research represents the first systematic effort to apply the methodological framework proposed by Florida & Tinagli to all the 27 European Union member countries and for a longer period of time. The results obtained are relevant and illustrative.

The creative class represents on average about 30% of employment in the EU, registering an annual growth rate of 8%, higher in particular for countries with low index values. Romania ranks the first among the EU-27 countries in terms of the growth of its creative class, being in a very good position to mobilize and harness creative assets.

Our analysis confirms the results of Florida and Tinagli, according to which the epicenter of competitive Europe is transferred from traditional powers like France, Germany, Great Britain to a creative cluster of Northern European countries, namely Finland, Sweden, the Netherlands. Finland tops the aggregate rankings of the creativity index. Sweden, Netherlands and Denmark recorded also high values, suggesting their commitment to a development path centered on harnessing the creative economy potential.

Even if it occupies the last position of the ECI ranking, Romania, along with other European countries like Bulgaria, Latvia, Czech Republic, Lithuania recorded high growth rates of their creative potential.

Attracting creative talent is a highly dynamic and very sensitive process. Traditional leaders of this market can easily lose their position, due to the emergence of new and vibrant creative centers. The European Union, capitalizing on its advantages determined by low levels of cultural and trade barriers, is well positioned to exploit the potential to develop the creative economy.

Consequently, the ability of states to attract, retain and develop creative human capital and to exploit creative capabilities tends to become, to a significant extent, the key to global competitiveness. Thus, our survey confirms that talent and creativity have at a greater extent than traditional inputs such as labor or capital, the capacity to deliver sustainable economic growth and social development.

## 5. References:

- [1] R. Florida, *The Rise of the Creative Class and How It's Transforming Work, Leisure, Community and Everyday Life*, New York: Basic Books, 2002.
- [2] R. Florida, I. Tinagli, *Europe in the Creative Age*, Carnegie Mellon Software Industry Publishing, 2004.
- [3] EUROSTAT, *Cultural Statistics*, 2009.
- [4] Hong Kong Special Administrative Region of China Government, Home Affairs Bureau. *A Study on Creativity Index*, 2005.
- [5] KEA European Affairs, *The Impact of Culture on Creativity*, Brussels: European Commission, DG Education and Culture, 2009
- [6] UNCTAD, *The Creative Economy Report*, Geneva, 2008.

## Direct Foreign Investments - Factor of Economic Growth in Romania

BOTESCU Ion  
Ovidius University of Constanza  
ion\_botescu@yahoo.com

### Abstract

*The former socialist countries' transition process towards the market economy was based to a great extent on the foreign direct investments these countries have attracted after 1990. Not even Romania was an exception to the rule. Being at first characterized by a difficult start regarding the FDI entries, Romania has accomplished between 2004- 2008 a series of performances in this domain. Within the same period of time, remarkable economic growths have been registered. In this paper-work I intend to emphasize this connection between the increased volume of FDI entries and the accentuated rhythm of economic growth.*

**Key words:** foreign direct investment, gross domestic product, quotient correlation, global financial crisis

**JEL classification:** F21

### 1. Introduction

In general, a growth of the average annual rhythms of the inputs of foreign direct investments in a country determine a more dynamic economic growth which is reflected in the GDP evolution.

This trend is also manifested in Romania's case, fact represented by the level of the correlation coefficient between the two phenomena. It is remarkable, when taking into consideration the current account deficit, that Romania in the following years to do the actions that assure a consistent absorption of direct foreign investments.

### 2. The growth of ISD inputs – important factor in the evolution of the Romanian GDP

The foreign direct investments entries are very significant for Romania because they supply necessities caused by the lack of capital, increase the utilization of labour force and of other production factors and improve the production structure due to the implemented technologies which have a good effect on our country's exterior commerce. The shortfall in the commercial balance sheet that led in the last years to a shortage larger than 10% in the actual GDP has enforced Romania towards a FDI chase.

Even though Romania had plenty of advantages when comparing to the former socialist countries, the FDI entries were under the possibilities and the necessities of the Romanian economy. Therefore, between 1991 and 2003, the flow of FDI entering Romania reached 11060 million dollars, being close to the number of 11366 that represent the FDI attracted in 2006. This reality has been determined by a series of factors that were discouraging for the foreign investors. Out of these factors we can remember the following: the lack of a stable economy, a defective external perception of the businesses interior climate, the dysfunction of the legislative frame, a significant reduction of the Romanian market absorption potential caused by the diminution of the population's buying force, the lack of a strategy for developing some economic sectors and braches, the conditions of trade on the local market, the inadequate infrastructure, a slow privatization, the regional conflicts etc.

Starting 2004, the annual medium rhythm of foreign direct investments entering Romania has been superior to the previous



period. As a result, between 2004 and 2008 the annual medium of FDI entering Romania reached 9100 million dollars, as compared to 850 million dollars in the period between 1991 and 2003.

This considerable growth of FDI entries in the previous years is due mainly to the NATO's decision in November, 2002 to invite our country to join this organization, followed by its effective adhesion in 2004, as well as by the perspective of Romania's adhesion to the EU in 01.01.2007.

Reaching the level of the communitarian countries, the Romania's adhesion has led to a more consequent enforcement of the running reforms that have favourable consequences upon the converging process within the EU. The necessary environment for increasing the performance index of the FDI (index used within its UNCTAD analyses) will be created if managing the problems concerning the growth of the justice's independence, the efficiency of the fight against criminality and corruption and the achievement of a better transparency in the public administration's activity.

We should also mention the fact that the great performances Romania has achieved in the previous years in its activity for attracting FDI are due to the strengthening of the privatization process which included the Romanian Commercial Bank, S.N. Petrom, Electrica Dobrogea, Electrica Banat, Distrigaz North, Distrigaz South etc.

Practically the between the inflows of FDI and economic growth there is a direct link of

cause and effect. With all the difficulties found in the quantification of this link, it is believed that the inflow of FDI influences very much the economic growth, when it represents more than 40% of the GSP of a country.

Besides the high level of FDI entries, Romania has achieved between 2004 and 2008 one of the fastest economic growing rhythms in EU. As a consequence, we can affirm that there is a direct connection between the level of FDI entering Romania and its GDP's growing rhythm. In order to establish the intensity of the connection between these two economic indicators, which is between the annual FDI entries and the GDP, we can utilize the correlation coefficient (c). This coefficient varies in the [-1;1] interval. The closer the value of c is to the interval's extremity, the stronger is the correlation between these two indicators. If c records the '0' value, we can say that there is no correlation between the two variables.

The formula used for calculating the correlation coefficient is:

$$C = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \cdot \sqrt{n \sum y^2 - (\sum y)^2}}$$

where:

x – FDI's annual entries

y – GDP's annual level

n – the number of years for which the analysis in being made

*Tabel no. 1 The evolution of the GDP and the FDI entries in Romania*  
- millions euro -

	2004	2005	2006	2007	2008
FDI entries (X)	5183	5213	9058	7250	9024
GDP (Y)	76137	79259	97200	121670	139669

In order to make the calculations easier we sistematize the information in tabel no. 2.

*Tabel no. 2 The systematization of data needed for calculating the correlation coefficient  
- millions euro -*

Anii	x	y	Xy	X <sup>2</sup>	Y <sup>2</sup>
2004	5183	76137	394618071	26863489	5796842769
2005	5213	79259	413177167	27175369	6281989081
2006	9058	97200	880437600	82047364	9447840000
2007	7250	121267	879185750	52562500	14705685289
2008	9024	139669	1260373056	814325762	19507429561
TOTAL	35728	513532	3827791644	270081298	55712786700

It results:  $n = 5$ ;  $\Sigma x = 35728$ ;  $\Sigma y = 513532$ ;  $\Sigma x^2 = 270081298$ ;  $\Sigma y^2 = 55712786700$   
 $\Sigma xy = 3827791644$ ;

$$c = \frac{5 \cdot 3827791644 - 35728 \cdot 513532}{\sqrt{5 \cdot 270081298 - 35728^2} \sqrt{5 \cdot 55712786700 - 513532^2}} =$$

$$\frac{19138958320 - 18347471296}{\sqrt{1350406395 - 1276561441} \sqrt{278563933500 - 263715115024}} =$$

$$\frac{791487024}{\sqrt{73844954} \sqrt{14848818476}} = \frac{791487024}{8593,3 \cdot 121885,7} = \frac{791487024}{1047142586,8} = 0,75$$

When the coefficient reaches the value of 0.75, it means that there is a strong correlation between the annual entries of FDI and the GDP's evolution in Romania.

Referring to the substantial economic growth registered by Romania in 2004-2008 we have to say two things. First, it was a statistical success that had no durable character. Second, under many aspects in Romania have growth the differences among regions with direct implications over equilibrated economic growth.

### **3. The ISD evolution in the current international context**

Within an increasing globalized economy, the intensification of the regional integration processes is more visible. Beginning 1<sup>st</sup> January, 2007 by adhering to the EU, Romania's economy has registered on a trajectory that expects the growth of the external opening level. The attraction of FDI and the growth of Romania's economy cannot ignore the international economic context.

The globalization of the financial crisis has lead among others to a diminution of the international commerce and the flows of foreign direct investments. There has been an accentuation of the crisis of liquidities at an international level, fact that has determinate the augmentation of the credits required by developing countries.

The entries of FDI in the year 2009 have been with 48,8% smaller than in the lass year, their value being 4,899 billion euros, ensuring the financing of the current account deficit in proportion of 96,9%, according to BNR data. In the first two months of 2010 FDI attracted by Romania have been of 466 million euros 2,8 smaller than the one recorded in the similar period of last year.

In comparison to 2004-2008, when the economic growth was in average 6%, in the year 2009 Romania's economy has been reduced by 7,1%. The activities that have been affected the most have been constructions, transportations, telecommunications, hotels and restaurants etc.

The final consumption has recorded, in comparison to 2008, a diminution of 8,2%, in

2009 the most affected being the households with a reduction of 10,8%.

It is necessary that the fiscal packages launched by several governments for decreasing the effects of the crisis to be coordinated at a global level, if not, their multiplying effect within economy will be strongly felt. In this situation, it is recommended to make investments in the infrastructure, in the education, in the health system and in the regenerative energy.

In order to get out of the financial crisis, the ONU experts recommend the following measures:

- Reorganization of the financial systems, at the same time offering a better surveillance of them. The role of the International Monetary Fund and the World Bank should increase within this context;

- Development of a multiple monetary system of reserves, taking into account the complexities presented by the financial global system which is based on the dollar as a reserve currency;

- Simplification of the access to liquidities, considering besides other matters the establishment of a regional reserve.

The FDI entries at a global level have registered a new record in 2007, considering all negative aspects caused by the global financial crisis that began in the second half of this year. The former record of 1409 billion dollars, which was recorded by the FDI flow in 2000, has been overtaken in 2007 when this indicator showed 1978 billion dollars. In conformity with data offered by UNCTAD in 2008 there been a diminution of the flows of FDI on a world scale, there data being of 1697 billion dollars. For 2009 and 2010 the forecasts are more pessimistic.

#### 4. Conclusions

Being confronted not only with a major deficit of the external balance of trade, but also with a high volatility of the exchange rate and with a decline of the profitability level within industry and constructions, Romania should also take into consideration the tendencies manifested at an international level, tendencies that are far from being favourable for itself. If we take into account the fact that the Romanian states have given right to foreign capital to exploit the petroleum deposits and that our banking market is controlled in a proportion of 90% by foreign capital, we can assume that the situation of our country within the financial crisis context becomes even more complex.

Due to the fact that the privatization offer in Romania has decreased considerably, the attraction of FDI flows, which are mandatory for our country's commonwealth, depends to a considerable degree on the measures to be taken by the actual government in the direction of establishing a stable economy and achieving a healthy economic climate.

#### 5. References

- [1] Iacovoiu V. B., Investițiile străine directe între teorie și practică economică, Ed. ASE, București, 2009
- [2] Ilie G., Investiții străine, Ed. Universul Juridic, București, 2006
- [3] Prelipceanu R., Investiții străine directe și restructurarea economiei românești în contextul economiei europene, Ed. Lumen, București, 2006
- [4] <http://www.unctad.org/fdistatistics> – Comunicat de presă 24 septembrie 2008
- [5] BNR: Raport 2007, 2008

## Demo-economic Processes within the Context of Globalization

BRAN Florina  
Bucharest Academy of Economic Studies  
florinabran@yahoo.com

### Abstract

*Globalization is one of the most challenging contemporary processes for governmental decision makers. It contributes to important demographic and economic changes with potential impact on development and quality of life. In the paper there is performed an analysis of these transformations in order to outline the most common patterns that will help decision makers to harness the benefits of globalization at minimum cost for their nations. There are used data from international statistics and the outcomes of the most recent global outlooks. The most important concern that was identified is related to the structural changes in the favor of the elder people, especially in the developed economies.*

**Key words:** globalization, labor, population growth, average age.

**JEL classification:** F41, F01

### 1. Introduction

Currently the continuous demographic growth is the main source of pressure on natural systems. This major problem is very important due to the fact that population increase leads to a rapid consumption of resources and environmental degradation. The intensity of human activities increases the pressure on environment by either the uncontrolled consumption of resources and space or by the generation of wastes that cannot be absorbed by nature. The latest UN assessments, in a relatively short period of time, 50 years, since 1950 until 2000, at global level the economic activity increased five times and the population three times. Such an economic and demographic expansion will

represent a dramatic potential pressure on natural resources and on ecological systems.

A more and more visible trend is urbanization. Demographic explosion will pose serious environmental problems. It is still not clear how municipalities will deal with waste management and sewage treatment in cities with populations larger than the one of some countries. The overpopulation and the concentration of population in urban areas such as the mega-cities (with more than eight million inhabitants) increased pollution levels beyond acceptable limits due to the emissions of toxic gases, discharge of sewage, and wastes. It also created pressure by the large number of buildings that cover the vital natural cover surfaces.

Considering these alarming trends the paper aims to reveal the impact of globalization in this framework. The overarching question to be answered addresses the potential of globalization to aggravate these processes. Global demographic data is computed to create empirical support for the demonstration.

### 2. Demographic processes

The large urban areas are the most important resource consumers in terms of energy, water, and food. While the population increase, the allocation of natural resources per inhabitant decrease and hinders life quality or even survival.

In the next decades the population will increase with one billion people in each. If only the basic needs are to be considered this evolution will deplete biodiversity by restraining the surface of natural ecosystems in face of agricultural and urban areas (Bran et al., 2004).

World population is the result of a long evolution that begun long ago than the human species emerged on Terra. This continuous

process was not always uniform. In the last period it evolved on a curve with exponential shape (Erdeli and Dumitrache, 2001).

Humans evolution becomes a cultural fact 50 000 years ago and the period comprised between this moment and the present time could be divided in two phases: classic and modern (Bran and Ioan, 2009). The modern phase is featured by a continuous and accelerated growth of global population. Growth rates increase slowly until the 1965-1970 then they reach the maximum point (2% per year). Another approach differentiates among three periods based on the threshold of population growth. These thresholds are also associated with important technological progresses, as follows:

- First period: starting at approximately 8000 b.H. the global population increased very slowly and at this threshold there is recorded a fifty times increase of growth rate. Between 8000 b.H and 1750, the population increased from approximately 5 million to 800 million. This acceleration is explained by the agricultural revolution that reduced the direct ecological dependence (hunting, picking) by replacing it with dependence on agricultural production provided by crops and livestock. Agriculture allowed people to produce more and safer food, which in turn supported more people.

- Second period: For ten thousands years from the agricultural revolution the population increased constantly. After 1750 the population starts to increase 10 times faster (with an annual rate of 0.6%), so that in 1950 it reaches 2.5 billion inhabitants. This threshold is determined by the industrial revolution that changed the patterns of goods production. Due to the industrial revolution the welfare recorded unprecedented levels, especially on the account of a better sanitation.

- Third period: this period starts in 1950 and reaches its maximum point in 1970' with an annual growth rate of 2%. That means an annual increase with 70 million people in 1950 and with more than 100 million people in the last decade. This growth is provoked by the medical revolution. Thus the medical techniques perfected in Europe and North America was exported in poorer countries from Latin America, Asia, and Africa, and the

traditional mortality causes were diminished sharply. The penicillin, vaccination, DDT allowed the cheap and effective control of many infectious diseases such as malaria, small-pocks, and tuberculosis. In Latin America, Africa and Asia countries mortality decreased with 60 to 60% at the end of 1940s.

In the last decades world population had exponential increases and the time needed for doubling decreased constantly. Therefore the moments of adding a new billion to the world population was shorter and shorter (Bleahu, 2001):

- from 1 to 2 billion: 100 years (1830-1930);
- from 2 to 3 billion: 30 years (1930-1960);
- from 3 to 4 billion: 15 years (1960-1975);
- from 4 to 5 billion: 13 years (1975-1988);
- from 5 to 6 billion: 11 years (1988-2000);

From an ecological standpoint, the evolution of a species is determined by the optimality of conditions and the absence of restraining factors. The excessive increase of effective leads to self-toxicity or reduced the availability of food or space resources becoming a self regulating factor.

### **3. Development, population and economies**

The current distribution of world population reveals major spatial inequalities. These are explained by a long evolution and variations in influences from local conditions. Asia concentrates more than a half of the global population on a territory that represents only 20% from the land surface. America holds only 13% of the population, Africa 12%, and Europe 9%, but on a significantly larger surface.

According to computations made by demography experts the annual rates of population growth were as follows: 0.3% in 1700; 0.5% in 1800; 1.5% in 1900, and 1.7% in 2000. In the last years the most rapid growth was recorded in Africa with an annual rate of 2.8%, and the slowest growth occurs in Europe (only 0.3% annual rate).

The most recent estimates of population growth made by UN shows that the population will increase with 3.3 billion in the first half of the XXI century. Most of this growth will occur in the developing world. A revised












version indicates that some of the largest increases are forecasted for India and black Africa. These are also the regions stroked most powerfully by famine (Bari, 2001).










It is estimated that some countries like Nigeria, Ethiopia, and Pakistan will triple their population by 2050. It is also expected that Nigeria will host 339 million people by 2050, figure that is larger than Africa's entire population before 1950. It was calculated that the population of India will be larger with more than 600 million people in 2050. Further, despite active and quite effective demographic policies, the population of China will also increase with 300 million people at the same horizon of time.

The repartition of population will remain unequal: Asia will support around 60% from the world population, followed by Africa (18%). China will remain the most populated country in the world, followed by India.

The fastest growth rate is forecasted in Africa. Its population in 2025 will be the double of the 1995 population. The slowest growth rate will be recorded in Europe. Its population will stagnate, the 2025 level being comparable with the 1995 ones.

*TABEL 1. Topul țărilor cu cea mai mare populație*

Rank	Country	Population	%of world population
1	 China	1,336,070,000	19.63%
2	 India	1,177,400,000	17.3%
3	 USA	308,765,000	4.54%
4	 Indonesia	231,369,500	3.4%
5	 Brasil	192,540,000	2.83%
6	 Pakistan	168,840,500	2.48%
7	 Bangladesh	162,221,000	2.38%
8	 Nigeria	154,729,000	2.27%
9	 Russia	141,927,297	2.09%
10	 Japan	127,530,000	1.87%
11	 Mexico	107,550,697	1.58%

	Mexic		
12	 Filipines	92,226,600	1.36%
13	 Vietnam	85,789,573	1.26%
14	 Germany	81,882,342	1.2%
15	 Ethiopia	79,221,000	1.16%
16	 Egypt	77,915,000	1.14%
17	 Iran	74,196,000	1.09%
18	 Tukey	72,561,312	1.07%
19	 Congo	66,020,000	0.97%
20	 France	65,447,374	0.96%

Source: UN, 2010

#### 4. Labor relevant population structure

Population ageing is determined by the decline of fertility in the last decades. In the last fifty years fertility rate decreased globally will almost a half, from five to 2.7 children per woman. After another half of century it is expected that the fertility rate to be even lower (2.1 children per woman). In the most developed regions of the world fertility rate is of only 1.5 in 2000-2005, being significantly lower than the 2.8 value recorded in 1950-1955. This means a more than 60% decrease in fertility rate. In less developed countries the fertility rate remains high (over 5 children per woman).

Until 2050 the changes will be very little in developed nations (1.7 in 2025-2030; 1.9 in 2045-2050). In developing nations will be also a decrease from 2.9 to 2.4 in 2025-2030, and 2.2 2045-2050. Less developed countries will record a strongest decrease of this indicator from 5.0 until 3.6 in 2025, respectively 2.5 in 2045-2050. Combining this evolution with the decrease in mortality rate and increase of life expectancy ageing is foreseeable. This trend will be more evident in developed nations.

#### 5. Globalization drives demographic processes

Globalization is defined as the process of intensifying the interdependencies among

markets and world businesses. This process accelerated dramatically in the last two decades as a result of reduced transportation costs for both goods and people, and of reduced policy barriers to trade and investment on the part of the public sector. Frankel (2000) gave some metrics of these progresses. Thus the air transport revenue per passenger mile almost halved between 1930 and 1990. He also pin point that jet air shipping and refrigeration contributed significantly to important changes in the structure of goods that are available for international trading.

The most common understanding of globalization envisages the development of global financial markets, increase of multinational enterprises, enhanced influence of these on national economies, globalization of information and culture. Social and economic life mirrors globalization by changes such as: global nature of science and technology; global marketing; world financial system; communication infrastructure; world institutional framework (Bran and Ioan, 2009).

Globalization represents a contemporary process which is taken more and more into consideration by the national or international policies and by the strategy adopted by most international corporations. Even if it is well known, there still are divergent opinions in what concerns the content of the globalization process and the way it should be defined. The latter tries to encapsulate as much as possible the content of the phenomenon, its causes and potential impact on the society.

The analysis of globalization is possible only by means of validating conceptions belonging to the dimensions and fields of activity it influences. In order to know the phenomenon as a whole one has to stop and analyze the individual processes, in order to understand them and only than explore more accurately their impact and create an homogenous image of the phenomenon.

Even if it is considered as being a process that has developed during the last decades, the attempt to explain its origins and identify the vectors that triggered and continue to accelerate this process leads to the identification of certain points throughout the entire history of human kind.

Poverty is defined as being “depriving the population or some categories of population of wellbeing”; in other words, it assumes a low living standards, or it doesn’t even assure the minimal life necessities. To be poor means to be hungry, to not have clothes and a house, to be sick and not to have access to medical assistance, to have a low level of education or to be illiterate. In defining poverty, those who were interviewed haven’t eliminated the social aspects. Thus, it refers to increasing criminality and violence, limited freedom of choice and action, the absence of the control over the one’s life.

A fifth of the total population uses three quarters of the wealth of the world and natural resources. This division is made in general on geographical limits, named traditionally the world of industrialized countries and the “third world”, or North and South. This wealth-poverty polarization is rising permanently because the rich regions already passed through demographical transition, and their population is relatively weakened, while the southern population will continue to increase in the next 60 years. In half of this time, only the seventh part of the world population will control at least three quarters of the world’s wealth.

The gaps between poor and rich population are dynamic, a gap that today expresses under-development tomorrow might stop to have the same role, although it keeps the same value. Everyone should come to an agreement about establishing a limit for showing where the underdevelopment begins and where starts the stage of developed country, that quantitatively shouldn’t be confused with the average of the developed countries gross domestic product and it should be determined on the base of a indicators system, describing also the quantitative side and the qualitative one of the development. Until it will be elaborated this kind of limit (created for each state’s issues and based on all states co-operation), defining under-development through gaps will contain the use of gross domestic product indicator.

## 6. Conclusions

Globalization is among others the result of the human actions and natural catastrophic,

that threaten the life of the existent species and even the base of the future human development. There is a global problem of the degradation of the environment, the clearing of the forests, atmosphere and ocean pollution, spreading diseases and political and social dangers increased by the unpredicted moves of the population on the globe.

In the last five years, two initiatives have brought hope that national governments and international institutions can be mobilized against poverty:

- establishing Millennium Development Goals (MDG s);
- creating Poverty Reduction Strategies (PRSP s).

The connection between poverty and environment is strong. Poor rural families use a source of incomes and have many subsistence activities. Many of these are very tied of nature, as small farms, fishing, wood gathering, medicinal plants. Ecosystems' goods and services are often the only values that poor people have access. This generates the base capital for economical substantiation and overcoming the subsistence income level, although this potential is overlooked.

## 7. References

- [1] Bari I., "Globalizare și probleme globale", Economica Publishing, Bucharest, 2001.
- [2] Bleahu M., "Priveste inapoi cu manie... Priveste inainte cu spaima", Economica Publishing, 2001.
- [3] Bran F., Ioan I., "Globalizarea si mediul", Universitara Publishing, Bucharest, 2009.
- [4] Bran F., Ioan I., Trica C.L., "Eco-economia ecosistemelor si biodiversitatea", ASE Publishing, Bucharest, 2004.
- [5] Erdeli G., Dumitrache L., "Geografia populației", Corint Publishing, Bucharest, 2001.
- [6] Frankel J., "Globalization of the Economy", <http://ksghome.harvard.edu/~jfrankel/nyeglobrob.pdf>, 12.03.2010.
- [7] Negreponti-Delivanis M., "Mondializarea conspiratoare", Eficient Publishing, Bucharest, 2002.



## The Relationship Between Information Technology and Tour-operators

CIUCHETE Stela Georgiana  
*Academy of Economic Studies, Bucharest*  
*georgiana\_ciuchete@yahoo.com*

### Abstract

*The advances in information technology have seen a radical change in the way that travel agents do business today. There are travel agents that have chosen to ignore the advances in technology; however, in the future, travel agents will have a choice of either using technology to change the way they do business or competing against those who do.*

*At the moment there are still great gaps in terms of technology between countries, which enables fast growing companies such as Tez Tour to fill a niche and gain new market shares due to their technological lead and managerial practices.*

**Key words:** Travel industry, Internet, Interface.

**JEL Classification:** L83, L86, M15

### 1. Introduction

In a world where the Internet and good communications accelerates the globalization, having connections across borders becomes a competitive advantage.

The easy access to a constant stream of information is making the opportunities countless, adding to the equation that the Internet and supplementary techniques such as different types of software are still very young, the opportunities will keep on emerge.

Central reservation systems (CRSs) and global distribution systems (GDSs)—Sabre, Amadeus, Galileo, and Worldspan—were developed first by airlines and then by hotel companies to enable travel agencies (and other similar businesses) to access schedule and pricing information and to request reservations for clients. These businesses became the primary users of travel information systems,

thus providing important links between travelers and industry players (World Tourism Organization Business Council, 1999).

The reason for a global distribution system is the optimal sale of travel-related products. This requires a system where travel agents can reserve travel products for customers, cancel and re-arrange reservations, quote fares and follow up on the service provided.

The success of CRSs and GDSs paved the way for the Internet, enabling the travel and tourism industry to quickly exploit its many strengths. Today, the travel and tourism industry is one of the most significant users of Internet technology, which has become one of the most important communication tools for travelers as well as travel and tourism enterprises.

Internet applications and other technological innovations have influenced tourism in a variety of ways and resulted in fundamental changes in industry structures and traveler behaviors. For instance, online reservation and payment options are used by many travel suppliers and consumers and have led to the emergence of tourism as one of the most important e-commerce categories. It can be argued that the primary reason for this rapid adoption of e-commerce in tourism lies in the close fit between the characteristics of tourism products and the capabilities of e-commerce applications.

The travel and tourism industry is comprised of all organizations that are involved in the production and distribution of travel and tourism products. It can be viewed as an umbrella industry with a complex distribution chain containing a set of interrelated businesses, such as transportation companies, accommodation facilities, attractions, catering enterprises, tour operators, travel agents, and providers of recreation and

leisure facilities, as well as a multitude of government agencies.

Given the way in which information technology is reshaping the structure of both commerce and society in general, its importance to the success of all types of tourism companies can only grow in the future. As a result, tourism companies have changed dramatically the way in which they conduct their business and are under pressure to invest further in new technology in order to maintain their competitive advantage.

## **2. Benefits of information technology to the Travel Industry**

The internet enabled travel agents to access tourism destination web sites and give passengers customised information on the destinations chosen – pictures of hotels, tourist attractions, weather conditions.

The benefits of IT:

- Increased productivity
- Cost saving
- Improved communication
- Fast and efficient service of customers
- Increased access to information
- Computerised database of customers
- Automated final documentation for tourists

Search engines play a fundamental role in creating traffic to travel websites. Search has become increasingly important in travel and tourism in that about two-thirds (64%) of online travelers use search engines for travel planning (Travel Industry Association of America, 2005). In addition, the Hitwise US Travel Report shows that search engines account for about 30% of upstream traffic to travel websites. Search engines, through their indexing, matching, and ranking technologies, control what information is available to consumers and how it is presented. Tourism suppliers and intermediaries, if they want their websites to be accessible through search, have to accommodate search engines and engage in sophisticated search engine optimization strategies and/or search engine advertising.

## **3. Study case – Tez Tour Romania**

Tez Tour Romania, one of the two international tour-operators on the Romanian market, started operating on May 2007, after the early-booking period was over (this being the most active period of the year in terms of selling tourism packages). In spite of this, in the summer of 2007 Tez Tour Romania sold approx. 15.000 holiday packages, operating seven charter flights per week to Turkey from Bucharest and Timisoara. In its first year, Tez Tour gained 20% of the Romanian market share for Turkey.

On the Romanian market there were some specialized tour operators on selling packages to Turkey as Alibaba Tour, Mr. Peter or Kusadasi, but also tour operators to whom Turkey was an important stake as J'Info Tours, Prestige Tours and Prompt Services. How did Tez Tour manage to sell so much when the clients seemed to be divided between Romanian tour operators?

Unlike other companies Tez Tour offers services that take the process of booking a reservation to a higher level. The classic way to make a reservation is a complex method that has numerous steps and requires an overwhelming period of time. After the tourist makes a decision regarding the destination, he has to express his wish in writing by filling in a reservation form, for which he receives an order ticket. The following step of the process consists of a call made by the agency to the tour operator to check if the client's solicitation can be satisfied. It usually takes three days for the tour operator to give an answer, which can be both positive or negative. The reservation will be validated only if the tour operator has given an affirmative reply. Had the answer been NO the tourist is called to express another option and the algorithm starts from the beginning.

Tez Tour manages to avoid this long and frustrating process by using an online reservation system. Nevertheless, Tez Tour is the first and yet the only company in Romania that has put to use such a system. The main advantage of the online reservation system is that the time coordinate has been reduced to

only ten minutes. After this incredibly short time, the tourist leaves the closest Tez Tour partner agency having the confirmed reservation, the voucher and the plane ticket, if the payment for the stay has been made.

When approaching a new market this company pays close attention to details. This is another thing that has helped Tez Tour to enter and survive the Romanian market which seemed divided among the grand tour operator companies. The newness this company brought consisted of a focused attention on the client. Therefore, Tez Tour has signed contracts with the market leaders in airline transportation, which offer services of the highest quality and at the same time have a maximum degree of safety. Moreover, tourists benefit of impeccable services once they have reached their destination. After the check-out the tourists will be guided and provided with information by Tez Tour representatives, who unlike guides from other companies speak Romanian regardless of the destination.

The popularity of the company increased among the Romanian tourists due to the consistent interest of the company in assuring the most comfortable and trouble less stay for its clients. In addition, in every hotel with which the company collaborates there is a Tez Tour bureau, where the representatives speak Romanian and are willing to assist the tourist in any problems that may occur during their stay.

**Tez Tour Travel System.** Beginning with the year 2007, Tez Tour radically improved its IT structure. An integrated information network has been established between travel agents, Tez Tour incoming-outgoing offices and hotels.

The traditional fax method has been replaced with an efficient online web structure that enables fast and error free information exchange between involving parties.

Tezagency.com is an internet portal that is used by Tez Tour Agents worldwide to book new reservations and track their progress online. Information about flight dates and availability, stop sales, special offers can also be retrieved from the system.

Tezcenter is used by Tez Tour Outgoing offices to track the reservations entered by local agencies. The system allows the offices

to accept and deliver the reservations to incoming Tez Tour offices.

Tezreservation is the operational center of incoming offices where reservation requests from outgoing offices are accepted and sent to hotels to be processed. The answers from hotels are then sent to related agencies through the same network.

Tezhotels is used by the hotels to process the reservation requests sent by Tez Tour incoming offices. The hotels accept or decline the requests online, therefore enabling a continuous and instant information flow. Hotels can also access check in, check out lists for confirmed reservations, guest info and forecasts about future reservations from the system.

Tezdestek is used by Tez Tour Operation center to track and organize the transportation of tourists from various locations. All arrival, departure and excursion group transportations are handled through this system by assigning guides and vehicles. The system also generates various reports to monitor the performance of the whole system.

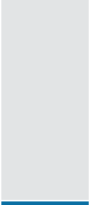







Tezguide is the information portal used by Tez Tour guides to track excursion operations. Guides also access to vital information about reservation and transport operations through this system.

TezTour Agency Network is developed by TezTour to enable a fast and reliable communication system between TezTour and its agencies. The system works online from the Internet and any operation whether initiated by agency or Tez Tour is instantly traced from the system.

User interface is designed to be very simple yet effective enough to complete the major tasks performed by agencies. The system shares similarities between common e-mail systems, where inbox plays an important role. The equivalent of the inbox in the system is the homepage.

Homepage displays the hotel status for daily reservations and open reservations (incomplete-reservations that have not been replied from hotels or Tez Tour). Open reservations are displayed on the homepage till they are finalized. You can click on the reservations to see the details. Each reply type has a specific color code for better visibility.

The color code only represents confirmation status of hotel bookings. The table below explains the meaning of the color codes:

Color	Letter	Status	Explanation
	I	Inserted	Reservations that have not been accepted by your local Tez Tour Office yet.
	A	Accepted	Reservations that have been accepted by the incoming Tez Tour Office. Ready to be sent to the hotel.
	B	Booking	Reservations that have been sent to hotels by the incoming Tez Tour Office.
	E	Preliminary Confirmed	Reservations that have been automatically confirmed by the system.
	W	Waiting	Reservations that have been put to waiting list by hotels.
	Y	Confirmed	Reservations confirmed by the hotels.
	N	Not Confirmed	Reservations that are declined by the hotels.
	M	Multi-state	State for bookings for more than one hotel. Shows that all the hotels have not been confirmed yet.

 P Cancel Confirmed  
Cancellations requests that have been accepted by hotels.

Sursa [www.tezagency.com](http://www.tezagency.com)

Entering new reservation procedure has 6 basic steps:

A. REGION. The agent has to select the departure city, Arrival Country and Region respectively. Click on the continue button.

B. HOTEL. The reservation agent has to fill in all the required fields and click on the ADD HOTEL button. If you are not going to add more hotels to your reservation you have to click CONTINUE button. If you are going to make reservation for more hotels for the same tourist, fill in the hotel tab and click ADD HOTEL button again. You can add up to 5 hotels currently. When you are done with add hotels, please click CONTINUE button.

C. TOURIST. Fill in the personal details of the tourist and click ADD PERSON button. Continue adding people until you have completed entering all the people for the reservation. Click CONTINUE button to go to next stage.

D. FLIGHT. Available scheduled flights for your selected date will be listed. If there are no scheduled flights available for your selected date or if you would like to enter a different flight please click on the ENTER AGENT DEPARTURE button to enter a flight for departure, click on the ENTER AGENT ARRIVAL button to change or enter the arrival flight. When you are done with flight selection please click on the CONTINUE button.

E. TRANSFER. An automatic group transfer will be assigned to the tourists. Please note that for agent flights a group transfer can not be guaranteed; please choose an individual transfer for agent flights. Click on the CONTINUE button to advance to final step after you have chosen the transfer type.

F. PREVIEW & SEND. All the information you have provided will be listed. Please check all the fields. If there are errors or missing information please return to regarding information tab by clicking on tabs above and fill the missing or wrong information, then

return to preview tab by pressing the tab button. If all the information is correct please press the SEND button. Your information will be processed and an alert window will pop up telling you that your reservation is inserted to the system and will provide you with two numbers: Order number and voucher number respectively. Please note this numbers for future retrieval.

**SEARCH ORDER.** You can search for your previous orders from this menu. To search by order number just fill in the order field and click SEARCH button. You order will listed. Click on the order number to see the details of your order. If you are going to search with different criteria please click on the DETAILED SEARCH button.

**SEARCH FLIGHT.** You can also search for flight availability for your selected destinations and travel dates. Please enter the required fields and click SEARCH button. Available departure and arrival flights will be listed.

**STOP LIST.** Stop dates for hotels in specific country regions can be listed by this menu. Please fill in the required fields and click SHOW button to see the list of hotels in stop sale.

**SPECIAL OFFERS.** To reach the list, first select departure city and related country and press SHOW button. A new list regarding to SPOs will be listed. To read the details about the SPO please click on one of the SPO text. A detailed list will be presented with prices. To start reservation you have to click on one of the prices. Prices with red are preliminary confirmed reservations.

**SEARCH TOUR.** If you are not going to make a specific reservation and would like to search for an available tour that suits your requirements, please use SEARCH TOUR menu. Fill the search criteria for your tour. If there are available tours for your selection they will be listed accordingly. You can start a new reservation by clicking on the price or SPO number. Region and hotel tabs will be automatically filled by the system, you will continue from the tourist tab.

**SEARCH HOTEL.** If you are looking information about a specific hotel you can use SEARCH HOTEL menu. Please fill in the fields of your choice and click SEARCH button. The information will be listed. You can

click on the info text to reach the hotel information page. If there are specific SPO for your hotel, they will also be listed. You can start reservation by clicking on the SPO number.

#### 4. Conclusion

Information technology has changed the business of selling travel and it will continue to drive travel agents to learn new skills and make more use of technology to remain competitive and profitable.

Through the use of automated reservations systems spanning many of the principals on a worldwide basis, the travel agent can now almost instantly check fares, availability and process reservations without the previous high costs of communication.

#### 5. Acknowledgements

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

#### 6. References

- [1] Kärcher, K, „Reinventing the Package Holiday Business”, Deutscher Universitäts-Verlag, GmbH, Wiesbaden, 1997
- [2] Werthner, H and Klein, S (1999) „Information Technology and Tourism – A Challenging Relationship”, Springer, Wien and New York
- [3] Buhalis, D (2003) eTourism – „Information technology for strategic tourism management”, Prentice Hall, Harlow, UK
- [4] Gretzel, Ulrike, and Daniel R. Fesenmaier. "Information Technology: Shaping the Past, Present, and Future of Tourism." *The SAGE Handbook of Tourism Studies*. 2009.
- [5] Gillsberg Andreas, Wahlberg Lars-Åke, „Going International?”, Jönköping, 2007
- [6] [www.tezagency.com](http://www.tezagency.com)
- [7] [www.iata.org](http://www.iata.org)

## Considerations Regarding Countries Participation to International Trade

DOBRE I. Claudia

“Ovidius” University, Faculty of Economic Sciences, Constanța  
dobre\_claudia@yahoo.com

### Abstract

*In a closed economy, the speed and pattern of economic development is determined by the labour, capital, natural resources and technology available in the domestic economy. This has implications for all five drivers of productivity growth. Competition is limited by the number of firms that are viable. Innovation, enterprise, investment, and the development of skills are limited by the prospective returns which can be earned by selling to the domestic market. In an open economy, these constraints are less binding, and economic growth can proceed more rapidly. International trade allows domestic resources to be transferred away from goods and services which can be produced more efficiently abroad, and into goods and services which can be produced more efficiently at home. The ongoing global financial and economic crisis has the potential to usher in a period of a global recession that may seriously undermine all countries' process of economic growth. In particular, the crisis may put a brake on and also reverse efforts in developing countries and by the international community to assure development gains from trade.*

**Key words:** comercial tariff, economic growth, economic crisis, developing countries

**JEL classification:** F1

### 1. Introduction

It is well known that periods of openness have generally been associated with prosperity, whereas protectionism has been the companion of recessions. In addition, the trade performance of individual countries tends to be a good indicator of economic performance since well performing countries tend to record higher rates of GDP growth. In total, there is a common perception that even if imperfect

competition and second best situations offer the possibility of welfare improving trade policies, on average free trade is better than no trade.

This is a correct perception of things. However, the choice is generally not between free trade or no trade; in addition, the stylised facts referred to above do not demonstrate any causality between openness and growth—the distinction between growth and development deserves further comment. Hence, as illustrated by the contrasted results of developing countries, it would be a misperception to conclude that openness to trade systematically ignites the rocket of development. The majority of developing countries have joined the World Trade Organization (WTO) and have taken initiatives aimed at opening their economies. Nevertheless, the outcome has not been systematically positive since export performance sometimes remains disappointing and these countries steadily follow contrasted development paths.

The growth-enhancing effects of trade derive from exposure to imports as well as gaining larger markets for exports. Imports are critical for the dynamic competition and technology effects listed above. Imports also provide direct benefits to consumers by allowing access to a wider range of goods at lower prices, rather than restricting consumers to those goods and services which can be produced domestically. Conversely, seeking to restrict imports would require transfer of domestic labour and capital into import-substituting activities, regardless of whether this represents the best use of these resources. Unrestricted access to imports also supports exports by reducing the prices of essential production inputs.

### 2. Theoretical considerations

The relationship between trade openness and growth is a highly debated topic in the

growth and development literature. Yet, this issue is far from being resolved. Theoretical growth studies suggest at best a very complex and ambiguous relationship between trade restrictions and growth. The endogenous growth literature has been diverse enough to provide a different array of models in which trade restrictions can decrease or increase the worldwide rate of growth. Note that if trading partners are asymmetric countries in the sense that they have considerably different technologies and endowments, even if economic integration raises the worldwide growth rate, it may adversely affect individual countries.

It is worthwhile to note that the theoretical growth literature has given more attention to the relationship between trade policies and growth rather than the relationship between trade volumes and growth. Therefore, the conclusion about the relationship between trade barriers and growth cannot be directly applied to the effects of changes in trade volumes on growth. Even though these two concepts, trade volumes and trade restrictions, are very closely related, their relationship with growth may differ considerably. This is because there are several other very important factors that affect a country's external sector, such as geographical factors, country size, and income.

In other words, one should be as clear as possible about which openness measure he uses and what are the exact mechanisms through which it affects the growth. In either case, barriers to trade affect investment decisions. Where investment decisions are primarily influenced by trade barriers rather than by the inherent economic advantages of production in a given location, there may be a risk of investors increasing resistance to trade reforms (because they have a vested interest in maintaining the relevant barriers), reducing competitive pressures in the longer term [Dobre, (2009)].

Changes in the structure of employment and production are a necessary part of economic development and flow not just from openness to trade but also from technological developments and changes in consumer preferences. The benefits of structural change are apparent in hindsight, but often resisted as they occur. For example, the "lump of labour" fallacy – namely, that there is a fixed amount of work to go around in any given economy – has often led to concern that technological

improvements will lead not just to a reduction in the number of people needed to complete a particular task, but to a reduction in the number of working people needed in the economy as a whole. This can lead to delays in implementing technological innovations which have important potential productivity benefits.

Such fears have not been borne out by experience. While new technology has displaced workers from particular tasks, firms and industries have responded by taking on expanded or different priorities, and employment levels have remained high. Similarly, countries which are open to trade maintain high levels of employment by redeploying labour and capital into the production of goods and services which are valued in competitive markets. The process of redeployment inevitably brings transitional costs, which may fall particularly heavily on those least well equipped to cope with change – for example those with non-transferable skills. But the outcome for the economy on a whole is clearly positive; and there is a great deal governments can do to minimise transitional disruption to individuals' lives.

Changes are currently particularly striking in trade in services. Until recently, international trade has been much greater in goods than services. The distribution of production and consumption of services is now changing, as advances in technology and substantial declines in communication costs mean that an increasing range of services can be produced remotely and traded internationally [Estevadeordal, Frantz, Taylor, (2002)].

The relocation of some service sector jobs to countries with a more competitive ratio of labour cost to skills – 'off-shoring' – presents an opportunity, as well as a challenge, for developed economies. As with trade in goods, increasing imports of services produced more cheaply abroad means that the overall costs of services fall. This provides direct benefits to consumers, and lowers the cost structure of businesses, allowing them to raise profits and increase employment and investment.

Higher productivity and a lower cost structure also bring second round benefits that permeate through the economy. These include releasing labour to be reallocated into higher value-added and higher skill jobs. However, the extent to which these benefits are realised will depend on the domestic response to the challenge of foreign competition in services,

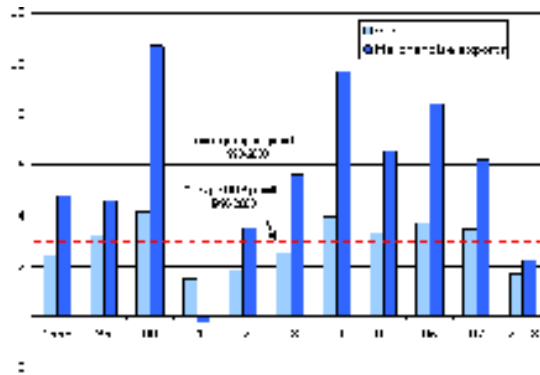
including the availability of appropriate opportunities for upskilling workers. Where a large proportion of the workforce is engaged in low-skilled and low wage activities which are exposed to direct competition, a comprehensive programme of skills enhancement becomes an essential element of any response.

Many firms in different sectors are taking advantage of the opportunity to source cheaper services through imports. Providers of computer, financial, and general business services in particular are benefiting. Firms use different levels of offshore contracted services, ranging from back-office processing and customer contact functions (including call centres) through to wider corporate functions, knowledge management services and research and development. McKinsey Global Institute have estimated that the potential cost reduction for businesses from importing less skillintensive services is between 30 and 50 per cent.

Changes in the structure of production and employment are an intrinsic part of capturing the efficiency and productivity benefits of greater openness to trade. It is for this reason that flexibility – the ability of individuals and firms to respond to economic change efficiently and quickly – is an important concomitant to open markets.

### 3. Global growth and developing countries

According to data available online from the World Trade Organization (WTO), the value of world merchandise imports and exports (in current prices) totaled more than \$31.8 trillion in 2008, a 52 percent increase from 2003! In volume terms, world merchandise exports grew an average of 5.7 percent annually from 1998-2008. While merchandise trade is expected to decline about 10 percent in 2009 due to the global recession, the outlook for 2010 and beyond remains healthy. The International Monetary Fund (IMF), for example, in its —World Economic Outlook—October 2009 report, estimates that trade volume will increase 2.7 percent in 2010.



Source: WTO 2009

The expansion of trade in the UK and Europe was part of a wider movement towards more open markets in the period following the second world war. The link between openness and economic performance can also be seen on a global scale. Trade barriers rose substantially following the First World War as countries reverted to protectionist policies in order to promote domestic output and employment. This led to a marked slowdown in the pace of world trade growth: the volume of trade grew by only 40 per cent between 1913 and 1950, compared with some 400 per cent between 1870 and 1913. As a proportion of GDP world trade fell significantly – on one estimate trade volumes fell from 22 per cent of world GDP in 1913 to just 9 per cent of GDP in 1938 [Lewer, Van den Berg, (2003)]. After the second world war, governments began consciously to adopt more outward-looking policies. This impetus led to the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947, which provided a framework for progressive mutual reduction in tariffs. The original GATT negotiations were long and arduous, and came close to collapse on many occasions, reflecting the tensions which exist between the benefits of trade and the economic changes associated with opening markets. Despite these tensions, the first GATT negotiations succeeded in reducing tariffs by around 20 per cent; and the framework for multilateral trade negotiations thus established led to further reductions of around 35 per cent in the Kennedy Round (1964-67) and 33 per cent in the Tokyo round (1973-79). These reductions applied primarily to manufactured goods: substantial barriers to trade remained in agriculture, textiles and services. The benefits flowed mainly to developed economies with developing countries remaining largely outside the GATT



process. Nevertheless, as trade barriers fell, both global trade and global income per capita increased. In particular, the strong growth of both exports and output between 1950 and 1973 stands in marked contrast to the weak performance of both in the first half of the century.

As trade barriers fell in the industrialised world, some developing countries also began to open up to trade, leading to the emergence of new markets and contributing to substantially accelerated growth in the more successful economies. From the early 1980s to the late 1990s average tariff rates in developing countries halved, from around 30 per cent to 15 per cent. Over the same period, trade volumes increased significantly, and the composition of developing country exports changed: the share of manufactured goods in developing countries' exports rose from around 25 per cent to over 80 per cent in 1998. Trade between developing countries became – and continues to be – increasingly important, growing twice as fast as world trade: 10 per cent versus 5 per cent between 1990 and 2001. However, these flows are concentrated among emerging markets in Asia: Africa's share of South – South exports is extremely small [Rodríguez, (2007)].

The fact that developing countries took longer to move towards more open policies in part reflected a strong commitment to import substitution in many countries – restricting imports of manufactured goods in order to shift demand towards domestic production, with the aim of promoting rapid industrialization. These strategies had mixed results. In a number of countries, import substitution enabled domestic industries to develop. However, in the medium term, continuing such policies meant that development was constrained by the limited resources and markets which the domestic economy could provide [Rodríguez, Rodrik, (2001)]. These effects were compounded by continuing protectionism in developed countries, which prevented developing country producers from accessing lucrative markets. Longer-term success required countries to draw on resources which could be supplied more cheaply by the rest of the world, and to exploit economies of scale by producing for foreign as well as for domestic markets.

The current global crisis – preceded by the food crisis, volatile energy prices and climate change challenge – is a major blow to

attaining the MDGs for developing countries. Addressing the dampening impact of the crisis on international trade and investment to restore growth, and reviewing development policies and partnerships to create sustainable practices and greater resilience to future shocks, must be key priorities in the multilateral agenda.

Most developing countries are now closely linked with the global economy by trade and foreign direct investment flows, and their economies are more sensitive to falling international demand (and conversely to expanding demand). The degree of exposure and integration of developing countries' economies to external markets has greatly increased in recent years. Developing countries' exports on average accounted for more than half of their gross domestic product (GDP) in 2007, up from about a quarter of GDP in 1995.

The ongoing reduction of trade and investment flows is starting to restrain the development prospects of developing countries. They are currently seriously hurt through falling commodity prices, demand-driven drops in exports exacerbated by the deficit of credit and trade finance, capital outflows, declining remittances, and contracting investment. The prospects are more dire for export-oriented developing countries, especially those with a small domestic economy, where the reduction in international demand is more likely to raise unemployment. In some developing countries, workers are shifting out of dynamic export-oriented sectors into lower-productivity activities. Potentially, all these effects could bring millions of people back into poverty.

The decrease in merchandise trade appears to be affecting all developing regions and most types of goods. Moreover, South–South trade, which has been the most dynamic component of world trade for over a decade, is declining too, especially intra-Asian trade. The quick contraction of developing countries' manufacturing trade is largely due to today's highly globalized production and marketing schemes. Among the most affected sectors are automotive products, office and telecommunications equipment, and electronics, as well as textiles and clothing.

Many commodity exporters, particularly those in West Asia, Africa, and countries with economies in transition that benefited from the commodity price boom with considerable

terms-of-trade gains, are now facing the downside of their commodity dependence, manifested in a substantial shrinking of export revenues. More than 90 developing countries earn at least 50 per cent of their exports from commodities (47 of them being non-fuel commodity exporters).

UNCTAD currently estimates world merchandise trade to fall between 6 and 8 per cent in 2009. Exports from developing countries and countries with economies in transition could potentially decline in the range of 7 to 9 per cent in volume, in 2009. Developed countries' exports are projected to decline by up to 8 per cent this year. The trade contraction in value would be much greater.

The crisis is also spreading to trade in services and to service sectors in general. Maritime transport is particularly affected, as are tourism and construction services. There is also a growing reduction in the employment levels of migrant workers from developing countries. This is expected to lead to a further fall in remittance inflows to developing countries, which began to slow down in 2008. Conversely, trade in ICT-enabled services appears to be less influenced by the economic downturn, as companies see the offshoring of services as one method of enhancing their competitiveness.

Lower trade volumes will be the main channel of transmission to exporters of manufactures and services (including tourism). The volatility of commodity prices will also affect exporters of primary goods. In countries like Congo, Equatorial Guinea, Gabon and Nigeria, oil provides more than 50 per cent of government revenues from commodity exports. In Côte d'Ivoire and Guinea, cocoa and minerals account for a fifth of revenues. Cotton and aluminium exports provide a fifth of tax revenues in Tajikistan. In Trinidad and Tobago, and in Bolivia, commodities account for 22 and 12 percent of GDP, respectively. The prospects for commodity prices remain poor. Recent projections by the World Bank forecast a 25 per cent reduction in energy prices in 2009 and a 23 per cent fall in non-energy commodity prices (World Bank, 2009). Remittances often provide a safety net in recipient countries.

Income from migrant workers helps stabilise consumption levels when recipient economies contract. But remittances have been falling since 2008 in the range of -1 per cent to -6 per cent. The decline in remittances will be

devastating to countries that largely depend on them. For instance, remittances make up 45 per cent of Tajikistan's GDP. Guyana relies on remittances for a quarter of its income.

#### 4. Conclusion

At the national level, the crisis has made it timely to review development strategies so as to make them more sustainable against future external shocks, focused on delivering broad-based and inclusive development, and responsive to the imperatives of preserving the environment, while also providing new economic opportunities. Developing countries need to continue to address income inequality and to invest more in education, training, trade-adjustment assistance, health care, community development and tax policy. The role of the state in promoting development has increased in light of the crisis, and there is a need to reflect on how this role can be effectively articulated.

A major challenge for developing countries is to continue to attract foreign investment during the crisis to stimulate economic activities, especially for such investment that serves long-term development goals and enhances competitiveness. Public investment programmes can help. Public-private partnerships are also important. Bilateral and regional investment agreements can encourage FDI. However, national efforts to maintain and attract foreign investment must not result in "race to the bottom" policies.

#### 5. References

- [1] Crafts, N. F. R., G. Toniolo, (1996), *Economic growth in Europe since 1945*, Cambridge University Press, Cambridge
- [2] Estevadeordal, Antoni, Frantz, Brian și Taylor, Alan M., (2002), *The Rise and Fall of World Trade, 1870-1939*, NBER Working Paper No. W9318. <http://ssrn.com/abstract=352001>
- [3] Halit Yanikkaya, (2003), *Trade openness and economic growth: a cross-country empirical investigation*, Journal of Development Economics 72 (2003) 57– 89
- [4] Joshua J Lewer, Hendrik Van den Berg, (2003), *How Large Is International Trade's Effect on Economic Growth?* Journal of Economic Surveys 17 (3)
- [5] Dobre Claudia, (2009), *Comerț internațional și politici comerciale. Noi abordări din prisma concurenței*, Ed. Universitaria, Craiova

[6] Lionel Fontagné, (2000), *Openness, Trade Performance and Economic Development*, 13 July 2000

[7] Rodríguez, Francisco, (2007), *Openness and Growth: What Have We Learned?* in J. A. Ocampo, Jomo K. S. and Rob Vos, eds, *Growth Divergences: "Explaining Differences in Economic Performance"*, New York: Zed Books

[8] Rodríguez, Francisco and Dani Rodrik, (2001), *Trade policy and economic growth: A skeptic's guide to the cross-national evidence*, in Ben S. Bernanke and Kenneth Rogoff, eds, NBER "Macroeconomics Annual 2000", National Bureau of Economic Research, Cambridge, MA

[9] WTO, (2009), *World Trade 2008, prospects for 2009*, 23 March 2009

## Specific Infrastructure – Development and Variation Factor in the Leisure Industry

DRIDEA Catrinel Raluca  
MURGOCI Cristiana Ștefania  
*Romanian-American University of Bucharest*  
*dridea.catrinel.raluca@profesor.rau.ro*  
*murgoci.cristiana.stefania@profesor.rau.ro*

### Abstract

*This paper's target is to highlight the role of the tourism infrastructure. As an integrated part of the tourism industry, the leisure services are becoming more and more important in the development and diversification of the existing touristic offer, thus providing an attraction bonus to the various destinations through its varied and innovative character. The best use of leisure services is closely related to equipment, existing infrastructure, which is intended to be emphasized throughout the paper presented.*

**Key words:** tourism infrastructure, leisure services, recreational tourism .

**JEL Classification:** L83

### 1. Introduction

Tourism is, today, a mass phenomenon, an important branch of national and international economies, with many contributions of the whole society. Positive influence is noted by its impact in increasing GDP, growth of exports, generating jobs, raising culture and education, improving cooperation relations and peace between countries, environmental protection, and others. Through its content and role tourism has become an independent industry with major implications for existing economic segments.

Tourism as a social-economic and cultural phenomenon has proved to have many followers that aim to travel and spend their free time in a way as enjoyable as possible.

Thus, tourism development is determined not only by the desire of people to escape from everyday reality, but by their need to spend leisure time in a pleasant manner. Among the

key concerns of tour operators is the need to spend free time at destination in a pleasurable manner. Development of activities designed to meet this requirement is based on content development of vacations and re-value of free time. In this context, the tourism firms and destinations have created and developed the leisure services, in order to enhance their popularity and revenues.

### 2. Leisure travel

The tourism and travel activities have increased, as people are more and more interested in learning about new cultures, civilizations, meeting new people, costumes and traditions, practicing a diversity of sport oriented activities, etc.

Due to the importance increase of the travel and tourism industry, the positive influence as a distinctive sector of activity, it's essential components have significantly changed over the years.

At first, the main components were lodging and food and beverage, later on the leisure segment has risen in the eyes of the consumers. Leisure is represented by the equipments, events and forms offered by tourism units, resorts, or tourism areas that are capable to assure customers satisfaction, enjoyment, and favorable memories.

Leisure or recreational services are defined as those services provided by various organizations to occupy free time. The recreational services usually contain: food and beverage consumption outside the residence, time spent away from home, fun activities during the stay, holding the role of participant or spectator in the various sporting activities, cultural activities, etc.

As a constituent part of a successful tourist offers, leisure services play a fundamental role in meeting the needs of tourists,

regardless of motivation or holiday travel forms practiced, age or social-professional profile of tourists. Moreover, it appears that demand for recreational services in the holiday has grown so much that it became a tourist motivation itself. This way, the more diverse and original the character of a touristic destination, the more it is likely to be chosen, presenting itself as a distinct form of assessment in attracting tourist flows.

Also, the shift from a passive to an active recreation changes the position held by leisure in the recreational activities. Mutations occurring in the structure of occupations and jobs, the decrease of the physical effort, but also the increase of the stress levels affects the growth of the share of recreational activities.

International leisure services have expanded the way of expression through a multitude of forms of entertainment, which would provide a very pleasant stay and especially would influence the decision to return to that destination. Increasingly more destinations have tried to individualize the image presented by offering new and novel means of entertainment such as cultural attractions, special crafts, natural and entertainment parks, specific sports, gambling, casinos, festivals, concerts, etc. Sure, all these forms of entertainment have taken a new dimension and is distinguished by specific regions worldwide, through investments, through rehabilitation, through their promotion, through adapting to customer needs and more.

### **3. The role of recreational tourism infrastructure**

Recreational services have emerged as a way of escaping the monotony of work, daily activities and to express fun, relaxation and rest for participants. The opportunity to benefit from these services is closely connected to the specific infrastructure needed. This way, the variety of forms of entertainment can be analyzed in terms of importance held by the infrastructure, whether the services are specific to the resort or they're affiliated to the hotel units. To develop and improve recreational services, and thus the role of tour organizers, actions must be taken to their specific development and modernization. Recreational infrastructure development determines the extent to which the organizers

of tourism and tourist resorts maintain a competitive advantage or not.

For tourist activities the existence of various resources is vital - material and technical basis to enable and facilitate access to tourist attractions that led to the achievement of travel. The presence of technical and material basis influences the emergence, growth and large scale of the tourism phenomenon by providing conditions for accommodation, food, transportation, recreation, etc. within specific facilities. Thus, a close relation [9] between material and technical basis and extent of travel exists, namely - tourism development depends on the equipment and quality of tourist areas and in turn the technical and material structure is structured and organized depending on the demand for tourism.

Using as a criterion the main destination [6], the technical and material basis can be classified into two categories: the technical background material - the material and technical infrastructure that is tourism specific. General infrastructure includes: ways of communication, means of transport, telecommunication facilities, gas supply networks, electricity, heating, commercial establishments, sanitation facilities, etc. Among the tourism infrastructure is found accommodation, food, recreation, treatment, transportation, cable transport facilities, tourist villages, holiday villages, etc. Facilities in the first group are general and target both tourists and residents, while in the second group are those intended solely for tourists. On the general infrastructure is widely accepted that it is vital for both residents and tourists and also determines destination development economically, socially and touristic.

In the infrastructure for tourism, leisure differs depending on a number of criteria: depending on the venue, according to the tourist area, the types of activities, etc.

Based on the criterion - the venue - approval is shown in the hotel and outside their establishments in tourist resorts. At resorts, many of them have developed a reputation through existing recreational facilities: facilities for various sports fields, installation of lifts, etc., and those found in urban centers such as concert halls, cinemas, theaters, etc.. Recreational activities are usually dependent on the natural environment - climate, terrain, geographical location - of the resort, but tourism development

opportunities in the region in the premise of sustainable development - protecting places for fishing, nature reserves, specific locations for the development of amusement parks, organizing picnics, etc. Other equipments, usually sports related, can be arranged easier, not being strictly dependent on the nature of the place - volleyball, football, basketball, miniature golf, gyms, etc. Cultural equipments are independent of specific geographic area - cinemas, theaters, cultural centers, concert halls, shows, etc. Recreational services in the hotel units have the same functions and require investment in equipment of this type: concert halls, variety, dance, film screenings, gyms, aerobics, fitness, equipment and facilities designed for children games, etc.

Depending on the tourist area, the recreational infrastructure is split in specific areas: the seaside, mountain resorts, and urban centers. Recreational facilities include general facilities (swimming pool, miniature golf, gyms, stadiums, tennis, cinemas, theaters, clubs, etc.) and those specific to the destinations: the seaside - dolphin aquarium, furnished beaches, recreational water sports, etc., the mountains - winter sports equipment, lifts (cable cars, chairlifts, ski lifts), the spa - treatment equipment etc.. The typology of recreational activities brings to the fore a variety of specific forms of recreation equipment, for example - sports, crafts, shopping, etc.

A special category of recreational equipment is the amusement parks. Amusement, aquatic, or theme parks, are representative. Broadly analyzing the offer of recreational facilities and one may decide that specific equipment is found mainly in amusement parks. Their offer determines the upward trend in the number of tourists, defining itself as an attraction in it, regardless of its location and access opportunities.

The development of theme parks over time has been different in every country, reflecting differences in a number of factors including [3]:

- *the level of economic development and the distribution of wealth;*
- *the transport system; the natural environment and built heritage;*
- *the national culture;*
- *the degree to which tourism is a matter of incoming*
  - *foreign visitors rather than domestic demand.*

For example, as specialist concurred, the Magic Kingdom at Walt Disney World, Lake Buena Vista attracts more than 16 million tourists, Disneyland, Anaheim over 14 million tourists, Universal Studios, Japan over 10 million tourists, etc.

Of the wide variety of attractions, amusement parks are noted for the ever growing interest of tourists, by their reputation through constant association with fun, using this word is a leitmotiv of the entire stay. In amusement parks, recreational facilities are very diverse, its variety being a criterion for long-term guests on its premises.

Also its variety involves a wide addressability among amateur tourists. The specific facilities are [4]: roller coaster, carousel, compressed air catapults, water tornadoes, water roller coaster, rafting, enterprise-class ships, rotating platforms, etc., but also leisure facilities such as exhibition surprises, prize competitions, music performances, dance, theatre, circus, reading, games, etc..

Amusement parks differ from other recreational attractions through a few characteristics that personalize their touristic offer [7]:

- wide accessibility by being located near major thoroughfares, but also within the city, centrally as a focal element of attraction
- a medium lifetime due to the dependence on the location, usually April through October, but by exploiting indoor facilities some amusement parks are permanently open;
- use a variety of facilities and tourism products - food, accommodation, shopping, creative craft workshops, performances, dance, performing arts, and others, virtually bringing together under the same setting a lot of tourist attractions, thus the clear and growing interest of consumers;
- the specific offer of amusement parks takes into consideration a whole typology of consumers, addressing the case of families with children, young people that are in love, seniors, including individual consumers of products and activities that are meant for amusement;
- most times the distance is not a decisive criterion when choosing to visit an amusement park;
- flat - rate payment system - ticket spending stimulates a significant number of

hours per day and thus an increase of goods and services purchased, etc.

A well known model of expansion is the one of the amusement parks that meets organizational management efforts to consistently attract significant numbers of tourists, get higher revenues and attain a more important position in the tourism industry. Also in the category of amusement parks, water parks must be maintained, developed mostly in seaside resorts worldwide and develops the concept of indoor and outdoor to reduce seasonal phenomenon. Here we can mention the creation of a hybrid between theme parks and water as a tendency of modern society to pursue a variety of activities, and increased responsiveness to the needs of consumers.

Designing a theme park involves creating a theme that is a basis for developing the entire building, the equipments and the combination of activities such as games – roller coaster, mechanical wheel, etc. with the passive shows, theater, etc. Interesting to note [2] is that the thematic concept has expanded into other recreational facilities, speaking today of a new idea - the thematic society.

Cruises have adopted the idea of themes, but not limited to facilities on board vessels but also including the visiting ports, for example, many companies buy private islands in the Caribbean to make them anchor points and to provide the experience of the yesteryear Caribbean, furnished with specific features to recreate this image.

The revenues and the number of visitors actually show how parks contribute to the attractiveness and competitiveness of destinations and shows how effective the investments in infrastructure are. It is important to analyze the economic situation of U.S. amusement parks, because the tourist market is the most explosive development of amenities.

Analysis of the number of visitors in American parks shows a steady increase, from 280 million visitors registered in 1995 to 351 million visitors in 2007. This increase is due to the amusement parks image among consumers, their role in choosing destinations, and especially the intensive efforts of park management for global development and promotion of the concept. Equally apparent is an increase of 7.4 billion U.S. dollars in 1995 leading to the 12.7 billion in 2007, part due to significant growth of the number of visitors

but also because the visitors use diverse tourism products and services.

*Fig1. Amusement and theme parks  
in USA dollars*

Year	Visitors - mil	Revenue - bln
1995	280	7,4
2001	319	9,6
2006	335	12,1
2007	351	12,7

Source: International Association of Amusement Parks and Attractions [www.iaapa.com](http://www.iaapa.com)

Although it arose in Europe, amusement parks industry flourished in the U.S., but also in other regions numerous amusement parks have been founded. Experts have estimated for 2005 the number of theme parks, the number of visitors and revenue levels at global level [1]: 362 parks, 606 million visitors, and 15.118 billion U.S. dollars respectively. It should be noted that estimates were exceeded due to the impact amusement and theme parks have on destinations, high investments in this sector and the high level of attractiveness, etc.

A similar concept to amusement parks is suggested by the famous all-inclusive clubs that not only include accommodation and food, but the transfer, transport, entertainment, animation, all within the same premises and at an inclusive price.

The first club which completed the concept is the famous Club Med, presenting itself as "inventor of the good mood", with ever new activities that impose appreciation and are copied internationally. Club development through action of vertical integration with travel agents, cruise lines and wide promotion determined high revenues, for example about 1800 billion in 2007.

Tourist equipment is needed, as is apparent, but the way it is organized helps to distinguish between success and failure. A wise use of leisure facilities determines the increase of the attractiveness of destinations, increase of economic efficiency and reduces the phenomenon of seasonality. An inefficient use can lead to intensive destruction of wildlife by exploiting natural areas without measure, disturbing the local population, changes in attitude and behavior of said population, the existence of rigid rules which upset tourists, etc.

The leisure market is repositioning its image by developing new leisure equipments, by growing the areas, by creating an active environment with an accent on the need and wants of each segment of customers. As a result, local councils suggest the development and organization of several investment projects in tourism infrastructure modernization. Thus, establishing the needed strategies takes into consideration the importance given to leisure facilities, their size, level of attractiveness, the necessary investment, the payback period and others. Regardless of the type of strategy chosen, development and modernization of leisure infrastructure is a basic pillar of the development of tourism activities and related destinations.

Based on these considerations, tour organizers and representatives of tourist resorts have reconsidered the role played by leisure travel providing optimum locations for leisure and entertainment practice, analyzing the needs of recreational equipment, opportunities to attract customers, natural setting and the dependence of leisure activities on this setting.

In conclusion, the role of infrastructure in the tourism market is crucial. Even more the necessity of assistance through plans to create or repair the general infrastructure the touristic one is the frequent targets of successful destinations.

#### 4. References

- [1] Clave A., *The global theme park industry*, CABI Publishing, 2007;
- [2] Dridea C., Gheorghe C., *Globalization in the cruising industry*, "The International Economic Conference Integrative Relations Between the European Union Institutions and the member States", Lucian Blaga University, Sibiu, mai 2008;
- [3] Dridea C., Strutzen G., *Theme park - the main concept of tourism industry development*, Analele Universității Oradea, Secțiunea Științe Economice, mai 2008;
- [4] Firoiu D., Dridea C., Gheorghe C., Dodu P., *Industria Turismului și a călătoriilor*, Editura Prouniversitaria, București, 2006;
- [5] Leitner M., Leitner S., *Leisure enhancement*, Haworth Press Inc, New York, 2004;
- [6] Minciu R., *Economia Turismului, Ediția a III a*, Editura Uranus, București, 2004;
- [7] Riley R., T. Young, *Theme park landscape – antecedents and variations*, Oaks Dumbarton Publishing, 2002;
- [8] Tribe J., *The Economics of Recreation, Leisure and Tourism*, Butterworth-Hainemann, 2005;
- [9] Woodside A., Martin D., *Tourism Management: Analysis, Behavior and Strategy*, CABI Publishing, 2008.



## Leasing – the Area Most Affected by the Financial Crisis

DUGAN Silvia  
DINDIRE Dindire

“Constantin Brancoveanu” University of Pitesti  
dugan\_silvia@yahoo.com

### Abstract

*Financing operations through the leasing system represent a real oxygen break for the economic agents for whom investments are an essential requirement for the development of their activity. Leasing imposed itself in our country the same way it has done it before throughout the world (maybe less in the economies of the third world countries), first of all by simplicity. Taking into consideration that the competitive environment from our country has become more and more drastic, the reaction speed of the companies to the changes in the external environment being vital. Leasing, through its efficiency, satisfies in very short periods of time, the economic agents' need for investment funds. Using leasing, the economic agents can also avoid the complicated procedures of bank credits, which presuppose tying up some elements from the society's patrimony or from the private one in order to establish guarantees.*

**Key words:** business sustainability, real estate leasing, equipment leasing

**JEL Classification:** G32

### 1. Introduction

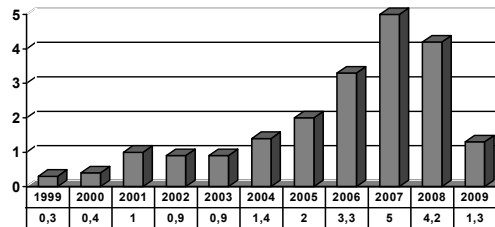
The leasing market acts as a sponge, absorbing the trends of several important areas of the economy. The decline in industrial production, in services, constructions and especially in real estate, generated a disaster in this market, in 2009.

### 2. Negative developments of Romania's leasing market

Since the second half on 2008, the main trend on the leasing market in Romania has been the drastic reduction in the volume of contracts. After seeing increases of 45% in

2005, of 57% in 2006 and of 51% in 2007, the leasing market, in 2008, saw a decrease of 3% compared to 2007. The disaster occurred in 2009 when the leasing business volume decreased by 74% (Graph no. 1).

Graph no. 1. Dynamic leasing market in Romania (billion euros)



Source: data processed by the author

Concrete, it is a market that barely exceeds one billion euros, given that in 2008 heading for a value of 4.2 billion euros. Analyzing the leasing market development, we note that it is now at approximately the level recorded in 2004. Leasing has suffered significant decline in the European countries, but not to the same scale. According to EUROPELEASING reports, the European leasing markets have declined by 36% in 2009 compared to 2008, differentiated by countries, as follows: in Spain and the Czech Republic it decreased by 57%, in Poland by 52%, in Italy by 41%, in England by 39%, in France by 25%, in Germany by 23% [3]. In Romania, the most significant declines have come mainly from the segments that, until 2008, had developed enormously, i.e. from sales of equipments and cars. Cars financing reached about 686 million euros in 2009 compared with a value of almost three billion euros, as was the leasing market for cars in September 2008, meaning a decrease of 76%.

**Equipment leasing** recorded the largest decline of 77% in 2009 compared to 2008 [1]. From the segment equipment, construction

machinery has been the most affected. The decline of this segment was caused by the cut of many real estate projects in the private sector and by stopping construction of public projects. If in 2008, 54% of equipments leases were financed construction equipment, in 2009 only 27% of equipments purchased are still in this category. Medical equipments leasing was one of the few sub-categories which saw increases, reaching 8% of total funding leasing.

Also, **real estate leasing** decreased by 40% in 2009 compared to 2008, so that financing for property acquisitions hardly exceed 183 million euros [2]. This segment was supported mainly by transactions of sale & lease-back for hotels and office spaces, because retail and residential cannot even be mentioned after blocking the market. Thus, funding for office spaces increased by 9% in 2009 (up to 23%), compared to 2008. It seems that at least five years will have to pass until the serious funding for this sector will continue. According to estimates provided by Asociația Societăților Financiare din România - ALB Financial Companies Association in Romania, the year 2010 is projected to be just as full of challenges as 2009. If in 2009 the volume of contracts reached 1.25 billion euros, this year it is estimated to achieve the level of one billion. Generally, one is counting on maintaining a market and optimistic forecasts show even a slight increase. This is based mainly on the attempt to restart some engines of the economy such as industrial production, infrastructure, transport and, why not, agriculture. In terms of the players who currently develop business on the leasing market, the year 2010 is not likely to cause insolvency or bankruptcy. But risk is not excluded for small companies, especially if they do not adopt economic recovery measures, or if they do not adapt to new market conditions. Small businesses need to review the structures, resources and internal flows, which means taking measures to ensure **business sustainability**.

Finally, they must adjust the portfolio configuration according to changes in the market demand. However, when they think of recovery, leasing companies still put their hopes in cars, because most cars were purchased between 2005 and 2008 and it is assumed that, after five years of use, owners will change them. Thus, probably in 2011, 2012 the leasing market will begin to recover.

### 3. Measures of survival

The main objectives of leasing companies are and will be the further survival in a hostile economic environment and the conservation of the portfolio. This significant decline has forced leasing companies to carefully review business strategies in order to move safely from the double-digit annual growth to similar decreases. Adaptation consisted in shifting the focus from sales and from obtaining a market share as high as possible to centering on portfolio management, systematic reduction of expenditures, careful estimation of risks and selection of customers, collect flows, cleaning portfolios, repossession and removal and remarketing. On the other side of the equation, amid the deterioration of main macroeconomic indicators, the user of leasing services was forced to move from a consumerist mentality (much less correlated with cash flow) to maintenance strategies or even survival in times of crisis. In these circumstances, leasing companies have had to face the degradation of the customers' payment behavior, which increased the percentage of customers with late payments, increasing the number of contract termination and repossession and removal, as well as the level of provisions. In the last 12 months, the growth of the reselling activity meant, for leasing companies, the allocation of significant human and material resources, the most affected being the subsidiary companies of banks or the independent ones. The advantage held by captive companies was represented by their access to know-how and to existing infrastructure within the groups they belong to, from the storage areas to the existence of specialized service sites or even specialized entities / specialized sales force in second-hand cars market. The condition for profit-seeking (in captive companies and large independent firms) or for survival (for small firms) will be adapting to new market conditions for 2010 as well. Taking into account that the foundation of business activity is the customer, it can be considered that this year too, the leasing companies will suffer from lack of liquidity with which they have been faced since last year. It must be said that most customers are legal entities with certain priorities for repayment of debts.

Therefore, it would be no surprise that the trend started last year - the submission of requests for renegotiation of contracts - to maintain at the same rate. In addition, it is expected that the number of bad debtors increases. The rate of non-performing financing has increased for two reasons: one would be the customers who can no longer afford to pay and another is that of people who just abuse on the facts. Although they do not need it, they come with requests for grace period or deletion of penalties. In terms of customers, it must be said that some of them noted that the goods purchased through funding have become more expensive than what the new market offers now and they are tempted to abandon those goods, becoming clients of bad faith. They will suffer because the law takes the donors' side in this regard and they will appear in the central of Banking Risks with an inappropriate payment behavior. Because the lenders continue their pursuit even after the recovery of the goods, the loss of the good payer status is followed by other disadvantages. For the corporate customers this can mean going to judicial enforcement of the company and in the cases where the assets do not cover the amount or are even non-existent, one proceeds to following the manager or administrator for judicial enforcement of personal property.

#### **4. Conclusions**

In time of crisis, financial leasing is a solution for agriculture. Seeing how difficult it is to obtain support from the banking institutions, some of the farmers have turned their attention to leasing companies that have personalized offers that can maintain liquidity, optimize costs and gain financial flexibility. Financial products tailored to the activity of farmers and according to season, rapid processing and especially advantageous

financial offer are some of the issues to persuade them to use the services of leasing companies. In financial leasing, the benefits and risks of using the property transfer to the user at the date of signing the minutes and, at the end of the lease, the customer exercises the option to purchase at residual value. In these conditions, access to modern equipment becomes quick without affecting cash flow. Moreover, it remains positive because the rates are paid while using the goods and the Value Added Tax is paid gradually over the entire contract period. For companies that have jobs blocked because of the recession and need employees, a solution appeared: some marketing or food industry companies "lease" employees for short-term projects. An example would be the market research firms, call center companies. But, the simplification of the employment process does not imply lower costs. The leasing agency fee is between 5% and 15% of the total employee costs, depending on the project duration. The higher the "loan" duration the lower the leasing fee is. Generally this fee is calculated according to the specialization of the employee, to the period of the project, and to the amount of employees required. The law says that the maximum duration of a lease is 18 months, the average period for "employees in the lease" being about six months. In Romania, the labor legislation faces those who offer this service on the market with quite a few problems. Thus, companies have to pay monthly the wage of a temporary worker even if he is placed inside a company or not.

#### **5. References**

- [1] Business magazin – Collection 2009-2010
- [2] Săptămâna financiară –Collection 2009-2010
- [3] [www.economistul.eu](http://www.economistul.eu)

## Global Economic Crisis

EPURE Tiberius Danut  
„Ovidius” University of Constanta  
epure\_dan@yahoo.com  
GRUESCU Ramona  
University of Craiova  
BRAILOIU Liviu

### Abstract

*The global economy is in the middle of the deepest and most widespread post-war recession. U.E. economy is not spared either. The strong increase in the financial crisis in autumn 2008 has led global economic downturn which, in turn, has further weakened the financial sector.*

*Over time, the ambitious political actions taken by governments and central banks in late autumn 2008, have prevented a collapse of financial systems and managed to bring a degree of stability, but financial markets and institutions still remain under stress.*

*The global economy is in a deep recession. The economic situation remains very uncertain [1]. Investor confidence in the banking sector remains fragile, despite improvements that marked certain market segments. This forecast assumes that the measures in place to support the banking sector will begin to have a greater impact in coming quarters, which also facilitates the transmission of monetary policy stance to support the real economy.*

*An improved performance of the banking sector by the end of 2009 should provide the basis for a progress of bank loans. As the financial crisis has intensified, global trade and industrial production has virtually collapsed in the last quarter of 2008.*

**Key words:** economic crisis, recession, GDP

**JEL classification:** E3

### 1. Introduction

Statistical indicators suggest a strong contraction of real GDP, which has continued

in the first quarter of 2009.

Looking ahead, tighter financial conditions and low confidence in the financial system will continue to weigh more heavily on economic activity, but they are likely to be gradually offset by the impact of expansionary macroeconomic policies.

Recession hit worldwide. World GDP is expected to contract by around 1.5% in 2009, even if the recession will become less pronounced in the advanced economies. The GDP is projected to fall by around 3% in U.S. and 5.25% in Japan in 2009.

Moreover, the economic downturn affected ever more the emerging and developing economies [2].

While China appears to be in a relatively good position to withstand global downturn, given the arsenal of policy tools available yet, its economic growth will mark a sharply slowdown this year (up to about 6%).

As an effect of the significant stimulating political impact in the world and the gradual resumption of trade flows, global growth is expected to recover from the deficit to reach 2% in 2010, while world GDP is expected to decline by 1.5 % in 2009.

### 2. Global Rise Influence Factors

In this context, GDP is forecast to go down with 4% in both the EU and the euro zone in 2009. The slowdown will affect almost all Member States, which will register negative growth rates this year.

For both regions (EU27 and euro area), the GDP should stabilize in 2010 and then begin a gradual recovery process, while improving financial conditions, external demand growth and support of macroeconomic policies.

Inflation is expected to continue to decline

in 2009, while unemployment, budget deficits and debts will increase.

At the EU27 level, differences between Member States on economic growth are high. If the five largest EU economies, real GDP is expected to contract in 2009, with approximately 5.5% in Germany, 4-4,5% in Italy and the United Kingdom and 3% in France and Spain [3].

Economic activity is expected to stabilize broadly in all higher economies in 2010, with the exception of Spain, who will face a contraction of almost 1%. Moreover, the population growth continues to play a positive role for Spain as the low GDP per capita - 4.5%, is in line with euro area average in 2009 and is expected to be reduced to -2% in 2010.

Recession is also expected to seriously affect the demand components, except for government consumption and public investment. They are supported by budget stimuli proposed in the European economic recovery plan. In 2009, exports and investment are expected to diminish very strongly (with 12.75% and respectively 10.5%). European exports reflects the plight of world trade, while the decline in investment raises the lack of investor confidence, the bleak prospect related to the demand evolution, a sharp decline in the capacities utilization and tighter financing conditions.

Moreover, while an involuntary accumulation of stocks contributed positively to GDP growth late in 2008, a correction is now expected, which could have a significant negative impact on economic activity in the short term. Private consumption is also projected to fall as a result of deteriorating labor market conditions; although the negative impact on real disposable income growth is partly offset by the rapid decline in the inflation rate.

In terms of discretionary tax measures, some of them aim to stimulate consumption and help increase revenue. Government consumption and public investment growth should also strengthen the economic activity. It is considered that the absence of such stimuli should determine the decrease of the GDP growth by 1% in 2009 and 0.65% in 2010.

The work factor markets cannot escape the downturn. Reflecting the normal lag between

changes in employment and production levels, employment is expected to diminish by 2.5% in both the EU27 and the euro area in 2009 and 1.5% 2010. Employment could fall, to about 8 million and half people in 2010, in sharp contrast to the net creation of 9.5 million jobs during 2006-2008.

As a cumulative effect, the unemployment rate is projected to increase in the EU27 by almost 11% in 2010 (11.5% in the euro area). While this phenomenon is evident in all Member States, the most pronounced increases in unemployment are expected in countries facing a substantial regression of activity (construction, in particular), such as Estonia, Ireland, Latvia, Lithuania and Spain.

Due to the actual conditions of labor factor markets and the low capacity for its use in different countries and sectors of the economy, nominal wage pressures should decrease substantially by 2010 [4].

Inflation due to rising consumer prices has moderated in the recent months, following the global trend. The same trend is also present at raw material prices. Disinflation will continue in 2009, estimated inflation being close to 1% in the EU27 (0.5% in the euro area) in 2009. Significant decreases in inflation rates are expected in the Baltic economies and Bulgaria, which recorded double-digit inflation in 2008.

Moreover, because of overcoming the negative effects of increased energy and food prices, inflation is expected to decline gradually to about 1.25% in 2010.

Trade balance will not change (comparing the falling of imports more than exports); the current account deficit will become 2% of GDP in the EU27 and 1.25% in the euro area during 2009-2010.

The budget deficit is projected to be more than double in 2009 in EU27, amounting to 6%, compared to 2.3% of the GDP in 2008, with a similar trend for the euro area. This deterioration (cf. Table 1) is due, in part, to the impact of slowing economic activity, reflecting the importance of automatic stabilizers, but also important discretionary measures that were introduced in the Recovery Plan.

In particular, the expenditure ratio is projected to increase by more than 3% of

GDP, in UE2007, in 2009 (and a further 1% in 2010), as a result of further increasing of the social benefits and transfers and spending capital and collective consumption, but also because of the considerable decline in the nominal GDP.

The revenue ratio is expected to decline as well, reflecting the effects of previous revenue and erosion of tax bases. As a result, 21 of the 27 Member States are expected to exceed or stagnate to over 3% of GDP reference value in 2009. A further deterioration in the budgetary outlook is expected in 2010, as a result of the unchanging effect of macroeconomic policies and the fact that some economic growth is possible. This deficit will increase to over 7% of GDP in the EU27.

*Table 1: Evolution of macroeconomic indicators in the EU 27*

% Real annual change	2005	2006	2007	2008	2009	2010
GDP	2,0	3,1	2,9	0,9	-4,0	-0,1
Private consumption	2,0	2,3	2,2	0,9	-1,5	-0,4
Public consumption	1,6	1,9	1,9	2,2	1,9	1,7
Total investment	3,6	6,2	5,4	0,1	-10,5	-2,9
Employment	0,8	1,5	1,7	0,7	-2,6	-1,4
Unemployment rate	8,9	8,2	7,1	7,0	9,4	10,9
Inflation rate	2,3	2,3	2,4	3,7	0,9	1,3
Government Deficit (% of GDP)	-2,4	-1,4	-0,8	-2,3	-6,0	-7,3
Public debt (% of GDP)	62,7	61,3	58,7	61,5	72,6	79,4
Adjusted current account balance (% of GDP)	-0,7	-1,1	-1,0	-1,5	-1,9	-2,0

In addition to the precarious budgetary situation, public debt is also affected by the measures of financial rescue plans, such as bank recapitalization. In general, government gross debt is expected to increase from 61.5% of GDP in 2008 to 72.5% in 2009 and 79.5% in 2010 in the EU27 (i.e., from 69% in 2008, almost 84% in 2010 in the euro area).

Many uncertainties related to economic

situation and prospects of economic development show that the global economy is facing its worst recession since the Second World War. With the deep recession, significant risks remain. Such a risk would be that of worsening of estimates for the evolution of economic activity, in particular the effect of financial crisis and the negative feedback between different sectors of the economy. For example, a more marked deterioration in the real economy may worsen the market correction mechanisms related to households in some countries and can enhance the recovery process of bank debt. Some economies with substantial external financing needs face the risk of sudden changes in investors' risk preferences and difficulties in securing the necessary funding, as in the case of the economies of Central and Eastern Europe.

*Table 2: Evolution of macroeconomic indicators in the euro area*

% Real annual change	2005	2006	2007	2008	2009	2010
GDP	1,7	2,9	2,7	0,8	-4,0	-0,1
Private consumption	1,8	2,0	1,6	0,5	-0,9	-0,3
Public consumption	1,5	1,9	2,2	2,0	2,0	1,7
Total investment	3,3	5,6	4,4	0,0	-10,4	-2,7
Employment	0,7	1,4	1,7	0,7	-2,6	-1,5
Unemployment rate	9,0	8,3	7,5	7,5	9,9	11,5
Inflation rate	2,2	2,2	2,1	3,3	0,4	1,2
Government Deficit (% of GDP)	-2,5	-1,3	-0,6	-1,9	-5,3	-6,5
Public debt (% of GDP)	70,0	68,3	66,0	69,3	77,7	83,8
Adjusted current account balance (% of GDP)	0,2	0,1	0,4	-0,7	-1,2	-1,3

Moreover, it is conceivable that the widespread economic downturn could trigger protectionist trade distorting measures.

Furthermore, turning points of macroeconomic developments (in Table 2) are

difficult to detect. Certain stabilization has been recently observed, some of the sectors indicators showing a shy recovery trend.

### **3. Conclusions**

Given the unprecedented adverse macroeconomic developments over the past 25 years, we believe that the minimum point was reached. Furthermore, the implementation of many proposed measures to restore financial market stability and to support the economy might be effective in winning back investor and consumer confidence.

Given the weaknesses arising from the trade and global growth in 2009, economic growth prospects in 2010 are increasingly uncertain.

Given the nature of the current crisis, which is manifested at global level, and whose origin is reflected in the financial and banking system, the global economy will most likely begin to rise in 2010.

### **4. References**

- [1] Bhagwati J., In Defense of Globalization, Oxford University Press, Oxford, 2004.
- [2] McDonald F., Harris P., European Business and Marketing, Sage, London, 2004.
- [3] Corden W.M., Inflation, Exchange Rates and the World Economy, Oxford University Press, 1977.
- [4] Harris P., McDonald F., European Business and Marketing, Sage, London, 2004.

## Efficient Actions for Cutting Down the Costs in Tourism Industry Companies in a Crisis Period

GABROVEANU Emilia  
RADNEANTU Nicoleta  
STAN Roxana Elena

*Romanian-American University of Bucharest*  
*emilia.gabroveanu@gmail.com*  
*stancanicoleta@yahoo.com*  
*seroxana@gmail.com*

### Abstract

*A decision making process, deployed on different organisational levels needs to support on data regarding the registered costs and other relevant analysis, derived from the inside of the company, provided by a managerial accountancy that has to answer to the necessity of information required by the company's management.*

*This article exposes several considerations regarding the managerial control importance of costs calculation and accountancy, as well as the directions for cutting down the expenditures in this stage of Romanian economy.*

*How can be achieved a permanent awareness of the management in order to achieve the performance objectives? In practice it is a question to which we receive answers in a more or less ambiguous manner.*

**Key words:** economic crisis, tourism industry, competition

**JEL classification:** L83

### 1. Introduction

The impact of the world economic crisis is present in all Romanian activity areas including the tourism industry. We consider that the turnover and costs of a company in a crisis periods are the first vulnerable points. Due to the fact that the turnover depends on the customers – we cannot influence it very much. In exchange we can get an

improvement of the company position on costs. Knowing and cutting down the costs is an actual urgent matter in the decisions making process in the tourism industry companies also.

A survival exercise in this period for each commercial tourism industry company is costs management. Reducing the most concerned expenditures by the companies that act in this branch of national economy also (the staff expenditures, the expenditure for transportation and protocole, the expenditures with consumable goods, consultancy services) can be made without affecting the business.

The role of managerial accountancy is to assure both the collection and distribution of expenditures related to tourists offered services and the calculation of price on each service package.

### 2. Efficient action trends for cutting down the costs in the tourism industry companies – a requirement in a crisis period

The competition environment determines the requirement of an efficient company management and implies the best possible use of available resources in the purpose of achieving the company's goals, out of which the efficiency objective is obviously in the front line, through effective management of costs that affects the results. Managers need a wide range of information in order to plan, control and decide.

The costs management is a key issue now and in the near future. The responsibility for



costs management is still unclear in many companies. There are managers who still believe that is enough to use financial accounting and the management accounting is a matter of instinct or intuition. Such an opinion can be very dangerous or even may cause the company's rapid decline. We think that the company's personnel must be involved too in the company efforts' to reduce costs and to help creating a culture in this respect. To achieve the assumed objectives decisions should be made aiming at the same time as their implementation to give the expected results. A society that focuses on reducing the costs has to create its own policy to follow this trend.

Economic independence and autonomy of the companies in the tourism industry causes difficulties to orientate in the systems of economic connections and, therefore, increases the role of management information, leading to the need of speeding up the creation and development of the costs management – as basis of the managerial accounting.

The structure of the calculation and costs accountancy should be organized in order to effectively respond to a system of a modern managerial control.

The practical exercise of the managerial control can be successfully achieved if the company is divided into certain components other than those imposed by the organization scheme. These components become centres of responsibility; well defined actors, with defined tasks will respond by the activity in each area of these responsibility.

Of course that one of the tasks is reducing the costs and hence the cost of products or services. In this context, more efficient lines of action will need to be set.

A responsibility centre is an organizational division of the patrimony property unit where the responsibilities referring to allocated resources and activity are localized.

There are several types of responsibility centres:

- a) *Cost centres*, where the product, work or service should be obtained at the minimum cost and the highest quality;
- b) *Revenue Centre*, where turnover regarding the product, work or service must be high;
- c) *Profit centres*, where the costs regarding the products should be minimal, and the revenues

from the sale of products - maximum;

- d) *Investment Centres*, where a high yield should result from the investments. The investment centres are scheduled on the long term, while the profit centres are concerned by the short-term return.

For each centre responsibilities regarding the level of revenues and expenditures are established.

For practical reasons, costs are classified in controllable and uncontrollable - on one hand, and in technical and discretionary - on the other hand.

*Cost is controllable* if the amount allocated to a responsibility centre can be significantly influenced by the actions performed by the management in that specific centre.

Thus, the costs generated by the consumption of economic means are controllable if they can be significantly influenced by the manager of the centre.

At lower levels of management, the authority does not allow certain costs controlling and, therefore, these costs could be considered *uncontrollable*.

As regards the costs of labour, there are limits imposed by the wage rates set up by the human resources department, or by Unions negotiations. However, the centre manager can significantly influence the cost of labour by controlling its employees' idle time and their working efficiency.

Some uncontrollable costs can be transformed into controllable costs, through the centre manager intervention. For example, the maintenance and repairs expenses for the cost centre are allocated to the other responsibility centres based on a coefficient, which define them as uncontrollable costs. But if a beneficiary centre is classified by the number of hours worked by the staff of the maintenance and repairs centre, then the beneficiary centre manager can influence the costs of maintenance and repairs and that costs become controllable.

*Technical or technological costs* are those whose value can be estimated by the consumption of goods and staff salaries and whose amount depends on the number of physical production units.

*Discretionary costs* are those which depend on the managerial policy and could be modified by simply changing them.

For a discretionary cost there is not an exact value, but reasonable standards could be set for the control of activities included in it. Thus, the financial accounting department expenses cannot be determined exactly, but the performances of employees who work there can be measured, by the number of documents recorded within an hour.

There is a movement of items from the category of discretionary costs to the technical costs: costs of sales, advertising and publicity etc.

At technical costs, increased production generates increased costs. At discretionary costs, there is a dependency of these costs by the management's policy.

Based on the above facts, it appears the necessity of intervention in the organization, calculation and costs accountancy.

Reducing the costs in the tourism industry companies is only possible if there are some reserves mobilized in this context.

The ways to follow could refer to reducing the cost of acquisition, reducing the stocks and the material consumption, reducing the labour expenses, and the operating expenses of tangible assets, costs of development, sales, administrative and advertising.

**a)** *Reducing the cost of acquisition* is done by surveillance of the market outlets; through questionnaires sent to known and potential suppliers, through organizing visits to fairs and specialized exhibitions; reporting – to ordinary suppliers – of some companies from where the acquisition might be more beneficial in order to force the other suppliers to make price reductions; setting agreements with current suppliers which could provide discounts;

**b)** *Decreasing the stocks* that generate costs of storage and immobilized capitals could be achieved through:

✓suspending the purchases of materials with low mobility;

✓grouping of stocks according to their size and their speed of rotation;

✓establishing of a program for stock management, to analyze if all the materials worth to be kept in stock in the future;

**c)** *Reducing consumption of materials* is done by evaluating, comparing and selecting those materials which can be obtained through some cheaper processes;

**d)** *Reducing costs of production* is done by: correcting the set of rules for the working time (reorganizing the jobs and rationalizing the production) reorganizing the transport within the company to reduce their costs, combat energy waste by controlling the consumption in the main locations, reducing repair work by eliminating the causes that generate them, the cost reduction of the materials by nature of the inventory objects by studying the causes of their deterioration;

**e)** *Reducing operating costs of tangible assets* is achieved through: custody of all maintenance and repair works to a department within the company, whose role is to maintain the normal operating conditions as well as the modernization of fixed assets, staff training in order to maintain the current fixed assets, introduction of computerized surveillance and security systems (hence the reduction of personnel expenses), training of personnel responsible for the equipment maintenance and repairs in accordance with the principle of preventive maintenance;

**f)** *Reduction the labour expenses.* These expenses have a significant share of the total costs in most businesses. Since the wages of workers under the trade union pressure cannot be reduced, the issue of efficient use of labour has to be studied.

Skilled labour is the most effective, because the knowledge and skills they possess allow them to use rationally the working time, to use more efficient means of production and to provide high quality services.

To reduce these costs on the tourism industry enterprises we recommend:

- Recruitment and training of qualified personnel at the appropriate level;

- Permanent evaluation of staff;

- Improving the personnel motivation (differentiated salaries, incentives, profit-participation);

- Improving personnel level of skills;

- Improving the process of decision making and the procedure of authority delegation.

*Reducing the relative costs of development* is achieved by selecting and scheduling the development projects after the efficiency calculations, drawing up a scheme of probable development costs and their time schedule, performing the research works,

experimentation and design at time, detailed planning of data related to the periods of execution.

*Reducing the distribution costs* is achieved through the use of a commercial policy based on well documented marketing studies, focusing the sales efforts over company's relevant customers; removal of unprofitable products and services from the sales plan, reducing expenses for travel, recruitment and training of staff having negotiating aptitudes; remuneration of staff used in the sales-based on commission, to raise his interest, keep preparing and updating a list of reference customers, analysis of administrative and production spaces, in the purpose of recovering unused storage capacity.

*Reducing the administrative and advertising costs* is done by making only those administrative works that contribute to maintaining and developing the company, reducing the number of pages of advertising leaflets; sending a well prepared and complete documentation for the company and its products to specialized magazines.

In reality, the company's management receives monthly reports about actions aiming to reduce spending.

Achievement in good conditions of the action of cutting off expenses and implicitly of the cost involves a thorough and realistic analysis of all activities, levels, structures and dynamics of all factors used in the company. Reduced expenditure should not affect the quality of products and services, as any saving made over quality is a loss for the company.

In this purpose, the management of the company should not limit in finding solutions only by simply reducing costs, but to try to educate their own organization over the fact that in any profit centre or cost, the expenditures can be reduced constantly. Only the mere reduction of costs by identifying and cutting excess spending is not enough. Managers must build a strategy based on cost reduction, developed on the long term, to focus more on how to achieve company goals, either the manner in which the money are spent. This approach can lead to long term improvements and a better understanding among employees of the reasons for which costs must be "controlled".

### 3. Conclusions

The system of costs management involves a set of methods developed for planning and control of the company's activities that generates costs and expenses in relation to the short and long term objectives.

In order to obtain a real reduction in spending a joint effort of all company employees is needed, regardless of their domain of expertise, aiming to adopt and implement the rationalization measures in all activities.

Achieving the objective aims some action regarding: modernization of the product, marketing and promotion, human resources, connecting with other policies of national economic development, monitoring and evaluation.

Significant decrease of costs can be determined by:

- ✓ Knowing the practical ways to increase cash flow and the profitability;

- ✓ Construction and implementation of controlling concepts developed for monitoring and analysis of costs;

- ✓ Orienting to flexible businesses, targeted to meet the requirements of customers / market - k-organizations;

- ✓ Replacement of traditional data collection and interpretation of results, in whole or in part, with procedures (information programs which to determine the closest suppliers, raw materials that meet quality standards, with the lowest expenditures on transportation, insurance, storage, etc.);

- ✓ Access to new IT resources. Achieving commercial transactions based on electronic transmission of data - electronic commerce - which in tourism caused significant changes (book on-line electronic payments, electronic presentations regions, hotels and restaurants, discussion forums), thus reducing the information costs, costs of recording, processing and storage of the information, as well as the time required for these activities.

- ✓ Access to skills, knowledge and programs in tourism stakeholders. Creating associations to identify and understand the problems caused by the economic crisis and to communicate the results to its members so that they take measures that will reduce costs of losses generated by this crisis.

✓ Easier access to ideas or solutions to common problems of tourism units through the creation of international databases on different causes encountered in their work and access to similar cases worldwide.

✓ Increase quality by training the tourism staff, through technical assistance, through participation in pilot activities conducted in an informatized environment.

✓ On-line assistance for travel services offered;

✓ Using best practices in the field and alignment to international standards relating to tourism activities.

#### **4. Bibliography**

[1] A.T. Baciu, Costurile: organizare,

planificare, contabilitate, calculatie, control si analiza, Editura Dacia, Cluj-Napoca, 2002.

[2] J. Arnold, S. Turley, Accounting for management decisions, Prentice Hall, London, 1996.

[3] E. Botnaru, Studiu privind contabilitatea de gestiune și calculația costurilor în industria mobilei, Teză doctorat, București, 2004.

[4] O. Călin, și alții, Contabilitate managerială, Editura Didactică și Pedagogică, București, 2008.

[5] K. Ebbeken, și alții, Calculația și managementul costurilor, Editura Teora, București, 2000.

[6] M. Epuran, și alții, Contabilitate și control de gestiune, Editura Economică, București, 1999.

## Mechanisms and Policies for Romanian Balance of Payments' Equilibrium

GAGEA Andreea  
STĂNCULESCU Anca-Maria  
Academy of Economic Studies, Bucharest  
andreeagagea@yahoo.com  
sam33ro@yahoo.com

### Abstract

*The article analyses Romania's balance of payments' evolution and point out mechanisms and appropriate policies for its' internal and external equilibrium. The results of the analysis reveal that Romania's balance of payments is still in an unfavorable imbalance situation, but there are also signs of recovery in terms of commercial deficit. In the last years, Romania's current account deficit has shrunk rapidly on the back of a collapse in imports and a falling financial account surplus. However, going forward, it is expected a more sustainable balance of payments position on the medium term.*

**Key words:** balance of payments, commercial deficit, imports

**JEL classification:** F30

### 1. The analysis of Romanian Balance of Payments' evolution

*The current account deficit* is Romania's most delicate problem, especially if taking into account the influence of the macroeconomic imbalance upon the integration in the European Union in the next period.

The current account deficit continually increased after 2002 and maintained its positive evolution as a share in the GDP, but its values became worrying beginning with 2007, when it surpassed over 10% of the GDP. At the end of 2007, the deficit was approximately 14% of the GDP.

The accumulation of the external debt, due to internal or external deficits, beginning from a certain share of the GDP, can affect a country's financial stability on a medium and long term as well as the investors' perception upon that country risk. Moreover, if the international context evolves unfavorably (which was the case at the beginning of 2008 and 2009), a high current account deficit may become a hardly sustainable one even in the short run.

The analysis of the structure of the balance of payments obviously shows that the creation and maintaining of these worrying values of the current account deficit have been primarily due to the *negative and continually increasing imbalance of the trade balance*. Its values were 11.8 billion Euros in 2006 and 21.5 billion Euro in 2007, determined by the broad discrepancies of the evolutions of exports and imports. Although both flows significantly increased over time, their evolutions were not similar. Thus, total exports increased by 16.2%, and imports by 25.1 % in 2006. In 2007, the discrepancy grew deeper: exports increased by only 13.7% and imports by 25%. The difference in the dynamics of the 2 flows might have risen also due to the change of the method of registration for imports, as the general trade system for intra-comunitary trade was introduced.

In 2006 and 2007, the significant economic growth was mainly determined by the increase in the domestic demand based on investments and consumption, both

tendencies leading *imports increase*. *Leu's appreciation* is the main cause for the lower dynamics of the exports as compared to the imports, in both years 2006 and 2007, but, at the same time, *exporters' difficulties to adapt to external markets exigencies* also influence the current account deficit.

It appears that *the exports to the European Union have partially compensated the expenditure generated by the imports from extra-communitary countries*, as while the latter had a share of only 33.8% of Romania's international trade in 2006, it only generated around 45% of that year's trade deficit.

Accordingly, Romania's *current account deficit has shrunk rapidly* in 2009 on the back of a *collapse in imports and falling financial account surplus*. Going forward, we expect the aftermath of the financial and economic crisis to usher in a more sustainable balance of payments position over the medium term. As such beyond our revised 3.7% of GDP, current account deficit penciled in, we forecast the shortfall to narrow further to 1.0% and 0.3% in 2010 and 2011, respectively.

Reflective of the *collapse in imports and withering financial account inflows*, the correction to Romania's balance of payments position continued apace during the third quarter of year 2009. According to the latest data provided by the National Bank of Romania (NBR), the current account deficit narrowed to 3,3 billion Euro during the first nine months of the year, from a record 13,0 billion Euro for the same period a year earlier. This remains supportive of our long-held view that *Romania's balance of payments position would adjust to a more sustainable long-term equilibrium as domestic demand moderates and appetite among foreign investors to fund a yawning current account deficit dissipates*. Moreover, in percentage of GDP terms, it is now expected the deficit to shrink to 3.7% from a previous 3.0% in 2009. Beyond then, we forecast the shortfall narrowing to 1.0% and 0.3% in 2010 and 2011, respectively.

The *key factors driving the adjustment* so far in year 2009 have been the *shrinking trade deficit and fall in current transfers*. In the case of the former year 2008, we continue to highlight the more severe decline in imports relative to exports, which is behind the improving trade position. While exports fell, the

rate of decline in imports was almost double. This in turn has seen the trade deficit narrow to 4,77 billion Euro from a hefty 14,6 billion Euro over the same respective period of time. Given our view that *exports will be one of the first drivers of growth to recover*, while *import demand will remain weighed down over the medium term*, we expect to see further improvement in the trade account. Indeed, we stress that with the *Euro zone tentatively emerging from recession*, external demand for Romanian goods will concomitantly pick up, especially in light of the *sharp depreciation of the leu earlier in the year*. In addition, we believe that *imports of capital and consumer goods will be weighed down* by relatively *tighter credit conditions, rising unemployment and the uncertain economic outlook* which is deterring large-scale domestic investment.

Taking into account the *dezinflation* and the financial and economic international crisis, *the leu had a tendency of supra-appreciation, which negatively affected the exports*. According to some analysts this supra-appreciation reveals exports' real evolution, as share in GDP, which continually decreased in the last years, which implies *an important international competitiveness loss*.

The second item of the balance of the current account, which causes important deficits for Romania's economy, is the *balance of incomes*. According to the National Bank of Romania (NBR), the main cause is the *repatriation of profits from foreign direct investments FDI and bank deposits*. According to NBR, the high amount of FDI inflows and of their positive imbalance in the balance of payments lead to and influenced the nominal appreciation of leu as well as the current account deficit sustainability.

Current account transfers, meanwhile, have still contracted 29.7% through to September 2009. Given that this account is made up largely of transfers to the government, it is likely that *payments to Romania from the EU budget are the key factor keeping current transfers afloat*. As we all know, current transfers constitute a significant component of the current

account, and have prevented a more severe deficit from emerging. Alongside the sharp correction in the current account, the *financial account surplus has similarly shrunk*. Going forward, we note *two positive developments in the short term*. First, the financial account has not been besieged by volatile forms of external financing such as portfolio investment, with foreign direct investment instead taking up the leu's share. Given that *FDI typically represents a more stable form of financing and a longer-term commitment to the economy*, we continue to view positively the predominance of this form of financing. In addition, the continued improvement in risk appetite since 2009 and concomitant recovery in international capital market conditions will remain supportive of current account financing going forward.

Since most big companies have been made private, we can estimate that the *annual FDI inflows won't be massive in the near future* if Romania doesn't improve its comparative advantages: a favorable quality-price ratio of the labor force, the improvement of the physical and immaterial infrastructure, bureaucracy and corruption decrease.

Therefore, in regard of the balance of current transfers' evolution in the following years, we can estimate a moderate nominal increase, thus contributing to the diminution of the commercial and incomes deficits. Hence, the balance of current transfers is estimated to diminish its share in the GDP in the following period.

## **2. Mechanisms and policies for ensuring the internal and external Balance of Payments' equilibrium**

The balance of payments is equilibrated when, over several years, *autonomous debits equal autonomous credits* in terms of accepting the existing exchange rate.

We can say that any economic policy which render trade flows or payments with the rest of the world, affect one way or another the balance of payments. To reduce or eliminate the negative balance of payments disequilibrium we can act in several ways, outlined below:

☞ *The national currency devaluation* sensitize the increase of the exports and decrease of imports. The measure in which imports fall and exports rise depends also on the elasticity of demand relative to domestic currency

depreciation rate - reflected by the price change. As far as this elasticity is higher, either for imports or for export or for both flows, *trade balance equilibrium* is achieved faster. Devaluation effect is felt mainly in the medium term, that is after the period in which contracts have already been executed. In the short term, it may occur increases in imported products, as an immediate response of the importers to future effects of the devaluation.

☞ *Improving domestic products* to increase product quality in order to maintain exports at a high level, even if the prices remain high or possibly growing. The imposing of these products on the market by maintaining high quality standards represents an alternative with sustainable successes against national currency devaluation.

☞ *Interest rate policy*, which is frequently cited as growth rate is followed, in normal conditions of development worldwide, by an influx of foreign capital, an increase of investment in the country with stain positive impacts on balance of payments equilibrium as follows:

➤ if the interest rate increases, this will decrease demand for durable goods, resulting in the fall of durable goods' imports, which will equilibrate the balance of payments' surplus;

➤ if the interest rate increases, then it will increase also the incoming foreign capital into the country and stain will increase investment in our country, which will equilibrate the balance of payments' surplus.

☞ *Deflation* (stopping the inflationary process through various measures such as capital reduction, withdrawal of money) is a measure with positive implications on trade balance, whereas in situations where it acts on the income, it's reflected on imports in the following extent:

➤ if the household income diminishes, aggregate demand will fall and that will lead to lower imports, which will lead to the balance of payments' equilibrium;

➤ if revenues fall, aggregate demand will decline and the inflation will decrease, hence will result an increase in

unemployment, that will lead to the decrease of the national income` growth rate.

Such income policy is not only unpopular, but is not recommended on long term, because the reduction in the growth rate of the national income it is allocated to investment funds decreases, with undesirable repercussions on the domestic industry` competitiveness in the case of the external markets.

☐ *The control of imports* through protectionist measures may lead to a diminishing of the negative trade balance, but the costs of such policies can be very high, as inflation increases and creates the risk of some similar protectionist policies from the external partners envolved on the external markets.

The *policy for the balance of payments` equilibration* has the purpose of maintaining balanced the external account and, thereby, boosting economic growth as a result of the economic relations with foreign countries.

A *negative balance* for several years in a row shows that the country may be importing more than it exports, which leads to depletion of country`s foreign reserves or, if it resort to loans, the situation can not be tolerated for too long because creditor countries may charge fast the debt plus the interest rate.

If the loans come from the International Monetary Fund, the institution may condition future loans, diminishing government` freedoms in managing country`s affaires.

If the *investments balance is negative*, it means that country's firms invest more abroad than the firms in other countries invest in our country. This brings, of course, profits to the domestic firms and, hence, higher income to residents.

If the *investments balance is positive*, due to higher investment of foreign firms in our country, will increase our country's economic potential, but on the account of a deferred in the increase of residents` income.

Also, there are *specific tools available to government* with the purpose of influencing the trade with other countries:

☐ The *devaluation of the national currency* (a common measure designed to encourage exports) makes the exports become cheaper for external beneficiaries:

➤ the national currency` devaluation lowers the export price, leading to the increase of

exports and the balance of payments` equilibrium;

➤ the national currency devaluation` increases the prices of imported products, leading to higher inflation, lower imports of goods and, finally, the balance of payments` equilibrium;

➤ the rising of the imported goods` price leads to the restructuring of consumption for domestic products, which result in encouraging domestic production and, hence, a lower unemployment.

☐ The *taxation directed to discourage* those products that can be made in our country may represent another tool at the government`s disposal. In this sense we can assert that:

➤ if the customs duties on a particular product increase, it increases the price of that product and lower the demand for this product; also, lead to a higher employment rate of growth;

➤ the protectionist policy is limited by the international arrangements in the domain;

➤ the protectionist policy is risky if it`s maintained on medium to long term, as it can be easily countered by a similar tactic of the partner countries, which would make it difficult for our country to export on a higher level.

☐ Another specifically instrument is the *external trade flows` control*, meaning that the government may act through the central bank in order to encourage or discourage foreign investments abroad by firm demand`s acceptance or refusal to make transactions with that foreign countries, granting or not the necessary currency.

Given those outlined above, we can state that:

✓ the balance of payments` economic instruments are a powerful weapon at the governments` reach, which can determine the increase of the price of imported goods;

✓ the *protectionism* is beneficial for economic growth and reducing unemployment, but on long term it may become unpopular due to the expensive imported products and the replace of this products with lower quality domestic products;

✓ the protectionist policy determine other partner countries to apply the same



protectionism, thus, negating the benefits mentioned above.

### 3. Conclusions

In conclusion, we can assert that the *commercial deficit is likely to maintain* at high levels which calls for the attention of the Romanian authorities, as it is a significant source of economic and financial instability. The supervision of the commercial deficit's evolution is highly necessary also due to the fact it represents, among other indicators, *a warning signal concerning the country's vulnerability to the present state of the international economic crisis*. Undoubtedly, the current economic and financial crisis can and should be considered also as an opportunity, which facilitates development and promotes investments in emerging niche industries in order to reduce the gaps of development within the Romanian economy. Whereof, in present, Romania is vulnerable according to three of the warning indicators for such a crisis: the supra-appreciation of the real effective rate of exchange, the share of the current account deficit in the GDP and the exports growth rate.

Accordingly, we highlight *several reasons to remain cautious over the medium term*. First, Romania's worsening fiscal position, as well as the *potential deterioration in the medium-term political and economic outlook*. Hence, we stress that despite the improvement in global liquidity, *credit markets are unlikely to return to pre-crisis conditions anytime soon*, with the resulting lack of external funds preventing European Commission from running the enormous current account deficits seen in previous years.

Finally, we note that the recovery in risk appetite has been driven largely by unprecedented fiscal stimulus and ultra-loose monetary policy the world over. The eventual return to more restrictive policies as governments rein in bloated fiscal deficits, and central banks exit from quantitative easing, could yet *derail financial stability and see a renewed constriction in credit conditions*. Similarly, many investors will continue to take advantage of sustained low interest rates to increase emerging market exposure, while remaining highly sensitive to financial market.

### 4. References

- [1] Băcescu, M.; Băcescu-Cărbunaru, A (2004) *Macroeconomie intermediară*, Editura Universitară, București;
- [2] Copaciu, M.; Răcaru, I. (2006) *Echilibrul extern al României, abordări calitative și cantitative*, BNR` Studies Notebook, No. 18, <http://www.bnro.ro>;
- [3] Gagea, A.M. ; Neguț, S. ; Stănculescu, A.M. (2010), *The perspective of Romanian European integration in terms of international commercial relations*, International Economic Conference "The economic world` destiny: Crisis and Globalization?", Ed. ULBS, în curs de publicare;
- [4] Gagea, A.; Stănculescu, A.; Ștefănescu, M. (2008) *Romania's International Economic Relations in the context of the European Union*, "Quality - access to success" Journal, Year 9, No. 93, p. 335-340;
- [5] Isărescu, M. (2007) *Globalizare și integrare europeană*, <http://www.bnro.ro>;
- [6] National Bank of Romania (2008, 2009) *Press Releases*, <http://www.bnro.ro>;
- [7] National Bank of Romania, *Romanian Balance of payments, 2005-2010*, [www.bnro.ro](http://www.bnro.ro);
- [8] National Bank of Romania, *National Currency and Gross Domestic Product*, <http://www.bnro.ro>;
- [9] National Bank of Romania (2009), *Financial Stability Report*, <http://www.bnro.ro>;
- [10] National Institute of Statistics (2009) *International trade of goods in Romania*, *Press Releases*, <http://www.insse.ro>;
- [11] National Institute of Statistics (2009) *Trends of economic activity evolution*, *Press Releases*, <http://www.insse.ro>;
- [12] Pălăngean, D.C. (2007), *Economia se închide!*, Piața financiară, Nr. 2.

## The Economic and Social Benefits of Air Transport

GHEORGHE Camelia  
SEBEA Mihai

Romanian-American University  
gheorghe.camelia.monica@profesor.rau.ro  
sebea.mihai@profesor.rau.ro

### Abstract

*Air transport is an innovative industry that drives economic and social progress. It connects people, countries and cultures; provides access to global markets and generates trade and tourism. It also forges links between developed and developing nations. Like most human activities, air transport has an impact on the environment, mainly through noise and emissions that affect local air quality and the climate. The industry fully recognises its responsibility in this regard and is determined to accelerate action aimed at mitigating its environmental impact – while preserving and enhancing its economic and social benefits.*

*This paper provides new and updated data regarding these benefits, including the creation of jobs; contribution to gross domestic product (GDP) and tourism development; and the provision of humanitarian aid and medical assistance. Based on a study undertaken for ATAG by Oxford Economics, this document is an essential source of information that will enable those interested in the industry to be well informed about the economic and social impacts of aviation.*

**Key words:** transport, environment impact, aviation

**JEL classification:** L9

### 1. Air transport - a major contributor to global economic prosperity

Aviation provides the only rapid worldwide transportation network, which makes it essential for global business and tourism. It

plays a vital role in facilitating economic growth, particularly in developing countries.

Aviation transports over 2.2 billion passengers annually and facilitates world trade, helping countries participate in the global economy by increasing access to international markets and allowing globalization of production. The total value of goods transported by air represents 35% of all international trade.

Air transport is indispensable for tourism, which is a major engine of economic growth, particularly in developing economies. Over 40% of international tourists now travel by air.

Air transport improves productivity, by encouraging investment and innovation; improving business operations and efficiency; and allowing companies to attract high quality employees.

The air transport industry generates a total of 32 million jobs globally, through direct, indirect, induced and catalytic impacts. More than that, aviation's global economic impact (direct, indirect, induced and catalytic) is estimated at USD 3,560 billion, equivalent to 7.5% of world Gross Domestic Product (GDP). Some 2,000 airlines around the world operate a total fleet of 23,000 aircraft. They serve some 3,750 airports through a route network of several million kilometres managed by around 160 air navigation service.

Air transport is a highly efficient user of resources and infrastructure. Its occupancy rates exceed by far those of road and rail transportation. Air transport pays its way and invests substantially in vital economic infrastructure. Unlike other transport modes, the air transport industry pays for its own infrastructure costs (i.e. runways, airport terminals, air traffic control), rather than these being financed through taxation and public investment or subsidy (as is typically the case

for road and railways). Companies in the air transport industry also make substantial tax payments to national treasuries.

Air transport contributes to sustainable development. By facilitating tourism and trade, it generates economic growth, provides jobs, improves living standards, alleviates poverty, increases revenues from taxes, and fosters the conservation of protected areas.

Air transport is often the only means of transportation to/from remote areas, and promotes social inclusion by connecting those living in such communities with the rest of their country. The air transport network facilitates the delivery of emergency and humanitarian aid relief anywhere on earth, and ensures the swift delivery of medical supplies and organs for transplantation.

Air transport improves quality of life by broadening people's leisure and cultural experiences. It provides a wide choice of holiday destinations around the world and an affordable means to visit distant friends and relatives.

## 2. Air transport is responsibly reducing its environmental impact

Air transport's contribution to climate change represents 2% of man-made CO<sub>2</sub> emissions and this could reach 3% by 2050, according to updated figures from the Intergovernmental Panel on Climate Change (IPCC). This evolution is based on a growth in aviation CO<sub>2</sub> emissions of 2-3% per year, with an annual traffic growth of 5%. The air transport industry is now working towards carbon-neutral growth – no increase in carbon emissions in spite of traffic growth – as a first step towards a carbonfree future.

Aircraft entering today's fleet are 70% more fuel-efficient than 40 years ago, consuming 3.5 litres per passenger per 100 km. The Airbus A380 and the Boeing 787 – consuming less than 3 litres/100pkm – compare favourably with small family cars. The statistics show that 25 million tonnes of CO<sub>2</sub> have been saved in 2008-2009 through the shortening of hundreds of air routes, other air traffic management (ATM) improvements and aircraft operational savings and a further 25% fuel efficiency gain is targeted for 2020. Moreover, aircraft entering today's fleet are 20

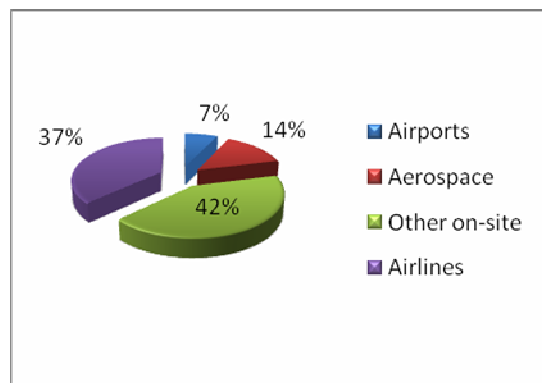
decibels (dB) quieter than comparable aircraft 40 years ago. This represents a reduction of 75% in noise. Research programmes aim to achieve a further 50% reduction in noise and CO<sub>2</sub> emissions and an 80%.

## 3. The economic benefits of air transport - air transport generates employment and wealth

The air transport industry is a vital part of the increasingly globalised world economy, facilitating the growth of trade, tourism and international investment, and connecting people across continents.

**Direct impacts** - the air transport industry itself is a major direct generator of employment and economic activity, in airline and airport operations, aircraft maintenance, air traffic control and management and activities directly serving air passengers, such as check-in, baggage-handling, on-site retail and catering facilities. Not all of these activities necessarily happen at an airport, with some taking place at head office. Direct impacts also include the activities of aerospace manufacturers selling aircraft and components to airlines and related businesses. Providing these services generated almost 5.5 million direct jobs globally in 2009 within the air transport industry and contributed USD 408 billion to global GDP. This is as large a world industry as the pharmaceuticals sector.

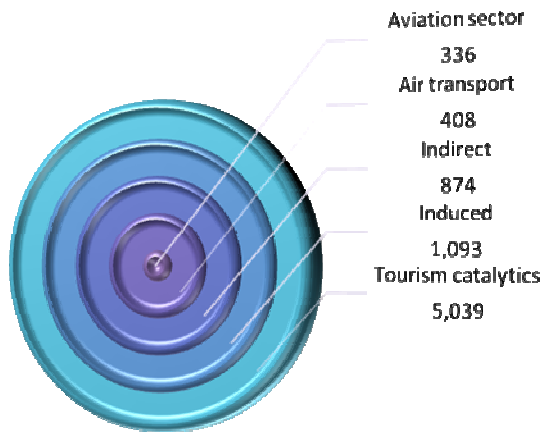
Figure 1 - Direct employment by sector in the air transport industry (2009)



Of the 5.5 million jobs directly generated by the air transport industry:

- 780,000 people work in the civil aerospace sector, involved in the manufacture of aircraft systems, frames and engines, etc.
- 2.0 million people work for airlines or handling agents, including flight crew, check-in staff, maintenance crew, etc.
- 380,000 people are employed by airport operators, in airport management, maintenance, security, etc.
- 2.3 million have other jobs on-site at airports – for example, in retail outlets, restaurants, hotels, etc.

Figure 2 - Global economic impact – GDP in billions of USD



**Induced impacts** - the spending of those directly or indirectly employed in the air transport sector supports jobs in industries such as retail outlets, companies producing consumer goods and a range of service industries (e.g. banks, restaurants, etc.). 2.9 million induced jobs globally are supported through employees in the air transport industry (whether direct or indirect) using their income to purchase goods and services for their own consumption. The induced contribution to global GDP is estimated at USD 220 billion in 2009.

#### 4. Air transport generates wider catalytic (spin-off) benefits

The air transport industry's most important economic contribution is through its impact on the performance of other industries and as a facilitator of their growth. These "catalytic" or "spin-off" benefits of air transport affect industries across the whole spectrum of economic activity:

- Air transport facilitates world trade, helping countries participate in the global market by increasing access to international markets and allowing globalization of production.
- Air transport is indispensable for tourism, which is a major engine of economic growth globally, particularly in developing economies.
- Air transport improves productivity, by encouraging investment and innovation; improving business operations and efficiency; and allowing companies to attract high quality employees.

##### *Air transport's influence on investment and innovation*

Good air transport links influence where companies choose to invest. According to a survey, 52% of companies consider international transport links to be an essential factor when locating businesses in Europe. Similarly, other surveys have found that the investment decisions of firms in a wide range of countries have been significantly affected by the absence of good air transport links.

Moreover, air services are important in encouraging innovation. For example, they increase the size of the market in which firms operate, which means that the cost of research and development can be spread across a larger sales potential. They also enable networking and collaboration between organisations internationally, which facilitates the transfer of knowledge. Surveys have found that over a quarter of companies believe that innovation and investment in research and development would be quite badly affected if air transport services were constrained.

The economic catalytic impacts generated by air transport are greater than the combined direct/indirect/induced impacts.

### ***Air transport's impact on business operations and efficiency***

- Opening up new markets: Air services enable companies to expand in rapidly growing distant markets. They also expose companies to stiffer competition, encouraging them to become more efficient.
- Servicing and meeting customers: Air services allow more effective communication between companies and their clients, helping them make new sales and better meet the needs of existing customers.
- Improving production efficiency: Business is becoming increasingly global. Air services allow managers of multinational companies to visit overseas sites and subsidiaries in other countries; widen the range of suppliers and partners with whom firms can work; and facilitate the spread of best practice in business operations.
- Providing fast and reliable delivery of high-value products: The global supply chain is becoming increasingly dependent on the rapid and reliable movement of goods internationally, which only air transport can provide. Air services allow firms to shorten delivery times, minimize inventory costs and limit interruptions to production. In addition, customers increasingly demand fast delivery and efficient handling of product returns and replacement, particularly as Internet shopping and e-commerce expand.

### ***Air transport's impact on the labour market***

Air transport also enhances the competitiveness of business by making it easier for companies to attract high quality employees from around the globe. This is particularly important for senior staff and professionals for whom access to good international links influences their decision on where to live and work.

## **5. Air transport contributes to world trade**

Air transport is an important facilitator of international trade, thereby promoting economic growth and development. Forecasts suggest that the global economy will become even more dependent on trade over the next decade. World trade is expected to nearly double, rising at more than twice the rate of

global GDP growth, with China, India and emerging markets leading the way.

### ***Airfreight's role in international trade***

40% of the value of inter-regional trade in manufactured goods is transported by air. Larger amounts of traded goods within regions are transported by other modes, including road and rail. According to IATA estimates, the total value of goods transported by air in 2010 is estimated to have been over USD 3.5 trillion, representing 35% of all international trade. The air transport industry is vital to international trade in time-sensitive goods. Rapid delivery is particularly important to businesses whose customers are running streamlined production processes or who need urgent delivery of spare parts for machinery and equipment, as well as for exporters of perishable products such as food and flowers (many of whom are in developing countries).

### ***Passenger air services' role in international trade***

Passenger air services are also vital for international trade: around two-thirds of companies consider air services to be vital or very important for sales and marketing, enabling them to meet potential customers. And air services are important for the growing trade in financial and business services globally, estimated to be worth USD 1,380 billion in 2006. While technologies such as videoconferencing can be very helpful, many companies still consider flying for face-to-face meetings to be essential for winning new business and developing client relationships.

## **6. Air transport stimulates tourism**

Tourism makes a major contribution to the global economy. It directly contributed USD 1,830 billion to world GDP in 2009 and generated 79 million direct jobs globally – 2.8% of total employment. By 2018, the World Travel & Tourism Council (WTTC) expects the tourism industry to employ directly more than 98 million people globally.

The air transport industry plays a major role in supporting tourism. Over 40% of international tourists now travel by air, up from 35% in 1990. At the same time, the WTTC estimates that foreign visitors account for just under 25% of overall tourism spending around the world. This includes spending by

business travellers, as well as those on leisure trips or visiting friends and relatives. Tourism is particularly important in many developing countries, where it is a key part of economic development strategies. In Africa, for example, the jobs of an estimated 1.5 million people directly employed in tourism are supported by overseas visitors arriving by air, representing 25% of all tourism jobs in Africa.

#### ***The contribution of air transport to tourism employment and GDP***

Direct: 7.7 million direct jobs in tourism globally are estimated to be supported by the spending of foreign visitors arriving by air. This includes jobs in industries such as hotels, restaurants, visitor attractions, local transport, car rental, etc., but it does not include air transport industry jobs.

Indirect: A further 6.0 million indirect jobs in industries supplying the tourism industry are supported by visitors arriving by air.

Induced: These direct and indirect tourism jobs supported by air transport generate a further 3.4 million jobs in other parts of the economy, through employees spending their earnings on other goods and services.

### **7. Air transport is a significant tax payer**

Unlike other transport modes, the air transport industry directly pays for its own infrastructure costs (i.e. runways, airport terminals, air traffic control), rather than these being financed through taxation and public investment or subsidies (as is typically the case for road and railways). In addition, companies in the air transport industry make significant tax payments to national treasuries.

***Levying user charges*** - the air transport industry covers its infrastructure costs (airport operations and air traffic management) through the payment of user charges by airlines to airports and air navigation services providers. These charges, which totalled USD 42 billion in 2009, are generally included – and sometimes explicitly identified – in the price of the airline ticket.

***Levying taxation*** - the air transport industry pays substantial taxes to local, provincial and national authorities around the world via aircraft or passenger duties, domestic value-added tax (VAT), customs or

immigration levies, etc. In the United States, for example, taxes and fees levied on aviation were about USD 16 billion in 2006, corresponding to 26% of airfares.

***Air transport is the only transport mode that fully pays for its own infrastructure*** - the user charges collected by airport operators pay both for the day-to-day services they provide to airlines and their customers, and also for the massive investment in runways, terminals and other infrastructure required for a modern, efficient air transport service. In contrast, while road users pay fuel duties and vehicle excise taxes, most governments fund their countries' investment in new highways and in road maintenance. User charges are typically not applied as such except in the form of a toll charge on some highways. Moreover, as well as receiving public support for infrastructure investment, most States heavily subsidise their rail sectors. In Europe, for example, governmental aid to the rail sector is USD 70 billion per year.

***Air transport makes a net contribution to public funds in the developed world*** - according to a recent study, air transport frequently makes a net contribution to public funds. This study compares road, rail and aviation in terms of infrastructure costs versus taxes and charges per 1,000 revenue-kilometre (000 rkm):

- Germany: Aviation infrastructure costs represent USD 112 per 000 rkm, while user charges and taxes generate USD 125, thus resulting in a net surplus of USD 13 per 000 rkm. Conversely, revenues from German rail users represent USD 41 per 000 rkm, while infrastructure costs amount to USD 107, resulting in a public subsidy of USD 66 per 000 rkm.
- France: The situation is comparable with a net contribution of aviation to public funds of around USD 83 per 000 rkm and government subsidies for rail of USD 97.

### **8. The social benefits of air transport**

The impact of the air transport industry is not just a result of the economic activity it generates or facilitates. Air transport also contributes to people's quality of life in a number of other ways that are not captured in standard economic indicators: for example, by

contributing to sustainable development, supporting remote communities, providing humanitarian aid and widening consumer choice.

***Air transport contributes to sustainable development*** by supporting and promoting international tourism. Tourism helps reduce poverty by generating economic growth, providing employment opportunities, increasing tax collection and fostering the development and conservation of protected areas and the environment. This is particularly important in Africa, which is home to nearly 15% of the total protected areas worldwide, and where many countries are seeking to develop nature-based tourism for international visitors.

***Air transport provides access to remote areas*** - where other transport modes are limited. Many essential services, such as food deliveries, hospitals, education and post, would not be available for people in such locations without air services. And residents would be isolated from family, friends and business contacts.

***Air transport delivers humanitarian aid*** - it play an essential role in humanitarian assistance to countries facing natural disasters, famine and war – through cargo deliveries, refugee transfers or the evacuation of people trapped by natural disasters. They are particularly important in situations where access is a problem – for example, ‘air drops’ are among the first response of aid agencies to stem a humanitarian crisis. Air transport also plays a vital role in the rapid delivery of medical supplies and organs for transplantation worldwide.

***Air transport contributes to consumer welfare*** - travel and tourism provide substantial consumer welfare and social benefits:

- Making foreign travel and a wider range of holidays available – international air travel from China, India and other emerging markets is increasing particularly rapidly as their residents’ living standards improve.
- Increasing understanding of different cultures and nationalities, which facilitates closer international integration.
- Supporting the development of multicultural societies – allowing immigrants to maintain

contact with their friends and relatives at home.

- Improving living standards by widening choice – seasonal fruit and vegetables, for example, are now available year round at reasonable prices. Meeting the needs of overseas visitors has also helped widen the range of leisure and cultural activities available in many countries.

## 9. Conclusions

The air transport industry is an innovative and environmentally responsible industry that drives economic and social progress. The growing availability of affordable air travel has considerably widened aviation’s role in our global society. *Flying is no longer a luxury!*

The air transport industry is responding to the growing demand for mobility by investing heavily in:

- technological innovation;
- safety and security improvements;
- fleet renewal with quieter and more fuel efficient aircraft;
- airport, air route and air traffic management enhancements;
- business simplification and improved customer services.

The industry’s efforts must be matched by government action to:

- further liberalise aviation markets without micro-managing air transport nor over-taxing it;
- support infrastructure improvements by approving essential increases in airport capacity as well as new and shorter routes;
- provide a global framework for a sustainable mass transportation system, which is not based on national rules and without distorting competition between industries and transportation means.

## 10. References

- [1] *Measuring airline network benefits*, Oxford Economics, 2005;
- [2] *The 2008 travel and tourism economic research*, World Travel & Tourism Council (WTTC), 2008;

[3] *The Economic Catalytic Effects of Air Transport in Europe*, Oxford Economic Forecasting, 2005;

[4] *The economic contribution of the aviation industry in the UK*, Oxford Economics, 2006;

[5] <http://ec.europa.eu>;

[6] [www.iata.org](http://www.iata.org);

[7] [www.icao.int](http://www.icao.int);

[8] [www.tourismeconomics.com](http://www.tourismeconomics.com).



# Risk Characteristics and Their Impact on Tourism Industry

GHEORGHE Camelia  
*Romanian-American University*  
*gheorghe.camelia.monica@profesor.rau.ro*  
CIUCHETE Stela Georgiana  
*Academy of Economic Studies*  
*georgiana\_ciuchete@yahoo.com*

## Abstract

*Tourism and air transport are the areas most vulnerable to change public perception. News media about earthquakes, terrorist attacks, violent conflict or emerging infectious disease in an area determined tourists to cancel trips or change their holiday plans. The impact of these events on the airline business or the destination can be very powerful, sometimes requiring long periods to return to normal.*

**Key words:** tourism, air transport, public perception

**JEL classification:** L9

## 1. Introduction

Tourism is by nature an area exposed to natural disasters of all types, such as: hurricanes, tsunamis and earthquakes (eg, Hurricane Katrina in 2005 in the USA, the 2004 tsunamis in Indonesia, earthquakes in San Francisco in 1989 and in 1999 in Taiwan), extended droughts and associated fires, etc. Direct effects of such events are shown by the impact of tourism infrastructure (transport, communications, electricity), by the damage of the tourism superstructure (accommodation and recreational facilities) and environmental damage, the raw material of tourism (beaches, forests, fauna, monuments, etc.). Their impact on tourism demand depends on a variety of factors, including their intensity and magnitude of the frequency with which they held (and thus the likelihood of recurrence) and the period during they are produced (season or low season). Moreover, the time necessary for returning to the circuit as a

tourist destination is influenced by the period of reconstruction the infrastructure and superstructure destroyed or damaged and the ability of media to reassure visitors that the risk of recurrence was reduced or eliminated. In undeveloped countries and areas with economic problems, rapid reconstruction can be reduced for lack of resources to develop and implement appropriate strategies. Meanwhile, the affected regions are facing a problem that an economically developed countries experience a much lower level: governments often exaggerate the damage intensity in trying to get international aid for reconstruction and minimizes the tourism industry destruction to persuade tourists to return as quickly and so to continue the activity.

## 2. Sources of risk

Regarding the safety of visitors, host communities and tourism employees, there are identified four major sources of risk [4 p. 56]:

**1. Human and institutional environment** - the risk exists where tourists can become victims of common delinquency (theft, fraud, assault, etc.), of violence, harassment, organized crime (embezzlement, the slave trade, coercion), of terrorism and illegal intervention (attacks against state institutions and the vital interests of the state), of deflections and taking of hostages, of wars, social conflicts and political and religious turmoil, weak protection of public and institutional services.

**2. Tourism and adjacent sectors** - can become sources of risk and personal security of visitors, physical integrity and economic interests in the absence or because of the superficiality of safety standards in tourist

establishments (faulty workmanship, lack of protection of anti-seismic or fire, etc.), inadequate sanitation and lack of respect for sustainable development, lack of protection against illegal activities, crime and delinquency in tourism facilities, fraud in commercial transactions, breach of contracts and litigation staff.

**3. Individual tourists** - can jeopardize their own safety and security, and host communities through: dangerous sports and activities, by eating unhealthy foods and beverages, by causing conflicts among residents as a result of inappropriate behavior besides local communities or through failure to comply with local rules or by visiting dangerous areas through such illegal activities (drug traffic, etc.)

**4. Physical and environmental risks** - can occur if the tourists are not aware of the natural characteristics of destination, especially of flora and fauna, if they are not prepared to travel from the medical point of view (vaccination, prophylaxis), are exposed to hazardous situations arising from physical environment. Physical and environmental risks are largely the results of ignorance of tourists regarding travel.

In addition to the above, it can be identified risks relating to both tourists and economic entities engaged in tourism:

**A. Risks regarding organizing of travel** - they may occur when there is bankruptcy of the organizer, the tour-operator agency, transportation company and tourists can lose some of the value holidays or at worst, its full value. Most events of this type are however covered by insurance, but reimbursement of amounts due from customers may vary from case to case.

**B. Risks regarding the quality of service at the destination** - occur when tourists were wrongly informed by the organizer of the package holiday, by the distributor or the travel agent. In this situation, according to individual contract concluded with the dealer to purchase the package, the tourist can inform responsible society, call upon the authorities and may recover part or the entire amount spent or can act in court.

In general, the risk perception of tourists travel is an image based on the likelihood of negative consequences associated with decisions and tourist behavior. The risk is not

a tangible part of the journey, but is what tourists perceive and experience during the purchase and consumption of tourist services. In addition, travel risk perception is one of the major factors that can influence decision making regarding choice tourist destination and purchase services. By its nature, tourism is a segment of the services sector with unique characteristics (intangibility, inseparability, variability and perishability), which may increase risk perception compared with the purchase of tangible products. Moreover, tourism is affected by other specific risk factors, such as the possibility of bad weather, wary communities, discontinuities of travel caused by economic events, lack of adaptation to local gastronomy, terrorism, conflict, crime, political unrest, epidemics, natural disasters. These factors may influence the risk perception of travel experienced by tourists, and therefore, the decision to spend the holidays.

Regarding the risk analysis and valuation of the consumer sphere, there are identified the following: quantitative sources of risk, qualitative risk factors, variables that influence consumer and differentiate risk factors, such as criminal or terrorist threats.[3 p. 112]

The most important elements of quantitative risk assessment of the sources are the probability of appearance and the magnitude of damage. Both variables may be the result of distorted perceptions, subjective, dependent on various influences, and using in this situation of some mental practices of the consumer is the act that may lead to a distortion of the probability effects. Practices used for this purpose are mainly based on reality, as a direct result of experience; both are characterized by stability, which allows external observers, aided by their knowledge, to create situations of a possible behavior consumer. Such a situation can be illustrated by highlighting the temporal component for double interview, at an interval of one month, a number of 500 subjects, after the terrorist attacks of September 11, 2001. Thus, the question whether the terrorist attacks and their consequences have had an impact on travel behavior in terms of future travel for tourism, in November 2001, one month after the event, 65% of subjects responded negatively, 29% positive and remaining 6% stated that they do not know. Three months later, at the same

question, same subjects gave negative responses in a proportion of 69%, positive responses - 14% and 17% were undecided.

Risk assessment is performed by a number of *qualitative characteristics*. Among them, the voluntary assumption of risk is acceptable in a less tragic than the dangers imposed. This is important because visitors have to have the opportunity to voluntarily assume risk. Thus, bold advertising that distorts reality, not only producing dissatisfaction to tourists, but it can deprive the opportunity to decide themselves whether or not assume risk.

Risk factors depend on a number of *demographic variables* such as age, gender and education, but also on the cultural environment from which the consumers. Thus, women have a deeper perception of risk than men, and young people aged 18-24 years perceive it more shallow than those older. Regarding the cultural and tourist education, an example is that after the nuclear accident at Chernobyl, 80% of tourists from Scandinavia had travel insurance if headed to the region, while the percentage of Spaniards who adopted the decision was only 20%.

In addition, however, caused panic among tourists belonging to a national group can have disastrous effects on tourism. For example, Miami was known as a destination where the crime rate exceeded the average, but a murder on a German tourist in 1993 caused a pronounced decline in the number of German visitors. This means that, for tourists, there is a big difference between being subjected to threats and become potential victims themselves. Criminal activities are an ongoing part of everyday life, but in the context of tourism, it gets much deeper values, so that tourist activities (discovery of new places, to new activities, risk taking) are vulnerable targets of tourists, and material damage is not as important as are the intangible, which can exacerbate vulnerability or damage the positive image about holidays spent.

If the level of risk perception is higher than the personal boundaries of each individual bear, the tourist will seek to reduce risk exposure by canceling or changing travel destination. Typically, the value of these limits are reached quickly in case of a discretionary tourism product than a tangible product. Therefore, risk perception has a direct impact and can result in losses larger than those

caused by the event itself. Researchers found, too, that the perception of risk has a much stronger influence in terms of avoiding a specific region than in the decision to visit a certain area (for example, those who fear the risk of terrorism are likely to avoid in moving the Middle East).

Some tourist destinations are associated with a higher risk than others. For example, the Caribbean is located on the path of hurricanes, and therefore is more exposed to storms of this magnitude than most of the regions in Europe. Some Middle East states have experienced long periods of controversial political statements, so that area might seem more risky for potential visitors. Other countries have suffered due to natural or human hazards, what has brought media attention, this causing an increase in risk perception among potential visitors. Indonesia, for example, is a destination that has been subject to major natural disasters, and, in addition, to terrorist attacks in recent years. All this had a negative impact on the tourism industry, both nationally and internationally.

Tourism is sensitive not only to natural disasters, but may be affected by human produced events, such as outbreaks of war, terrorist attacks or political issues (Tiananmen Square in 1989, the war in former Yugoslavia in 1990, the 1991 Gulf War, attacks in Luxor in 1997). In addition, regarding the impact on travel industry, tourists have become primary targets of terrorist acts to try perpetrators of receiving increased media attention. Most acts of violence have played an overwhelming role in the decision making process of travel, creating fear and uncertainty among consumers and raising barriers to organizing holidays, thereby limiting the development industry.

Tourists can perceive terrorism as having a greater risk than natural disasters when traveling to a particular destination. Natural disasters are relatively rare and, unlike the terrorist attacks are not particularly focused on harm tourists. Moreover, if taking into account travel to volatile political areas such as Middle East countries, visitors are more concerned about problems caused by humans than natural ones.

In recent years, the perception of risk associated with terrorist travel suffered essential changes because of higher magnitude

and frequency of attacks. If in the past they were held to a relatively small scale, the events of September 11, 2001, terrorist attacks in Bali in 2002 and 2005, bombings in Madrid in 2004, incidents in Turkey and Egypt in 2005 and attacks on transport network London in 2005 have made of terrorism risk an important issue at international tourism industry. The extent to which tourists perceive the risks of terrorism depends on the region who travel often, the characteristics of each incident and the news that they report.

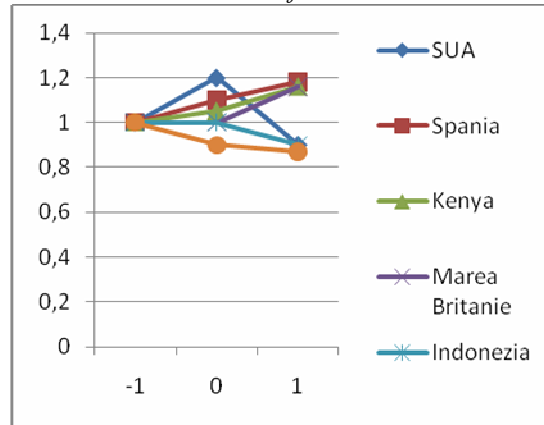
If the disasters of any kind can affect any destination, the time needed to reconstruction varies significantly from one destination to another. Among the factors explaining differences in time in terms of rehabilitation, the most important are: when the attack occurred, the development of the tourism industry in the region, the magnitude of the attack, frequency of attacks and responses to the event.

In the same context, the International Labour Organization said that the period following the terrorist attacks of September 11, 2001 brought a loss of jobs in the tourism industry and involved in air transport by more than 11 million people, which meant 1 / 7 of total employment. CEO of International Air Transport Association reported in 2003 that the war in Iraq has cost international airlines over \$ 10 billion, the loss suffered putting it on the second place after the \$ 30 billion due by September 11. Meanwhile, a study by the Tourism Association of America estimated that over 70% of Americans were not interested in vacations abroad.

### 3. Impact of negative events on tourism industry

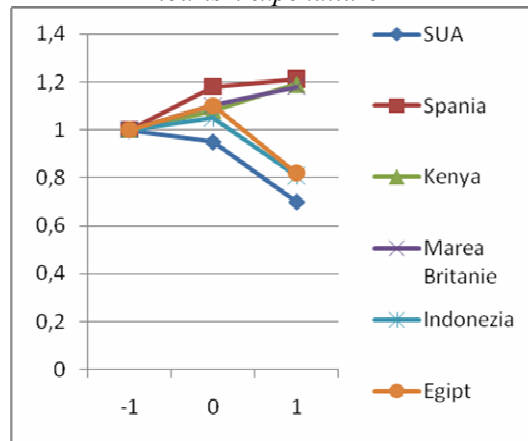
Studies on the impact of terrorist acts on the tourism industry in 6 states where tourism is an important, showed the evolution of indicator "number of arrivals" before, during and after the event (Fig. 1) (statement captures the effects of terrorist attacks in the U.S. in 2001, Spain in 2004, Kenya in 2002, United Kingdom in 2005, Indonesia in 2002 and Egypt in 2004).

Figure 1 - The effect of terrorism attacks on the number of arrivals



Considering that (-1) is the year before the attack, (0) the year of the attack and (1) year thereafter, it is interesting to note how the six states were divided into two groups: on the one hand, Egypt, Indonesia and the United States, which saw a decline in the number of tourists in the year following the attacks, and the other part of Kenya, Spain and Great Britain, whose number of tourists increased from year to attacks. One explanation may be that the situation in Egypt and Indonesia, attacks were directed mainly to international tourists, while the events in Madrid and London were targeted transport system. U.S. attacks were unprecedented and shocked the whole world, while those in Kenya have focused mostly on Israeli visitors.

Figure 2 - The effect of terrorism attacks on tourism expenditure



It is also important to note that all these countries have invested heavily in advertising campaigns after the events, therefore, in addition to the indicator described above, the analysis of tourist expenditure is a problem that should not be neglected (Fig. 2). When the tourism industry is under pressure and tries to recover after some shock, it is not surprising that tour-operators and tourist destinations make massive price cuts to turn into a competitive destination and to attract both more visitors. Moreover, it is expected that interest expenses decreased to know a much stronger pace than the decline in the number of visitors.

The model of evolution of tourism expenditure in the same period and for the same 6 countries (Fig. 2) confirmed that the 3 countries that suffered the greatest losses in terms of tourist arrivals had followed the same decline in tourism expenditures, while countries that retained or received a higher number of visitors increases in case of volume of revenue.

Regarding the lower tourism expenditure, this is manifested both by reducing tariffs to accommodation and air tickets. For example, the air fares have dropped dramatically after September 11, 2001, in an attempt to persuade passengers to return without fear of further attacks. Moreover, the growth of low cost airlines has stimulated lower air fares at a time the price of oil has seen a substantial increase. However, it is easy to see that these measures were insufficient in the immediate aftermath of attacks in the U.S. to recover the trajectory volume tourism expenditure.

#### 4. Conclusions

It is therefore important to note that the tourism industry risks are different both in nature and the large coverage area. Risks are not only the likelihood of simple events, but may have major negative effects on tourists, tourism employees, local communities, businesses, infrastructure and community resources. Moreover, they may exceed the capacity of community resources and facilities available for managing an immediate response and long term can cause problems in terms of restoration and rehabilitation.

#### 5. References

- [1] C. Cooper, S. Wanhill, *Tourism: principles and practice*, Pearson Education Limited, England 2008;
- [2] D. L. Edgell, *International Tourism Policy*, New York, Van Nostrand Reinhold, USA, 1999;
- [3] D. Firoiu, C. Gheorghe, *Tourism in a globalized world*, Ed. Pro Universitaria, Bucharest 2007;
- [4] E. Laws, B. Prideaux, C.S. Chon, *Crisis Management in Tourism*, CAB International, London, Great Britain, 2007;
- [5] [www.eturbonews.com](http://www.eturbonews.com);
- [6] [www.iata.org](http://www.iata.org);
- [7] [www.travelmole.com](http://www.travelmole.com).

# The Social Responsibility Influence of Corporations on Sustainable Development

GRIGORESCU Adriana

*National School of Political Studies and Public Administration of Bucharest*

*adrianag@snsa.ro*

SASEANU Andreea

*Academy of Economic Studies Bucharest*

*saseanu@yahoo.com*

## Abstract

*The social responsibility of corporations is a concept that refers to the debt which companies (as social actors) has with respect to all the parties involved in the development of actions presupposed by their economic activity. The concept refers to all categories of companies, from micro-enterprises, up to multinational companies. The companies' task in the social responsibility of corporations refers to the fact that the respective company has to act bearing in mind the consequences, positive or negative, caused by their activities into the society, the company having the obligation of minimizing the negative effects.*

**Key words:** social responsibility, sustainable development, European Union, OECD

**JEL classification:** R11

## 1. Introduction

The social responsibility of corporations or CSR (Corporate Social Responsibility) refers to the way in which businesses balance their values and behavior with the expectations and needs of the interested parties – not only of the clients and shareholders, but also of the employees, suppliers, communities, authorities and of the company as a whole. Balancing all of these interests, the company's ability to meet all of these expectations and to bring solutions have to be realized in an organized manner by totally integrating the concept of social responsibility within the management systems and, consequently, in all the

companies' activities, in the organizational culture, in the essence of the business.

This integration process is realized in time and in conformity with some governing principles, with some managerial models and regularly in the framework of certain agreements which the companies sign at a global level with international organisms. Therefore, international norms and standards are imposed in order to ensure measuring and comparing the performances attained by the companies with regard to CSR.

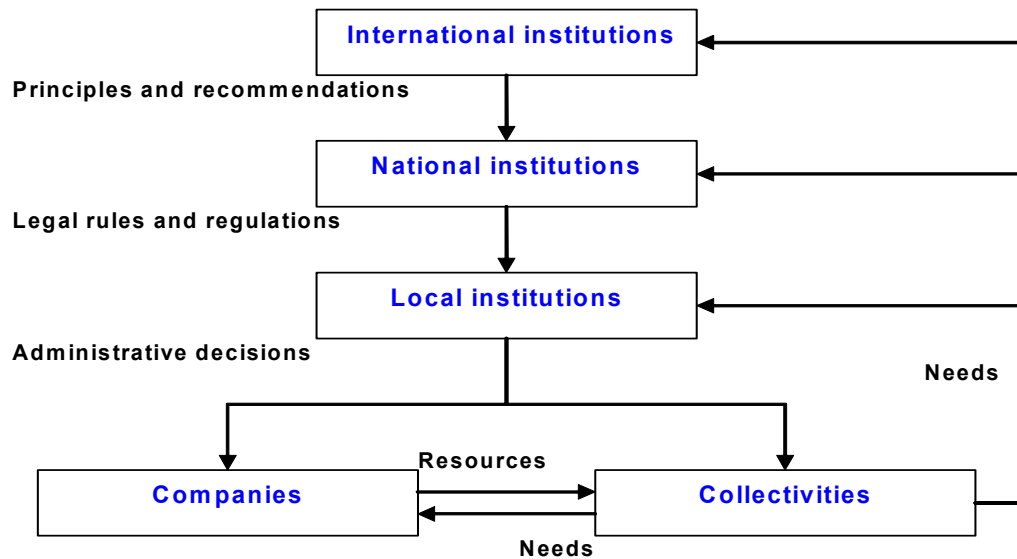
Important Romanian companies are implementing the CSR framework according with the main international approaches. An example is Petrom, a company dealing in petrol distribution.

## 2. International framework

From the international institutions perspective, CSR (Corporate Social Responsibility), is an idea which refers to the contribution that the companies should have to the modern society development.

As the states and international institutions realized that adopting the CSR principles by the companies serves the sustainable development objectives, consequently appeared the need of certain international standards in order to define what a „desirable corporate behavior” means.

The United Nations, European Union and the Organization for Economic Co-operation and Development are three of the most important institutions involved in the elaboration of a framework to define CSR and establish the indicators for a transparent evaluation.



*Fig. no. 1 Presentation of CSR*

This framework was accompanied by recommendations and principles that would guide the states and local authorities in formulating public policies in order to promote, ensure transparency and support the CSR initiatives.

By analyzing figure 1, we can say that a company is “socially responsible”, if it knows the CSR principles internationally promoted and it aims at its integration locally.

If, before the year 2000, sustainable development was a subject approached in macro-economical terms, nowadays it is especially debated in micro-economical terms, at the level of economic entities. This subject mainly regards the large multinational corporations, considering their turnover and presence in all the countries of the world, including those in which the respect for human rights or the fight against corruption do not constitute a priority of the governments.

Generally, sustainable development applied at the level of corporations and economic entities materialized in the concept of “social responsibility of corporations”. The European Commission in the “Green paper” dedicated to this concept defines it as follows: “The voluntary integration by the companies, of social and environmental preoccupations in their economic activities and in their relation with the stakeholders”.

This definition raises three fundamental principles:

- Voluntary action of the companies;
- Triple approach: economical, social and environmental;
- Reporting to the companies’ stakeholders.

Sustainability and responsibility have been reunited under the „umbrella” of social responsibility of corporations (CSR- Corporate Social Responsibility), which became a global movement.

As the welfare of a country is not only measured in its GDP, but also in the aspects of education, health, freedom of speech, income allocation etc., in the same way, the state of an economic entity is no longer evaluated solely through the financial result. A large part of the companies’ capital is presently non-corporate, founded especially on people’s intelligence and less on infrastructure. It is related to image, brand, to passing from quantity to quality.

Offering only inexpensive products and services is no longer sufficient. Companies must also offer guaranties with regard to the origin of the raw materials, manufacturing or purchasing conditions, respecting the environment and human rights. Clients get more easily attached to ethical products, even though they are sometimes more expensive. Ethics is present nowadays at the Stock Market (Stock Market Indexes of corporate social responsibility), among the banks’ criteria for granting loans (McDonough ratio) and the investors’ criteria for placing their

capital. Last but not least, ethics is a demand of the local communities and public authorities. Therefore, the interests of corporations can no longer advance independently from the stakeholders who ensure their durability: shareholders, employees, consumers/ customers, suppliers, subcontractors, population, authorities. The companies stand before a challenge: that of conciliating all of these interests, which is not related with generosity, but with lucidity and intelligence.

European Union is interested in CSR, which considers to be a means to the end established at the European Council from Lisbon, from the year 2000 of becoming „**the most competitive and dynamic economic system in the world, able to sustain the economic development through more and better jobs and more efficient social cohesion.**”

In order to guide the companies in the CSR implementation, the European Union has also elaborated a series of principles, which aim at two dimensions of the relationship between the company and community:

### 3. The internal dimension

In the direct relation with the employees, the companies have the responsibility to:

- Ensure the improvement in the lives of the employees, in the workplace and outside the workplace.
- Ensure a safe and healthy work.
- To responsibly approach the restructurings in the case of a crisis, taking into consideration the interests of all the stakeholders.
- To minimize the impact of the activities undergone on the environment and natural resources.

### 4. The external dimension

In the relation with all their stakeholders, the companies should:

- Support the development of the communities where they activate.
- Support the development of the local economic systems by signing partnerships with local distributors.

- Respect human rights stipulated in the Universal Declaration of Human Rights from 1948.

- Protect and encourage the protection of the environment at a global scale.

European Union recommends companies to integrate these principles within their code of conduct and to report on the way in which they have been applied.

The Organization for Economic Co-operation and Development (OECD) developed from the Organization for Economic Co-operation (OEEC), founded from 1947 in order to support the Marshall Plan implementation.

Created as an economic homologue of NATO, OECD took over the responsibilities of OEEC in 1961. The mission of the organization is to help the states to reach sustainable development on an economic plan.

## 5. OECD Perspective

In order to coordinate the companies' actions to reach sustainable development at a global scale, the OECD has elaborated, in 1976, “Guidelines for Multinational Enterprises” – a series of guidelines that have to be taken into consideration by any company, regardless of the domain in which they activate, aiming at the human rights, environment protection, the consumers' interests, corruption and competition. In the year 2000, the revised variant of the “Guidelines for Multinational Enterprises” was published.

According to “OECD Guidelines” the companies should:

- contribute at the economic, social and environmental development, supporting the principle of sustainable development;
- respect human rights in all the activities they carry on;
- encourage the development of local communities;
- not accept exemptions that are not included within the local legislative framework related to the environment, health, security, work and taxation;
- support and apply the equitable principles and practices of company management;
- develop and apply efficient management systems for establishing a relation of



confidence with the societies in which they activate;

- promote the company's values in front of the employees through training programs;
- not discriminate and not sanction the individuals or institutions that warn the management team of the company's irregular practices;
- encourage business partners to apply the "OECD Guidelines";
- not involve unjustifiably in local political activities.

The European Union and the governments of the States Member OECD support the principles stipulated in the "Guidelines".

## 6. Social impact

The current global context is characterized by the emergence of a relation of forces in the economic-financial game; forces of constraint for corporations, which generate legal risks and especially reputation risks which could affect the performance, as well as the durability of multinational corporations.

With regard to multinational companies, the public opinion expresses increasing demands of transparency and responsibility. The impact of the public opinion within the society often has repercussions in a reactive and remonstrative manner. The source of this attitude is the suspicion manifested towards the large companies. Losing confidence in the company, as an institution, is mostly caused by the painful experience of industrial mutations and workplace instability, as a consequence of the delocalization.

The role of large multinational companies is a complex one, nowadays, these companies being actors with full responsibilities in the social context. The corporations' legitimacy is conditioned by general interest criteria for the society which they cannot avoid. Peter Drucker stated: "In the society that follows, the largest challenge for a broad-reach company – especially a multinational one – will undoubtedly be its social legitimacy: its values, its mission and its vision."

Civil society acknowledges the legitimacy of the companies responsible socially and towards the environment, through various instruments: taxes, administrative authorizations, specialized notification

agencies, Stock Market Indexes for social responsibility, granting awards, through labeling, etc. The Civil society has the obligation to put pressure in the sense of promoting laws, regulations and standards of excellence with regard to the corporate social responsibility.

## 7. Petrom example

For instance, within the company Petrom, through the CSR programs, expressed by the slogan "Respect for the Future!", the company is trying to take into consideration the needs of their current customers, as well as the interest of the future generations related to environment protection and to the sustainable development of the society. The company is conducting CSR projects in order to support the employees of Petrom, the Education, Sports, Environment Protection, Quality and Local Communities.

In order to support the Petrom employees, through the "Think Ahead" program there has been organized a series of information campaigns with respect to environment protection. In addition, Petrom has performed programs to inform and train vulnerable communities with respect to disasters, together with the Romanian Red Cross. In order to support the Education, the CSR policy of the group initiated the "Petrom Olympics" project, which granted support to 1300 children and young performers in sports, art, literature, computer science, chemistry etc. by offering grants for their affirmation in nationally and internationally known competitions.

The „Respect for the Future” program aims at helping the employees and the communities become aware about responsibly using the natural resources.

In the domain of environment protection, Petrom has launched "Parks of the Future", one of the largest projects of green spaces rehabilitation. The latter project has been awarded the highest distinction, Golden Award for Excellence at the Romanian PR Award.

The most recent award received by the Petrom project was bestowed from the European Excellence Awards in Berlin. "Parks of the Future" was nominated in the top 5 companies from the South-Eastern Europe,

being selected from a number of more than 600 registered from the entire European continent.

In the context of the constant transformation and regulation of CSR, the dimension produced by its voluntary character offers an unlimited exploration space for managers in which the art of being a manager can conciliate utility, efficiency and personal fulfillment, can ensure at the same time the durability of the company and harmonizing the relations with the society.

## 8. Conclusions

Corporate social responsibility (CSR) has expanded into the business environment and does no longer represent the privilege of some pioneer companies, but has transformed into a necessity to all multinational companies that have embarked into the globalization game. The market is expanding, the responsibilities are increasing. The integration of social responsibility, as we have seen, is a complex process and which is elaborated on a long term. The economic environment is characterized by rapid transformations which require a rapid adaptation. In this context, risk management and the integration of social responsibility are essential to any company.

As we have demonstrated, CSR is not only a reactive and defensive commitment, but, first of all, proactive. Therefore, CSR becomes a

space of strategic exploration, a challenge for the managers, an instrument to harmonize the companies' relationship with the environment in which they activate.

## 9. References

- [1] Crăciun, D., „Etica în afaceri”, Editura ASE, București,2005
- [2] Jonker, J., de Witte, M., „Management Models for Corporate Social Responsibility”, Edit. Springer, Berlin,2006
- [3] Oprea, L., „Responsabilitatea Sociala Corporatista”, Editura Tritonic, București, 2005
- [4] Beji-Becheur A., Bensebaa F., „R sponsabilite sociale de l'entreprise : de la contrainte   l'opportunit ”, Revue Gestion 2000, n 1/2006, ianuarie-februarie
- [5] Fry, L.W., G.D. Keim, R. E. Meiners „Corporate Contributions: Altruistic or for Profit? ”, The Academy of Management Journal, Vol.25, n 1,2003, p.94-97
- [6] Mohr, Lois A. and Deborah J. Webb,„The Effects of Corporate Social Responsibility and Price on Consumer Responses”,Journal of Consumer Affairs,, 2005, p.121-125
- [7] [www.csreurope.org](http://www.csreurope.org)
- [8] [www.csrnetwork.com](http://www.csrnetwork.com)
- [9] [www.developpement-durable.net](http://www.developpement-durable.net)
- [10] [www.petrom.ro](http://www.petrom.ro)
- [11][www.rapports-developpementdurable.org](http://www.rapports-developpementdurable.org)

## Public Goods in the Global Economy

ILIESCU Elena Mihaela  
"Titu Maiorescu" University of Bucharest  
mag\_mihaela@yahoo.com  
CONSTANTINESCU Maria Florentina  
Court of Accounts of Romania  
lenk\_r@yahoo.com

### Abstract

*Given the path that on which the economic life has irreversibly entered and the fact that economic business results have a direct impact on the environment overall, both theorists and directly involved subjects in the global economy, puts more emphasis on the concept of global public good.*

*The concept of a global public good is in fact the global economy, an extension of the concept of public good. In order for a public good to be considered a global public good has to fulfill the quasi-universality of the benefits arising from its use by the countries, nations and generations. As a result, the role of the international organizations is emphasized regarding the production of global public goods.*

*Inge Kaul argues that ONU is the home of the global public goods, and sees the organization as the intermediary global public goods, called to produce final global public goods, such as peace, security and global justice.*

*Charles Wyplosz designates the financial stability as a global public good. The viability of the claim is sustained by the current context of the global economic crisis.*

*Epidemiological monitoring of overall health status is also an example of a global public good, confirmed by the global panic created by the influenza pandemics occurred in recent years.*

*We can conclude that global public goods management represents a starting point less abstract and less threatening for the national interests than for the global governance.*

**Key words:** public goods, international organizations, ONU

**JEL classification:** H41

### 1. Introduction

Human existence assumes a permanent consumption of both private and public goods.

In the economic theory the two specific conditions of public goods are very well known:

1. Non-rivalry in consumption
2. Non-exclusivity.

Given the path on which the economic life has irreversibly entered and that the results of economic activities have a direct impact on the global environment, both the theorist and the directly involved subjects in the global economy, puts more emphasis on the concept of global public good.

The concept of a global public good, in fact constitutes within the global economy, an extension of the public good concept, adding a third conditions to the two already known conditions: the availability around the world.

Therefore, for a public good to be considered global public good it has to meet the condition of quasi-universality of the benefits arising from its use by the countries, nations and generations.

The benefits of these goods must reach a broad spectrum of countries and groups of people and meet the needs of present generations without jeopardizing those of future generations.

From this perspective, we can say that the humanity is the beneficiary of the global public goods, involving without doubt, an international cooperation at all levels. Therefore, we can't talk about good global governance without referring to its object – the global public goods.

## 2. Managing and providing global public goods

The starting point of all these reform attempts should be their management.

A fundamental role in contributing to the production, management and provisioning of public goods lies with ONU, being the international organization with the necessary structure and legitimacy for such a mission.

A major importance regarding the global public goods should be given to the international laws and regimes that produce the common pillars for development in transport, communications, trade, environmental protection, space and seas exploration, etc.

Peace and security represent the supreme example of global public goods, for the provisioning of which, on a global level, the globalization institutions are fully responsible. This is why the ONU reform must be supported by strengthening its capabilities to provide global public goods, the organization has a vital role in preventing and combating conflicts, in promoting sustainable development, development of human rights and of international law.

For goods such as peacekeeping, humanitarian assistance, public authorities' rehabilitation, construction and democratic governance benefit all legitimate protagonists, except only some local interest groups.

Opposite to these, Inge Kaul argues that ONU is the "home" of global public goods, and sees the organizations as an intermediate global public good, called to produce the final global public goods, such as peace, security and global justice.

As a result, the role of the international organizations on producing this global public good is emerging, having as levers of interventions:

- Operating with caution in promoting capital liberalization;
- Description of some conditions for its acceptance by individual countries;
- Avoidance of the overly restrictive macroeconomic policies and structural adjustment policies which were not effective;

- Supplementing the ex- post conditionality ex-ante conditionality;

Using only the two criteria of the public goods (non-rivalry and nonexclusive) is very difficult to identify the global public goods. Due to the world diversity and inequality among its actors, it is possible that some global public goods are more accessible to some than to others, without violating the two fundamental features.

With today's economic progress, intergenerational transmission of global public goods assumes new forms. Slowing down global warming, maintaining the ozone layer within normal levels, reducing disease, maintaining cultural and biological diversity have positive impacts on current and future generations.

The list of global public goods is always open, the examples being most diverse. Thus, this category would include equity and justice.

In order to maintain these assets rules are being issued which produce social cohesion and foster the appropriate level of cooperation without which the social conflicts can't be prevented or mitigated.

Accepting the idea that power of the nation-state has weakened, it follows that the provisioning of national public goods at a national level doesn't depend only on its own performance but also on how the globalization undermines or reinforces its ability to make decisions regarding benefits sharing.

Charles Wyplosz designates the financial stability as a global public good, through antithesis to the volatility of financial flows, characterized as a clear global "public bad".

The viability of this claim is strongly supported by the current context of the global economic crisis.

Opposite to the environmental qualification as a vital global public good there are no significant controversies. But disputes arose regarding the economic foundation of the great issues on conservation and environmental protection. Global warming is one of the most pressing global issues.

A very sensitive factor has been identified by Geoffrey Heal within the privatization of what was traditionally the state exclusivity in provisioning public goods and services.

Massive privatization led to increased negative externalities and hence to responsibilities reduction for producing the negative environmental consequences.

For example, the increase in the concentration of carbon dioxide in the atmosphere is, *inter alia*, the result of numerous individual or companies decisions, some located outside the governmental control.

It is for governments to intervene with regulatory and incentive measures of some environmental policies whose effectiveness would be limited in the absence of a comprehensive global policy.

Epidemiological monitoring of overall health status is also an example of a global public good. The global panic created by the pandemic influenza occurred in recent years clearly confirms the nature of global public good health of the world population. There are deep connections between the global health at a global level and epidemiological events, and also between the economic flows and global interest [5].

Many analysts consider the knowledge as a classic model of the global public good. For example, Stiglitz, stresses the importance of knowledge for development, giving it a major responsibility within the international community. He believes knowledge to be an essence of development, being complementary to the public or private capital [6].

Stiglitz also classifies information as a global public good. This feature is uncertain, however, because access to information depends on the possession of modern global communications.

New technologies represent a strategic investment, but the effect is that the market is an inappropriate tool to fairly generate and distribute information as a public good overall [7].

Also the public good nature of the technological knowledge and the fact that they can be always used without depletion, lead to some complex issues.

This is because generating innovations require specific institutions, in this case free markets being insufficient. For example, commercial innovation represents a product based on both scientific knowledge base (which are generally public) and on applied

engineering (based on patents which arises in private firms. In this respect a successful innovation requires an academic, government involvement and an industry to operate, actually difficult to put into practice in developing countries.

Global management of public goods is important to be made with the institutions' help and through regulations because:

- national laws are relative and changeable according to the changes in nation-states; are applicable to the companies or individuals on their territory. In globalization, the economic space than geographic area, but we cannot say the same about rules and institutions.

- it should be taken into account the nature of the followed rational economic behavior of individuals (utility maximization) and by businesses (maximizing profits).

This leads to externalities in production and consumption.

As a result of globalization, the externalities are increasingly felt across national borders. Although it is universally recognized the need for global governance institution, building institutions and binding international regulations for sovereign states, involves negotiations often from irreconcilable point of view, if seen only as occasions to defend the national interest.

The specifics of contemporary globalization such as reducing the power of national governments, not to be pursued by a growth in the international cooperation and global governance, makes national governance more difficult and the global governance inadequate.

The absence of global regulation due to the conflict between national sovereignty and global governance creates significant impact on the global economy.

If each nation acts solely in terms of self-interest, the result on a global level will be minimum, because each country will rely on other countries to cover the costs of a agreements which lead to the strengthening of global public goods.

In this context public goods will witness an excess of demand, and the public bad an excess of supply.

These issues are very evident in conservation.

Highlighting the two categories of global products is very important because it involves different ways of action. Limiting the global "bad" involves firstly self-restraint, while developing global public goods require positive contributions from all countries.

J. Stiglitz [8] groups the global public goods in six categories:

- I. global security;
- II. global economic stability;
- III. knowledge;
- IV. global environment;
- V. humanitarian assistance;
- VI. global health.

### 3. Global externalities

Providing these public goods represent the heart of global collective action.

If there are global public goods there is no doubt that global externalities exist also. These could be regulated by global institutions.

For this purpose ONU should not only seek to increase its role but also to encourage the mobilization of the international financial institutions' resources in joint projects.

This represents the interaction between economic global public goods handled by the international financial institutions and other international institutions.

For example there is a certain interdependence between global economic stability and global security.

Policies that lead to increased unemployment or drastic reduction of the income may lead to and often do lead to civil instability, ethnic conflicts, dispute within and between countries. Also the economic policies indifferent to the environmental quality are in general those that produce negative ecological consequences.

When they manifest globally, the counter-action must be done globally and the costs similarly divided.

Since international institutions provide global public goods, the expansion of demand will lead to the expansion of international organizations.

As a result, those international organizations and programs that comply with more current requirements will experience an appropriate dynamic.

We can conclude that global public goods management is a starting point less abstract and less threatening to national interests than global governance.

### 4. References

- [1] Inge Kaul, Isabelle Grunberg, Marc Stern, "Defining public goods", in Global Public Goods; International Cooperation in the 21 Century, Oxford University Press, 1999
- [2] Inge Kaul "Governing Global public Goods in a Multi Actor World: The Role of the United Nations", in Global Public Goods: Taking the Concept Forward
- [3] J. Mohan Rao, "Equity in a global public goods", Oxford University Press, 1999
- [4] Charles Wyplosz "International Financial Instability", Inge Kaul, Isabelle Grunberg, Marc Stern in "Global Public Goods"
- [5] Geoffrey Heal "New strategies for the provision of global public goods. Learning from International environmental challengers", in Global Public Goods
- [6] J. Stiglitz "Knowledge as a global public good"
- [7] J. Hail "Global communications for more equitable world"
- [8] J. Stiglitz "Globalization and the Logic of International Collective Action"; Reexamining the Bretton Woods Institutions.

## Labor Outsourcing in the Globalization Process

ILIESCU Elena Mihaela

*“Titu Maiorescu” University, Bucharest, Romania  
mag\_mihaela@yahoo.com*

CONSTANTINESCU Maria Florentina

*Court of Accounts of Romania, Bucharest, Romania  
lenk\_r@yahoo.com*

SORLESCU Mariana

*Romanian American Univeristy, Bucharest, Romania  
madisorlescu@yahoo.com*

### Abstract

*Currently, the sense of responsibility opposite to their own professional development is more important than ever due to potential relocation of many economic activities worldwide, leading to the assessment of each job in terms that create value and unique skills that you can stake.*

*There are no "American" or "European" jobs in the globalized world, but there are jobs that will inevitably revert to the most able, intelligent, effective and cheap, regardless of where they come from or where they live. Experience proved that outsourcing labor is not only cheaper but more effective.*

*On this basis, Friedman built the inequation  $CQ + PQ > IQ$ , which expresses an absolute truth that whenever a very curious and passionate individual would be preferred to one with endowed with intelligence.*

*So for us to fold to this flat world, education, training and continuous transformation have an important role.*

**Keywords:** outsourcing, jobs, global chain

**JEL classification:** M55

### 1. Introduction

In the context of current reality, the effects of globalization must be viewed also from the perspective of transition from the globalization of corporations to the globalization of the individual.

It is no longer a secret that those who work often have the feeling that their work is

integrated globally since: buy from someone in Australia, sell to someone in France and work with someone in India.

Currently, a sense of responsibility opposite to their own professional development is more important than ever due to the potential relocation of many economic activities worldwide, leading to the assessment of each job in terms of creating value and through unique skills that you can put in stake.

Therefore, the new reality, in order to make sure that your work will find its place in the global chain; you must understand how to compete successfully, how you can acquire the skills needed to work at the pace required. It is also desirable to do your job at least as good as anyone else in this world.

### 2. The role of labor as an input in the globalization process

All this happens in the globalized world, where work doesn't represent anymore the main input of production, but is the very essence of wealth. The capital tends to substitute labor, although it is the product of its accrual.

In the same line of thought, new technologies and the speed with which they change, require the allocation of education, training and continuous transformation.

In another line of thought, the external factors of labor end up by becoming more important than the work itself and compete, in any event, to the sensitive reduction its duration [1].

This aspect is very interestingly surprised by Th. Friedman in "The Earth is flat."

He says that it was never desirable to be mediocre at work, but within the world closed between "walls" mediocrity could offer you a decent wage with which you could do pretty well.

In the "flat" globalized world you don't want to be mediocre at your job because in countries like India and China are young people hungry with your job.

There aren't "American" or "European jobs in the globalized world ", there are only jobs that will inevitably revert only the most capable, intelligent, effective and cheap no matter where they come from or where they live.

The paradox is that now we talk more and talk about labor when its functions are being reduced.

The new market organization focuses on labor flexibility, change, mobility at the expense of trust between colleagues, of loyalty and fidelity to the institution or company. The wage contract resembles more likely to a commercial one, which is under continuous negotiations, offering to the labor market a more "mercenary" aspect.

Salaries are confidential and individualized, each trying to save himself and to make the best of the short-term risks and exposing himself to danger.

Work has become a source of new tensions, fear was much, a lot has been discussed about unemployment and social exclusion, and lately about growth without the creation of new jobs.

Current unemployment, caused mostly by knowledge and skill degradation induced by continuous movement should be understood only as a part of a wider and sustainable crisis, the employment crisis itself.

To get to the end of it in this "flat" world, the "homework" [2] has to be optimized. Companies change all that work patterns in order to compete well with the others who do the same thing.

This implies that education must be adapted, that teachers must change their teaching methods and the young generation to completely shift their studies.

Friedman in his paper "The Earth is Flat" refers to creating a middle class in this "flat" world and seeks to develop with responsibility the new work model that can cope better with the flat world platform and to address simultaneously the following issues: "What

kind of jobs for the middle class creates now the successful businesses and entrepreneurs? How should the employees prepare for these jobs and how can teachers support them in that direction?".

According to his theory the clear idea emerges, that the current direction required by globalization the key to success is finding the path to become an "untouchable", so your job can not be done faster and better by a robot or a stranger more skilled than you or on less money than you.

For this, we need to focus to get an overview on the disparate analysis, to find solutions to build relationships and put less emphasis on signing contracts.

To those presented it can be stated that there are three categories:

1. Really special people, which occupies a major role, which nobody can ever outsource or trade through electronic transfer because they have a global market for the services they offer and hence can claim "global" revenue. It is the example of: Madonna, Elton John, or for instance a famous scientist or a well-known doctor.

2. People on a good local level, because their work must be done in a properly defined place, implies some specific local knowledge or direct interaction with a person (patient, client) with which they have the facility to interact.

In this category there is a large number of persons, for example, chef, dentist, masseuse, babysitter, gardener, lawyer, etc. Regardless of how sophisticated is the exemplified job, their wages will be dictated by local supply and demand game.

3. Jobs which until recently were occupied by middle class, which were considered non-tradable but due to globalization are becoming increasingly interchangeable. For example, data processing, accounting, radiology, credit analysis, etc.

Basically, the days when an accounting job was very secure and well paid are gone. It is very important for the middle class to understand the competitive intensity of the future, otherwise they will have to re-orientate themselves and will be isolated. Democracy cannot be determined in the absence of a middle class.

Concluding that the global world priorities are automation and outsourcing of more and



more old middle class jobs the natural question arises: What will the new jobs be and on what skills will they be based on?

The answer comes from the improved skills field which will make you as an individual, special or anchored, intangible, on a specified period of time.

The most important skill to be gained within the global world is the ability "to learn how and what to learn", to absorb all the time, to learn on your own new ways of doing old things or new ways of doing new things.

During this period, where many jobs are subject to outsourcing, the holders of any job must cultivate their ability to adapt in order to survive.

This way the differentiation between two persons will not be what they already know to do, but how quickly they can adapt and learn further, because what we already do will be quickly overcome.

In order for this to be attained the worldwide educational systems should be changed, such that education within the global world must focus not on creating engineers, economists, doctors, engineers, but on creating best possible engineers, economists, doctors.

A good example of this is one where the manager of an engineering company asks the U.S. chancellor of the Georgia Tech University:

"Don't send me engineers which may be replaced by a computer. This sort of activity I outsource it to India.

Send me adaptable engineers - who can think, in several disciplines." [3]

A proven fact is that when jobs are shipped abroad, not only saving on wages are made but also they get a 100% increase in productivity, because when you transfer a poorly paid job with lack of prestige from America to India it becomes a prestigious and well paid employment.

An Indian employee in Bangalore will work as three Americans or Europeans, and without taking six weeks of leave. This way the success is guaranteed with employees less paid but at the same time more motivated and committed.

Thus we conclude that outsourcing is not only cheaper but also more efficient.

The simultaneous process of flattening and interconnecting the world has made it easier for foreigners to innovate without having to

emigrate. Thus, they may be today's top employees of major multinational companies with good wages at home.

Allan E. Goodman (President of the Institute of International Education) states that "when the earth was round, foreign scholars could not return to their countries because there were no laboratories in which they could work or an Internet connection.

Today these things exist so that foreigners are returning home, where they can live more comfortably than in New York and can work as efficiently".

### **3. Education - a lever to reduce global disparities on labor market**

A top place in reducing disparities between job owners is represented by education.

In Education Week magazine the article "Children of immigrants are in the top results in mathematics and science competitions" was published, resulting from the study conducted by Stuart Anderson (American journalist) for the National Foundation for American Policy.

From the articles' text, following the study revealed that 60% of leading students in science and 65% of those in mathematics are children of foreigners who have recently immigrated. The analysis was accomplished for the winners in three different academic competitions: Intel Campaign for Science Talent Identification, Team USA for the International Mathematics Olympiad and the U.S. team for International Physics Olympiad.

The paper quoted Andrei Muresan, 18 years old, finalist of the Intel competition, whose parents moved from Romania to the United States five years earlier.

He enrolled in a U.S. state in Class VII and discovered that the curriculum was very slight compared to that in Romania, saying that "In the mathematics and science classes (which covers about the same matter) we learnt the same things I have learned in Romania in the fourth grade." It is known that the U.S. participates every four years on a comparative study "Trends in International Mathematics and Science Study" in which students are evaluated at the end of the fourth and eighth grade. It is the largest study on education which was carried out ever.

Overall, in this study were involved about one million students from 41 countries and were used 30 different languages. Test results showed that American students have made non-significant progress compared the other participants in the study. This attests the fact that American labor force is lower in science, compared to the co-participant countries.

Therefore, we can conclude that the flattening of the world makes us equal before opportunities to highlight the knowledge we have gained.

Based on these ideas it can be said that the ideal owner of a job in the world flattened by globalization is the one whose intelligence can be measured with coefficients:

IQ - intelligence quotient

CQ - curiosity factor

PQ - professional qualities

On this basis, Friedman built the inequation  $CQ + PQ > IQ$  [4], which expresses an absolute truth, namely that whenever a very curious and passionate individual would be

preferred to an individual endowed only with intelligence, lacking curiosity and motivation.

In conclusion, in order to fold ourselves to this flattened world, education but also training and continuous transformation have an important role.

#### 4. References

- [1] Roger Sue ; Temps et ordre social , Paris 1994 ;
- [2] Thomas Friedman “ *The Earth is flat :Short history of the XX-th century*”, Polirom publishing House, 2007 ;
- [3]Odterberg R. –,*Corporate Renaissance Business as an Adventure in Human Development*”, Special Edition, 2003
- [4] Stiglitz J. –“*Globalizarea*”, Economic Publishing House, 2005
- [5]Rugmann, A.M. – “*The end of globalization: a new and radical analysis of globalisation and what it means for businesses*”. London, Random House Business, 2001

# The Roadmap to Recovery - Main Measures Adopted in European Countries for Tourism Recovery

JUGANARU Ion Danut  
"Ovidius" University of Constanta  
juganaru@ccina.ro

## Abstract

*The present economic and financial crisis influenced considerably the tourism sector, at global level. Thus, in 2009, international tourist arrivals dropped by 4% and revenues from international tourism decreased by 6%, at global level.*

*The governments in most of the countries with significant tourism attractiveness have analyzed the impact of the crisis on tourism and have elaborated and adopted policies, strategies and concrete measures, meant to support tourism re-launch.*

*World Tourism Organization (UNWTO) created a "Tourism Recovery Committee", entitled "Tourism Resilience Committee", ever since 2008. Also, a "Roadmap to Recovery" was created including a series of measures which were meant to encourage the recovery of tourism activity.*

*The present paper presents a few lessons to be learned from the evolution of the crisis and how the governments from many countries of the world reacted, as well as some of the measures adopted by some European countries for the rebound of the tourism sector, affected by the crisis, measures which were identified and included within the document authored by UNWTO, entitled "1st Roadmap to Recovery".*

*Most of these measures represent best practice examples and should be taken into consideration in view of applying them also in Romania.*

**Key words:** tourism, crisis, measures

**JEL classification:** L83

## 1. Introduction

The economic and financial crises we currently experience, is one of the most significant in modern history, with global dimensions. During 2009, the travel and tourism sector was confronted with two major difficulties [1]:

1. The attempt to understand what is happening in global economy and the way in which tourism industry is influenced.

2. The attempt to find ways out of the crisis and to progress.

The World Tourism Organization (UNWTO) has answered these difficulties in two ways:

-At the beginning of the crisis, towards the end of 2009, a "Tourism Recovery Committee" was created (UNWTO Tourism Resilience Committee TRC), in the attempt to acknowledge, analyze and diminish the effects of the crisis on tourism and to learn from experience and best practices from different countries of the world. The Committee is a platform for UNWTO members to receive and share information on the current economic downturn and its impact on the tourism sector. TRC has become operational since 2008, and has already held four meetings, the last of them in Berlin, on March 12, 2010, having as president the Egyptian Minister of Tourism.

-Secondly, a "Roadmap to Recovery" was established – a strategic reference framework, which was later developed and adopted during UNWTO's General Assembly, which took place in October, in Kazakhstan.

The "Roadmap to Recovery" suggests a series of measures that can be adopted to strengthen tourism industry, to stimulate sustainable growth and to formulate the principles of tourism contribution to "green economy".

2009 was one of the most difficult years the tourism sector has ever experienced in the last decades. In 2009, the domestic tourism demand was less influenced than the international one, proving once again the importance of developing domestic tourism strategies.

International tourist arrivals dropped 4%, while incomes from international tourism registered a 6% drop, according to UNWTO estimates. For a sector which experienced a constant growth during the last years, the results registered in 2009 by tourism are rather disappointing.

Statistics show that the growth registered during the last months can be a signal of tourism rebound, at global level, according to the considerations of IMF, and that global economy heads for growth, even more rapidly than expected. Given these conditions, UNWTO forecasts a 3-4% increase in international tourist arrivals and an increase by 1-2% of international tourism incomes, in 2010.

## **2. Lessons to be learned from the evolution of the crisis**

On analyzing the evolution of the crisis, several conclusions can be drawn and several questions can be formulated which can help us better understand the challenges we are going to face during the next period [1], such as:

a) Although global economy signals are encouraging, we have to acknowledge that growth relaunch (essentially guided by the public sector) is still weak, uneven and fragile. A serious problem is that there are still several risks to re-experience the crisis, and some countries of the world haven't recovered yet from recession. The main challenge is the high unemployment rate, but the situations registered in some countries, where public debt and budget deficit are extremely large, are also alarming. Therefore, the measures concerning economic recovery and growth stimulation have to be strengthened at global level. A set of measures must be elaborated for a more favorable position of the tourism sector within the new economic cycle.

b) The new global challenges, as well as the recent economic crisis, can only be faced by an international collaboration, at global level

and within forums, such as UN, G20, G7 and other entities.

In several countries of the world, the government had a prompt reaction and took measures to limit the effects of the crisis, proving that their initiatives were efficient.

Thus, certain governments reduced taxes for the hotel business sector, granted financial aids to small tourism enterprises and adopted measures to stimulate growth. These measures were beneficial and may be considered best practice examples for other states.

c) Tourism is influenced by several external factors, which also influence considerably its development capacity. Among these factors are: security, armed conflicts, threats on population health (such as the swine flu epidemic), natural disasters (earthquakes, floods, etc.), the tendency to increase taxes in order to compensate an ever increasing public deficit, etc.

d) Tourism can rapidly create jobs, especially for young people and women. The general trend represented by a drop in the number of jobs, determined by the decrease of tourist activity, is one of the main problems addressed by the governments of the countries with a significant tourist offer. Solutions to preserve current job in tourism, as well as to create new ones, are sought.

e) The way in which the situation evolved during the last period has highlighted certain structural weaknesses of the tourism sector, in both public and private sector. There is a need for comprehensive, clear and energetic public policies, future-oriented, as well as for solid public-private partnerships, redefined on the new bases of innovative practices and models.

## **3. The main measures recently adopted by European countries for tourism recovery**

The document entitled "1st Report on the Implementation of the Roadmap to Recovery", authored by UNWTO [2] presents the measures adopted by countries in all large tourist regions of the world, falling under the following categories:

## I. RESILIENCE

1. Focus on Jobs Retention and Sector Support;
2. Understand the Market and Respond Rapidly;
3. Boost Partnership and “Coopetition”;
4. Advantage, Innovation and Technology;
5. Strengthen Regional and Interregional Support.

## II. STIMULUS

6. Create New Jobs – particularly in SME`s;
7. Mainstream Tourism in Tourism and Infrastructure;
8. Review Tax and Visa Barriers to Growth;
9. Improve Promotion and Capitalize on Events;
10. Include Tourism Aid for Trade and Development;

## III. GREEN ECONOMY

11. Develop Green Jobs and Skills Training;
12. Respond Effectively to Climate Change;
13. Profile Tourism in Green Economy Strategies;
14. Green Tourism Infrastructure Investment;
15. Promote a Green Tourism Culture.

Due to paper size limits, we shall further refer only to a couple of the measures grouped in the first two large categories.

The document includes the measures adopted in 20 European countries, yet Romania is not among these.

Among the measures adopted by the European countries the following may be highlighted:

In **Austria**, there is a bank specialized in financing tourism activities (Austrian Tourism Development Bank), owned by three of the largest Austrian banks. This bank, given the services it provides, facilitates investments and improves the liquid assets of companies in tourism sector. These instruments proved to be efficient, and created new ones, which are to be implemented during a period of maximum 2 years. Basically, we are talking about subsidies for SME`s in tourism sector, bank guarantees of up to 4 million Euro per company, small grants for certain investments, micro-credits, introduced as instrument for small investments (of up to 50 thousand Euro), with an interest of 2.5% per year and a financing period of maximum 2 years, with government guaranties, to stimulate investments and support restructuring of the

companies affected by crisis, which were financially stable in 2008.

In **Belgium**, the Ministry for Tourism elaborated the strategy for the period 2009-2014, establishing the most important measures to be adopted in view of supporting the tourism sector. Among these measures are the programs that stimulate destinations with tourism potential: cultural cities, seaside area, the program “The Support Centre Holiday Participation”, which encourages every Belgian citizen to participate in tourism activities, holiday packages subsidized by the Government. Moreover, the Belgian government intends to develop the program entitled “Tourism for all”, especially with subsidies for disabled persons, old people, young people and families with children.

In what concerns partnerships and “coopetition”, a strategic socio-economic plan began to be applied, meant to act with and for the main “players” on the tourism market in Belgium, accompanied by a Tourism Pact, within which all actors are asked to take the responsibilities they are ready to respect. Also, the Tourism Flanders Bruxelles Agency is to be restructured.

In what concerns the professional training field, the Belgian government guarantees the delivery of high quality tourism training courses, at high school and university level, and Tourism Flanders has developed a quality framework for education and accreditation of guides and accompanying persons for tourist groups.

The Flemish community in Belgium presented « The Flemish Plan for Recovery », including general incentives, meant to strengthen credit line guarantees for businesses, activating labor market policies, as well as the strengthening and speed-up of public and private investment in tourism.

The government intends to play a more active role in its events policy, concentrating on the events with a strong tourist attraction potential. The event subsidizing policy shall be continued, especially for those events which may attract foreign tourists.

**Bulgaria** intends to elaborate a development project for Plovdiv airport, an investment for which the government shall spend 26.4 mil euro for the construction of a new terminal, thus increasing airport capacity to 500.000 passengers per year.

In **Croatia** public-private partnerships have been developed. 5 main fields of co – promotion have been established, and funds allocated for tourism promotion have increased by 60% in 2009, compared to last year, making Croatia, as tourist destination, more present in the global media..

**Czech Republic** intends to reduce the impact of the crisis through EU financial grants. The Ministry of Regional Development adopted several programs meant to develop the tourism sector and the competitiveness of the Czech Republic starting with 2009.the objective of the projects is to establish, in collaboration with tourism professionals and experts, the National Tourism Quality System, a new system of standardization and certification of tourist services.

The Czech Tourism Authority (an organization financed and created by the Ministry of Regional Development) has elaborated, beginning with 2008, two market research projects, one of them regarding incoming tourism, and the other concerning domestic tourism. The results of these market researches shall lay at the bases of a better planning and implementation of the marketing activities for the next period and for a better targeting of promotional activities, both on the domestic and on the external market.

The Czech Ministry of Regional Development elaborated and submitted for approval the National Program for Tourism Support 2010-2013. The objectives of the sub-program for 2010, entitled “Tourism for all” are to support tourism entrepreneurs (hotels, restaurants, travel agencies) and to create new tourist products, focusing on the development of social tourism products, as well as on marketing and promotion programs.

The target groups selected within this sub-program are families with small children, families with a low-income, old people, people with disabilities, and young people, meaning people who tend to spend their holidays off-peak, due to lower prices. Moreover, up to 20% of the total expenses included in the budget of this sub-program can be used to incur expenses such as pool entrance fees, children play spaces, etc. The funding covers 50% of project costs, while the other 50% are incurred by the applicants.

In **Cyprus** a fiscal program for recovery was approved, amounting to 500 mil. Euro out of which 51 mil. Euro were allocated for tourism. Among the measures adopted, we can mention the reduction of airport taxes, in view of increasing the country’s tourism attractiveness.

Also, a grant which encourages Cypriots to spend their holidays in their own country was introduced.

In **France**, one of the main measures implemented was to apply, beginning with July 1<sup>st</sup> 2009, a lower rate for the VAT, amounting to 5.5% (compared to 18.6%, the previous rate), for sales registered in public catering units (except for alcoholic drinks).

In **Germany**, several measures were taken at Lands’ level, to support economic growth and provide jobs. Thus, loan and guarantee programs operated by banks for the promotion of Lands have been revised and re-launched, in accordance with the present crisis situation, and the governments of each Land increased the amounts allocated for guarantee.

On the other hand, the federal government appealed to the tourism industry, to adapt its offer by taking into account the ever changing touristic clientele, ensuring a higher quality of services, as well as developing new products and services, through a highly skilled and qualified personnel.

Among the measures adopted by the federal government and by the governments of the Lands, regarding tourism sector, we mention:

- The first package of incentives developed by the federal government, adopted in November 2008, is meant to ensure investment funding and investors’ support.

-the second package of incentives, known as “ The package for jobs and stability”, adopted on January 14<sup>th</sup> 2009 including measures destined for the promotion of investments , in view of country modernization; labor market policies, intended to prevent layoffs, tax exemptions and support for families; ensuring credits for businesses, etc. The federal government allocated almost 80 mil euro to finance the two packages of incentives.

DZT (German National Tourist Board) improved its tourist marketing activity, having as motto ”Affordable Hospitality-Great Deals, Easy Booking”, in the attempt to draw foreign tourist attention on the cheap travel offers available in Germany.

**In Italy**, the government negotiated with 5 of the largest Italian banks regarding the facilities provided to access credits of up to 1.6 mil euro, especially for SME's operating in tourist sector.

Along with France and Spain, Italy concluded a marketing partnership, which includes co-marketing operations, meant to develop common travel products and to attract, as single destination, tourist from emergent and far – away markets.

Social aids are provided to families with small incomes, representing special discounts for holidays/vacations spent in Italy during intermediary season, thus helping families go on vacations, and, at the same time, maintaining a functional hotel industry.

**In Holland**, the government decided to repeal the recently introduced departure tax, amounting to 11-45 Euro per passenger, for outbound flights in Dutch airport. In what concerns the increased advertising effort, Netherland Board of Tourism & Convention (NBTC) launched the Cityzapping campaign, to promote the country as multiple urban destination, given the short distances between the cities and the affordable railway transport offer.

Further, we can mention the promotional offer of NBTC and Amsterdam Tourist & Convention Board (ATCB), offering 1001 free of charge nights in Amsterdam hotels, for early booking.

**In Poland**, the Ministry of Sports and Tourism intends to develop projects meant to increase the accessibility of tourist services for children and young people, for people with disabilities and old people, measures included within the “Tourism Development Directions until 2015”. Based on this document, Polish Tourism Organization adopted its own marketing strategy (The Marketing Strategy of Poland in the Tourism Sector for the Period 2008-2015). Adding to this, in what concerns Poland's efforts to promote the itself as a tourist destination, the country will be the official partner of the International Tourism Bourse in 2011 - (ITB) the largest specialized tourism event worldwide.

To attract a larger number of tourists from neighboring countries, Poland signed small border traffic agreements with Ukraine, Belarus and Russia, and the fees for entry visa

in Poland was diminished to 35 euro, in 2007 and 20 euro, starting with January 1<sup>st</sup>, 2010.

Also, a monitoring of the market and of crisis effect was achieved. Two studies on the impact of the global crises on Poland's tourism were elaborated, including recommendations on the measures to be adopted so as to diminish these effects.

#### 4. Conclusions

To conclude with, from the analyses of the above given examples, one may observe that several studies regarding the impact of the crisis on the tourism sector have been elaborated, in many European countries, and the results of these studies and analyses lay at the very foundation for the adoption of policies, strategies and programs of measures which have began and will continue to be implemented during the years to come.

Many governments have recognized travel & tourism as being a real dynamic “engine” for economic and social progress in the respective countries. In those countries where tourism was recognized as a priority for the economy and where the corresponding measures have been adopted, immediate positive results have appeared [3].

Many measures adopted in the European countries to support tourism recovery could have been adopted in Romania as well, but have not been yet introduced, and any delay in the implementation of such measures shall lead to the decrease of our country's competitiveness as tourist destination, to the decrease in the number of foreign visitors coming to Romania and the increase in the number of Romanian citizens which will choose to spend their vacation in other countries, due to the poor value for money of the tourist offers in our country, compared to the offers of other competing external destinations. All these shall result in the diminishing of revenues from tourism and the decrease in the number of jobs in tourism and related sectors.

We consider that it is not too late for the Romanian government and the Ministry of

Tourism to adopt additional measures, meant to support tourism rebound, and for the tourism operators to rethink their offers, to improve the quality of the services, and to

create new, attractive and competitive products.

## 5. References

[1] T. Rifał, Press Release, "UNWTO Secretary General Calls Upon the Tourism Sector to Speak

with One Voice", UNWTO, Berlin, 9 March 2010, <http://www.unwto.org/media/news>

[2] UNWTO, "1<sup>st</sup> Report on the Roadmap for Recovery, Madrid, March 2010, pp.55-87, <http://www.unwto.org/trc/pdf>

[3] I.D. Juganaru, Politici si strategii in turismul mondial, Editura Expert, Bucuresti, 2007, p.13



## The Issues of Competitiveness. Romania's Competitive Positioning in Global Context

KARDOS Mihaela  
„Petru Maior” University of Targu Mures  
mihaela\_kardos@yahoo.com

### Abstract

*The concept of competitiveness has always been of interest in economic literature, presented under various definitions and aspects, from determinants of competitiveness at microeconomic level to the issues regarding countries' competitive performance in global environment.*

*Competitiveness is approached from different perspectives, such as productivity, technological innovation, capital investment, structural policies, education and training, technological progress, macroeconomic stability, good governance, the rule of law, transparent institutions, optimal market size, the ability to produce better and cheaper, etc., none of them excluding the other.*

*Based on such indexes, rankings measuring countries' competitiveness have been developed, in order to provide the less competitive useful information in shaping future policies.*

*According to such a ranking (The Global Competitiveness Score, by World Economic forum), Romania's competitive position has slightly improved in the last years, but there are a large number of indexes showing regress (e.g. budget deficit, infrastructure, flexibility of wage determination) or and some problematic issues for companies (e.g. tax regulations, instability of public policies, access to finance).*

*In order to further solidify the country's competitive position, despite major short-term challenges, it has to put economy on a more sustainable footing, focusing on institutional environment, strengthening the financial sector and invest in infrastructure, education and innovation.*

**Key words:** competitiveness, Romania,

competitive position

**JEL classification:** O50

### 1. Determinants of competitiveness

The issue of competitiveness has emerged as a key issue for companies and nations in the globalization era, given the fact that the intensification of globalization expands the range of nations involved in international competition.

Competitiveness is one of the most dynamic economic concepts, complex and meaningful, with many definitions and methods of measurement, long debated by economists around the world. Competitiveness is inextricably linked to the notion of competition, expressing, overall, the capacity of persons, companies, economies or regions to maintain themselves in the local or international competition and to benefit from it.

The determinants of competitiveness are many and complex. Economists have long tried to understand what determines the wealth of nations. This attempt has ranged from Adam Smith's focus on specialization and the division of labour to neoclassical economists' emphasis on investment in physical capital and infrastructure and, more recently, to interest in other mechanisms such as education and training, technological progress, macroeconomic stability, good governance, the rule of law, transparent institutions, market size, and many others.

The central point, however, is that they are not mutually exclusive. This can partly explain why, despite the present global economic crisis, we do not necessarily see large swings in competitiveness rankings, particularly among countries that have already put into

place many of the elements driving productivity.

Competitiveness is part of a broader category of integrating factors for development, besides quality, supply conditions, financial sector, professional services, strong businesses and close connections to research institutes, industrial cooperation, domestic competition, capital and resources, strategies, etc.

Evolution of specialization and economies success depend, primarily, on the competitiveness degree of firms in domestic and international market, on their evolution profile, the assimilation of technical progress and less, on the existence of natural resources.

According to the modern theory of economic development, comparative advantages based on traditional factors have decreased, because international trade contributes to similar facilities regarding classical production factors. Also, the trend of globalization in production makes modern, multinational companies not to depend only on the endowment of production factors.

In the same time, financial capital circulates freely in global economy and is invested in countries where it finds most efficient conditions. Therefore, competitive advantages have become critical in terms of conditioning economic development.

Competitiveness means productivity, seen as added value. It has a dynamic character, forcing companies to give up inertia and foster innovation. Other various concepts - reduced cost of work force, low taxation, currency depreciation, increased exports and abundant natural resources - are either the result of increased competitiveness or potential stages of competitive development.

Competitiveness is created at microeconomic level, as sustainable prosperity is created by companies. At company level, competitiveness determines "the correctness of a firm's activities that may contribute to its performance". [1] A competitive firm is the one producing high quality goods and services at lower prices than its competitors. Consequently, the quality of business environment is fundamental.

Competitiveness occurs at company level and only through it is generated in industries and economy. Firms are those creating and supporting competitive advantages and only

they can lead to accomplishment of goals set at national level.

In an article published in *Foreign Affairs*, in the past decade, Paul Krugman said that the firms are competing entities, not the national states. In some sense, this statement is undisputed.

On the other hand, agglomeration effects, imperfect functioning of markets, cumulative processes, existence of multiple equilibriums in real space indicate that firms take into account the context in which they operate and make strategic decisions, supporting competitive dynamics in regional and in global economy.

Therefore, the concept of competitiveness can not only be applied to companies, where it is created and manifests itself directly, but also to national economic systems.

From a nation point of view, competitiveness can be defined in various ways. All these approaches and classifications have a common denominator, expressing the country's ability and capacity to effectively use the opportunities of global markets. The competitiveness of a nation can be defined as its ability to attract and maintain activities increasing economic prosperity [2] or, as the ability of firms, sectors, regions, states or supranational bodies, in international competition, to ensure a sustained relative high income from the use of inputs and also higher incomes from labour capitalization. [3]

This definition clearly emphasizes the decisive impact of competitiveness on the income levels of a nation and hence, on the living standards of the country.

Another definition was given by the General Directorate for Economic and Financial Affairs of the European Commission: competitiveness is a country's capacity to achieve the coordination of growth with external balance; the fundamental importance of international trade is found at the basis of external performance for industrialized countries. [4]

However, stressing the role of product differentiation on competitive strategy of firms, industrial economy has limited this approach, believing that it is not an adequate basis for a comprehensive assessment of competitiveness.

This definition focuses primarily on the enlarging spectrum of variables to be

considered when analysing competitiveness (productivity, technological innovation, capital investment, structural policies, etc.). Secondly, this definition regards competitiveness in terms of relationship between growth and external balance.

But competitiveness is not a zero sum game, meaning that nations benefit from the growth registered by other nations. This is because growth in a particular part of the world leads to new markets for products and services coming from other parts. Thus, being competitive does not mean causing disadvantages for other trading partners.

From other perspectives, available definitions for competitiveness concern, "the ability to create preconditions for high-income" (Uri, 1971), "the ability to sell" (Orlowski, 1982), "the ability of countries to produce, distribute and sell goods and services in global economy and to determine earnings to lead to increasing living standards" (Scott and Lodge, 1985), "the national productivity" (Porter, 1990), "the ability to generate proportionately more wealth than a country's competitors on international market" (Management Forum, 1994).

A competitive country is one that creates, produces and puts on the market goods and services, either of better quality or at lower prices, compared to other countries. Also, a competitive country tends to get market shares to increase welfare of its citizens. Increase of a country's market share depends on four factors: [5]

- Potential to exploit knowledge created elsewhere in the world, depending on the technological level of the country;
- Creation of new knowledge/ technologies in comparison with its competitors;
- Developing the capacity to use knowledge, compared to competitors;
- Changes of relative prices in their own currency.

Productivity is the determinant key for the nation's main objective: to ensure on long term a high standard of living for its citizens. In other words, a nation's goal is to increase prosperity for people.

A higher level of national prosperity is the result of three forces' interaction: [6]

- Competitiveness of firms, profit-driven;

- Competitiveness of people, personal welfare - oriented;
- Competitiveness of nation, geared toward prosperity.

National competitiveness is influenced by macroeconomic and microeconomic factors. Government plays a key role in establishing macroeconomic stability and ensuring adequate social and political institutions. [7]

The first source of competitiveness of a nation lies in its companies, where added value is created. Therefore they need an environment where to be able to compete. Such an environment is based on four attributes of a nation, which is the diamond national advantage: [8] factor - related conditions; demand - related conditions; supporting industries; strategy and structure in companies, as well as rivalry between them.

Among the sources of competitiveness, so-called "competitive bunches", most important refer to: [9]

- competitive advantage regarding internal market structures;
- competitive advantage regarding access to raw materials;
- competitive advantage regarding technology;
- competitive advantage regarding human resources quality;
- competitive advantage regarding domestic demand.

The concept of national competitiveness plays a key role in the current uncertain economic environment and is a major concern for all nations. In the globalization era, national competitiveness is based less and less on economies of scale and more and more on knowledge products and services. Countries compete not only for markets, technology, skills and investment, but also for raising living standards.

Increasing economic competitiveness is a determinant key of economic growth on a market open to strong competition. In addition, the exploitation of competitive advantages must be an ongoing objective, taking into account the challenges of globalization.

Increasing competitiveness should not be viewed as a process of exploiting short-term benefits, but as a process of establishing an

economic structure based on capital investment and research, innovation processes.

A country becomes competitive when manages to build that environment allowing each company to become effective, to survive or to grow in any national or international economic environment. Competitiveness is created at microeconomic level, but it is maintained and strengthened at macroeconomic level.

From these multiple approaches, scientists have come to select the most significant for the future. These led to the *Decalogue of "gold" rules*, which would contribute to achieving and maintaining a country's competitiveness. These relate to: [10]

- Creating a stable and predictable regulatory environment;
- Building a flexible and adaptable economic structure;
- Massive investment in both traditional and information-technology infrastructure;
- Stimulating the accumulation of private and domestic investment;
- Development of global market aggression, and, equally, ensuring internal attractiveness for foreign direct investment;
- Attention for quality, speed and transparency of governmental policies
- Maintaining a sound economic correlation between wages, labour productivity and taxation;
- Preservation of modern social structures, by reducing wage disparities and strengthening middle class;
- Massive investment in education, as well as continuous training of population;
- Creating a balance between proximity economy and globalization economy to ensure a substantial level of wealth creation, while preserving an appropriate value system.

Currently, the most important challenge is to manage these new economic crisis based issues, while preparing economies to perform well in a future economic landscape characterized by growing uncertainty.

In a difficult global economic environment, it is more important than ever to put into place strong fundamentals underpinning economic growth and development.

## 2. Romania's competitive position in global world

The place of a country in world economy is the reflection of its ability to specialize in those areas that best exploit the existing potential and resources and lead ultimately to obtaining competitive products.

Competitiveness is a plural concept, including both quantitatively and qualitative aspects. The widespread use of this concept reflects the need of a nation and its companies to examine their position relative to competitors on the global market. Competitiveness of a nation is a relative term, because we are interested in how well a country performs relative to another. Countries do not seek absolute performance, but from a comparative perspective.

Benchmarking the competitiveness of a nation requires the use of a composite index of competitiveness. [11]

Annually, under the auspices of The World Economic Forum, a Global Competitiveness Report is drawn up. The primary objective of this report is to evaluate the competitiveness of a large number of countries. The Global Competitiveness Report is based on The Global Competitiveness Index, a composite index, consisting of 12 sub-indicators (institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial markets complexity (sophistication), technological readiness, market size, business sophistication and innovation. Some of them are obtained from a survey on managers, others from processing statistical data.

According to the Global Competitiveness Index 2009-2010 [12], Romania ranks 64 of 133 countries, a slight increase in comparison to the 68<sup>th</sup> place, the previous year. According to a score on a scale from 1 (the worst) to 7 (the best), Romania scores 4.11 points, almost the same as in 2008-2009's Report (4.1).

Thus, Romania outruns other 3 EU countries, namely Latvia, Greece and Bulgaria, in comparison with the previous year, when it was on the penultimate position among EU members. This trend is because at

the time of the report, based on statistical data from 2008 and a survey among managers in spring 2009, Latvia (at least) was more strongly affected by the crisis.

Romania is placed ahead of countries like Greece, Portugal or Italy, standing on the 75<sup>th</sup> place, in terms of macroeconomic stability, but is exceeded by Bulgaria (ranked 45). One of the best scores was received for the sophistication of financial markets, the 56<sup>th</sup> place that Romania occupies positioning it ahead of countries like Greece, Italy and Latvia.

Best place in the ranking (41) is obtained for the "market size" index, but Romania loses points in terms of goods market efficiency (ranked 61, before Bulgaria, Hungary and Italy) and labour market efficiency (79<sup>th</sup> place, superior to Italy – 117<sup>th</sup>, Greece – 116<sup>th</sup> or Portugal – 103<sup>rd</sup>)

The most important problems for business environment are tax regulations (15.7% of managers' responses) and the instability of public policies (15.1% of managers' responses). Two years ago, instable public policies were mentioned only in 7<sup>th</sup> place among obstacles in business environment. Other important barriers refer to: access to financing, tax rates, government bureaucracy, corruption and inadequate infrastructure or work force.

Several indicators have deteriorated, such as the budget deficit (ranked 113), down 15 places. The lowest score (2.67) was obtained for infrastructure, showing even a greater deterioration. Our country occupies the 110<sup>th</sup> position, compared with the 105<sup>th</sup> last year, the last among EU countries. At quality of roads index, Romania is ranked on the 129<sup>th</sup> place in 133 countries.

As it is difficult to conceive that Romania is placed behind countries like Zimbabwe, more relevant is the comparison with other European countries. Germany and France are in top, Hungary is on the 57<sup>th</sup> position, Bulgaria on the 102<sup>nd</sup> and Poland on the 103<sup>rd</sup>.

Romania is the 128<sup>th</sup> regarding transparency of public policies, the 117<sup>th</sup> regarding favouritism in government decisions and the 112<sup>th</sup> regarding waste of public money, which confirms that the way public policies are established, is the largest competitive disadvantage of the country today. Romania has made progress in technological indicators,

in particular mobile phone subscriptions (ranked 33), and preserved its place for business expenditure for research (ranked 74).

Romania has made a significant regression regarding labour market indicators, in particular the flexibility of wage determination (ranks 84, down 3 places).

According to the same report, in 2008 Romania's economy was in the second stage, the so-called "efficiency driven" stage and in 2009 it passed to an intermediary stage, called "transition from efficiency driven to innovation driven", reflecting the smooth transition from one stage of development to another.

Therefore, the best way to improve economic competitiveness is to enhance innovative activities. While certainly the model of growth based on efficiency will be upgraded, the process is very slow, involving many stages and adjustment of national economy. Romania should focus its resources on building an economy based on knowledge and innovation. This is the only way leading to competitiveness and, therefore, we need massive investment in education, research and development.

Another international institution analysing countries' competitiveness is The International Institute for Management Development in Lausanne (Switzerland) which has been making yearly, for over 20 years, a study aiming to establish a ranking of most competitive countries. [10] This ranking is determined based on four main criteria: economic performance, efficiency of government policy, business performance and infrastructure, having 329 sub-indexes.

According to this study, Romania ranks 54 in the global top of competitiveness (which examines 57 countries), down 9 places from 2008, the last among European countries. Romania's score was 46.94% of U.S. competitiveness, considered the reference level.

As figures demonstrate and the present critical situation is more and more sensed, after years of buoyant growth, falling unemployment, and rapidly rising living standards, Romania has been hit hard by the global economic downturn.

Its high dependence on outside finance, affected it heavily when liquidity dried up

around the end of 2008. The second wave of contagion and the steep drop in global demand further drove it into recession.

Yet, the present situation provides an opportunity to strengthen economic fundamentals and overall competitiveness in order to put growth on a sustainable footing and prevent future crises.

Most of all, the country's institutional environment will need to be strengthened, in spite of the progress achieved since the early days of transition, as governments is still considered inefficient, corruption is rampant and public trust in politicians is low. Also, stronger private and public institutions would ultimately reduce vulnerability related to greater integration with the global economy.

The present crisis has also highlighted weaknesses in the country's financial sector, in terms of ease to access financing through the local equity market and access to loans.

On all these counts, advances will not only facilitate recovery over the next few years, but will further solidify the country's competitive position going into the future. But to do this, it must seize this opportunity to put its economy on a more sustainable footing, despite major short-term challenges.

Today's difficult economic environment underscores the importance of not losing sight of long-term competitiveness fundamentals amid short-term urgencies.

Competitive economies are those that have in place factors driving the productivity enhancements on which their present and future prosperity is built. A competitiveness supporting economic environment can help national economies to weather business cycle

downturns and ensure that the mechanisms enabling solid economic performance going into the future are in place.

### 3. References

- [1] Porter M.; *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, New York, 2004
- [2] Porter M.; *The Competitive Advantage of Nations*, The Free Press, New York, 1990
- [3] Organization for Economic Cooperation and Development, *La competitivite industrielle*, OECD, Paris, 1996
- [4] European Commission, *Annual Economic Report*, 2003
- [5] Fagerberg J. et. al.; *The Competitiveness of Nations: Economic Growth in the ECE Region*, UNECE Spring Seminar, Geneva, February 23, 2004
- [6] Garelli S.; *Top Class Competitors: How Nations, Firms, and Individuals Succeed in the New World of Competitiveness*, John Wiley&Sons, Chichester, 2006
- [7] Fung V. K., Fung W. K., Wind Y.; *Competing in a Flat World: Building Enterprises for a Borderless World*, Wharton School Publishing, New Jersey, 2008
- [8] Porter M.; *On Competition*, Harvard Business Review, Boston, 1998
- [9] Porter M.; *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, New York, 2004
- [10] IMD, *World Competitiveness Yearbook*, 2009
- [11] Bowen H. P., Moesen W.; *Benchmarking the Competitiveness of Nations: Nonuniform Weighting and Non-economic Dimensions*, Vlerick Leuven Gent Management School, Vlerick Leuven Gent Working Paper Series, no. 2, 2005
- [12] World Economic Forum, *The Global Competitiveness Report*, 2009-2010

## Liberalism and Globalisation

KICSI Rozalia

BUTA Simona

“Stefan cel Mare” University of Suceava

rozaliak@seap.usv.ro

simonab@seap.usv.ro

### Abstract

*Trade represents the cornerstone of modern civilization. The globalization expanded the exposing degree of the companies to international competition; the markets have been liberalized and the remarkable progresses in the field of communications technology generated the integration of the financial operations and facilitated the fast handing over of the information related to the market. The economic liberalism and the free trade, as a dimension of the liberalism, were one of the factors that generated and supported the globalization process.*

**Key words:** free trade, globalisation, liberalism

**JEL classification:** F10

### 1. Introduction

In the XVIIIth century and the first part of the XIXth century the philosophers, the sociologists and the economists defined political programs which served as a guide for the social polity first of all in England and in the United States of America, and then in the Continental Europe and in other parts of the world. But nowhere these programs were thoroughly implemented; not even in England, considered the motherland of the liberalism and the well-known model of the liberal country, the partisans/supporters of the liberal politics did not succeeded to apply all the principles of this philosophy. To liberalism, considers Ludwig von Misses, was not permitted to reach its complete fructification; but even like this, sequentially applied and without the possibility to completely expose its valences, the liberalism “changed the face of the world”. [1]

### 2. The world from *Pax Britannica* to *Pax Americana*

The starting point of the new world-wide order was represented by the spreading of the liberal ideas (from the end of the XVIIIth century till the second half of the XIXth century); the liberal statute grew at the beginning in the Great Britain and, thanks to the power and to the prestige enjoyed by it, the liberal economic and political norms extended in a large part of the rest of the world. The PAX BRITANNICA was characterized by an open world-wide commercial system and by the freedom of circulation of the capitals and of the persons; the Industrial Revolution, started in England, expanded both on the continent and in the United States of America and in Japan; the industrialization and the technological modernizations generated a sustained economic increase which was enclosed by an expansion of the commerce. During this period of hegemony of the Great Britain there was not any formalized institution to coordinate the world-wide economic order; London was the one who managed and regulated the liberal order. [2]

In the last decades of the XIXth century, the liberal economic order woven around the England started to show signs of weakness; it was felt the necessity for a more active involvement of the state in the economy, what launched on the one hand protective pressures and on the other hand, the impulse to look new territories and markets. The supremacy of the Great Britain started to be threatened by the entrance with more force of Germany and of the United States of America in the world-wide arena. The period between the two world wars was marked by military and commercial rivalries and by the coming out of the fascist states and of the Marxist-Leninists ones. The

world-wide order was “saved” by the ascension of the United States and by the triumph in the Second World War.[3]

The PAX AMERICANA built during the post-war period, was marked by the refreshing of the liberal economic principles in the Western Europe and by their penetration in the new developing states. On the other hand, in the Eastern Europe there was developed an alternative to this new liberal economic order; it is about the socialism promoted under the leadership of the Soviet Union. The conflict between the two worlds lasted until the end of the '80s; the rhetoric of the Cold War, which promoted the freedom against the oppression, represented the ideological “binder” which was the basis of the international system during this period.[3]

During the first two post-war decades, the Western Europe and Japan regained their prosperity, the United States of America substantially exporting liquidities in the rest of the west world through loans and corporatist investments; during the same period, in many countries from the Third World, arose aspirations of economic development. The liberal world-wide order was “administrated” by the United States of America till the end of the '60s and the beginning of the '70s; the “crack” was determined by the War of Vietnam. The American dollar started to lose its pylon position of the international system; on the one hand there were large expenses generated by this war; on the other hand, the American politicians opposed themselves to the internal fiscality increase, necessary to the remittance of these expenses. The crises which manifested in the '70s and '80s, destabilized the liberal economic order and counterfeited the hegemonic position of the United States.[4]

The end of the Cold War and the disappearance of the Soviet Union from the world-wide arena generated heated debates at international level regarding the nature of the new world-wide order; when the United States of America became again the only true superpower, that arose the conviction that the liberal values triumphed over and that the world was at the beginning of an unprecedented peaceful and prosper period. The observers less optimists showed their conviction that the bipolar stability during the Cold War (named by some historians “the

long peace”) was replaced by a multi-polar world where the conflicts cover many forms – cultural, religious, economic, political. During the Cold War, within the block formed by the United States of America and their allies, the economic cooperation was subsequent to the political cooperation; the accent that they put on the security and on the consolidation of the alliance represented a political binder in the economic sphere, facilitating even the compromises when there appeared economic divergences.

The ceasing of the Cold War modified this state of fact; the ex allied countries against the communist colossus became more preoccupied with their own economic interests; at the same time there also appeared a perspective modification of the Occidental Europe and Japan confronted by the United States of America in the sense that both of them showed an availability sentient reduced to recognize the leader position of the United States. The reunified Germany engaged itself in the leader part of the integrationist process consolidation in Europe, and the Japan oriented itself more and more towards the development of a regional Asia-Pacific economy. This reorientation of the main economic forces priorities can generate significant consequences in which concerns the future of the world-wide economy system.[5]

### **3. The new world order**

“The Achilles’ heel of the world-wide order after the Cold War, considers R. Gilpin, is the fact that the public understands not very well the economic liberalism, the functioning of the market system and the manner in which the capitalism creates the welfare”.[6] The economists’ arguments regarding the benefits of the liberalism are often eclipsed by prejudices and requests interested by the protection against the disloyal commercial practices, the cheap products, the cheap work, etc.

The economy, considered from a mondo perspective, passed from the international stage through which started, to the global one, as we know it nowadays; since the appearance of the international economy (the XVII-XVIII centuries) the world-wide economic and



political system knew deep changes. The technological revolution, the information economy, the redistribution of the economic power at a world-wide level, the demographic revolution, is just a few from the forces which model the economy and world-wide politics architecture. The globalization is, in essence, a term which describes a reality of the contemporary economy; appeared in the '60s, became in great vogue in the '90s. The pro-globalist thesis assign to the globalization the character of desirable and irresistible force which attenuates the bounds, releases the individuals and enriches all that it touches. But it is also often convicted, not without reason, being assimilated to an evil force which deepens the differences, destroys the cultures, undermines the democracy, and propagates the Americanization.[7]

The globalization manifests itself by a process/phenomenon of accentuation of the interdependences between the countries, of a stronger and stronger integration of the markets on the background of the reduction of the restrictions concerning the goods, services and capitals circulation. This is what Martin Wolf calls "liberal globalization", phenomenon whose consequences reflect in the increased impact which the economic changes from a part of the world have on what is happening in other parts of the world. From this liberal perspective the economic integration at the world-wide level appear when the people have the freedom to accomplish their proposed objectives, the technology competing with this. [8]

The technological determination of this process of intensification of the world-wide integration is undisputable, but its part is sometimes too much overrated. It is obvious that the liberal doctrine built on the individual freedom, on the open and free market, on the private property, is a motive power of the world-wide economy globalization.

The integration of the world-wide market is not a recent process; as we previously mentioned the liberal economic order based on the free circulation of goods, services and capitals started to outline from the second half of the XIXth century. But the first stages of the world-wide economy integration have been particularly generated by the technological innovations from the transports and telecommunications field, the efforts of

the markets liberalization having a minor part. Nowadays, the two forces inverted their parts; the governments' action towards the liberalization of goods and capital floods became the engine of the contemporary globalization. In other words, as Jagdish Bhagwati remarks, the history of globalization "must be written in two colors ink: one for the technological changes and the other for the action of the states".[9]

The reality proved that if the action of the states intensifies the process of the world-wide economy integration, the same action of the states can also obstruct it; the First World War and, subsequently, the Tariff Smoot-Hawley have marked a "breach" in the progress of the economy globalization, which was eliminated through the multilateral efforts started in the first post-war years.

The mondialization, remarks Antoine Ayoub, far of being a new phenomenon, is, in essence, just "a new name given to an old concept.... established masterly and almost definitively by the founding parents of the political economy (Smith, Ricardo, Mill) "[10]; this old concept represents the free trade which expands not only on the goods, but also on services, capitals, people and ideas, leaving aside the political frontiers which exists between the countries. In this acceptance, the mondialization becomes the direct consequence of the free trade expansion from national to cosmopolitan, a sort of "universal association of all de nations" about which was talking List. At its turn, the free trade in order to capitalize its potentialities requires two conditions: on the one hand it is necessary the progressive elimination of the custom-house obstacles and of the regulations between the states and, on the other hand, it is essential the ensuring of a competition as free and correct as possible both inside each economy and between the economies which form the world-wide system. In the Ayoub's logic, the mondialization is preceded by the instauration of a market economy which in essence, is not something else but the reflection in the reality of the liberal doctrine. The characteristics that Ayoub assigns to the market economy completely respect the logic of the liberalism: the defense of the private property, the freedom to undertake and contract and the existence of the free competition. The main consequences of the

trade's liberalization are of economic nature, but we don't have to neglect those of political, cultural nature, etc; the most advantaged are the consumers, as a result of the reduction of prices, without affecting the quality.

The old theory of the relative advantage and the one of the world division of labor maintain their topicality and represent, in the Ayoub's acceptance "the foundation and the justification of what we call mondialization"[10]. The theoretical basis of the phenomenon which nowadays rouses many controversies must be looked, according to Ayoub, in the classic political economy.

#### 4. Conclusions

Free trade, as a size of economic liberalism, outlined the world economic order; the "architecture" of contemporary economy is the result of the interconnection among trade, investment and technology. On the one hand, the development of trade would not have been possible without technological progress and, on the other hand, the transfer of technology is facilitated and boosted by markets opening. But globalization of the economy can not and should not be viewed strictly as a continuous and irreversible process; the two World Wars and the 30's period turned the Golden Age into the Dark Age and have changed the balance of forces in the world arena. In today's economy, characterized mostly by dynamism, volatility is a term that can be associated with many issues; interest rates are volatile, exchange rates are volatile, even comparative advantage lies into volatility.

In this context a number of questions arise: How will capitalism, as a practical reflection of liberalism in this century, look like? How

will the competitive market faced with increasing concentration of economic power in the multinational companies (some of them making turnovers comparable or even greater than the GDP of many countries, especially developing countries) be? What will be the role of the state? Limiting of powers will be self-imposed or imposed by the global economic context? Will the WTO succeed to make that "universal association of all nations" for the purpose of which List proposed an educator protectionism?

#### 5. References

- [1] L.von Mises – „*Liberalism in the Classical Tradition*”, Misses.org edition, 2002, pag.1
- [2] A. Payne Gamble - „*Regionalism & World Order*”, McMillan Press Ltd, London, 1996
- [3] A. Payne AGamble - *Regionalism & World Order*, McMillan Press Ltd, London, 1996, pag.11
- [4] A. Payne A. Gamble - *Regionalism & World Order*, McMillan Press Ltd, London, 1996, pag.14
- [5] R. Gilpin – *Economia mondială în secolul XXI*, Editura Polirom, Iași, 2004
- [6] R. Gilpin – *Economia mondială în secolul XXI*, Editura Polirom, Iași, 2004, pag.27
- [7] M. Wolf – *Why Globalization Works*, Yale University Press, New Heaven and London, 2004, pag.13
- [8] S. Cox (edit.) - *Economics* , 2nd edition, Profile Books Limited, 2006, pag. 5
- [9] J. Bhagwati – *In Defense of Globalization*, Oxford University Press, 2007, pag. 11
- [10] A. Ayoub - *Qu'est-ce que la mondialisation?*, în *Mondialisation et Energie*, Institut de L'Energie et de L'Environnement de la Francophonie, Numero 50, 1er Trimestre, 2001, pag.5-10

## The Dynamics of the Business Tourism – Where to?

MAZILU Mirela  
ISPAS Roxana  
MARINESCU Roxana

*University of Craiova, Drobeta Turnu Severin University Center*  
*mirelamazilu2004@yahoo.com*  
*roxispas1972@yahoo.com*  
*roxanaseverineanu@yahoo.com*

### Abstract

*Business tourism is one of the most dynamic components of tourism activity, and enhancing international relations, especially the economic ones are reflected in the increased demand for business travel.*

*Business tourism is a form of tourism with commercial, government or education purposes, with the leisure side as a secondary motivation. Business tourism requires, in general, moving to another location, at a distance greater than 50 km from the place of origin of the business tourist, travel determined strictly by a business, an event or an educational purpose.*

*Business tourism refers broadly to people travelling for purposes related to their work, namely, movements in official interest, commercial or otherwise, participation in various events organized by economic enterprises or administrative bodies for their representatives.*

*Although these actions involve a remunerated activity, they are treated as tourism as their organization and involves the use of tourist accommodation facilities, food, entertainment and consumption of specific services provided by the organizers of the trip.*

**Key words:** business travel, team-building, conference tourism, business destination.

**JEL Classification:** L83

Business tourism includes broadly people's travels for purposes of their work, namely, official travels, commercial or otherwise, participations in various economic enterprises

manifestations organized by administrative bodies for their representatives [13]. Although these travels involve enrolling of paid activities, they are considered tourism because it implies the consumption tourist endowments and the use of specific services.

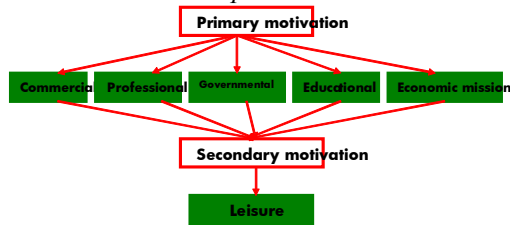
In terms of content, the forms of business tourism are structured in [1, 14]:

- individual business travels (delegations), common to many trades, for which those involved accept the travel outside the city of residence;
- tourism meetings, including a wide range of events (conferences, seminars, team-building sites, products launches, annual meetings, etc.) of companies or associations to facilitate communication with and between employees, customers, shareholders or members;
- fairs and exhibitions, very different, for products presentations;
- incentive travels and those travels that employees receive from the employer as a prize for the best results in their labour;
- "corporate" events, including generous forms of entertainment that companies offer the most valuable customers or potential customers to build or strengthen the business relationships.

Business tourists are more demanding, less price sensitive and more concerned with status. They also have a program that is to be respected. Thus, transport services are of great importance: the means of transport must be fast, comfortable and appropriate in terms of the program, the punctuality and the prestige

of the carrier are of interest, the booking systems should be effective [16].

Figure 1. Business tourism has its own unmistakable motivations and forms of expression



We can consider as the main motivation for business tourism the meeting of the supply and the demand in trade fairs and exhibitions, business meetings, transactions and negotiations, the conduct of missions programs, as well as the extensive promotion of a company, of products, of regular innovations in various fields. The main steps of this event ends with the conclusion of economic agreements, mutually beneficial in the international division of labour, goods and services market, as forms of exchange value and use values.

The international conference market comprises three main segments - business conferences, governmental conferences and association conferences. The market association conferences are mobile and can be attracted by a variety of destinations. The number of conferences and the number of participants and their relatively high purchasing power can also be taken into account. Romania's capacity to attract this market segment is weak.

In its review of international conferences organized by the members of Congress in 2005 and the International Association of Conventions and Conferences (ICCA) identified 5315 international conferences in nearly 100 countries. Of these 12 have been organized in Romania. This ranks Romania on the 53<sup>rd</sup> place among host countries.

Table 1. International Association Meetings held in the selected countries in 2003-2008

Country	2003	2004	2005	2006	2007	2008	Place
Hungary	64	51	76	75	94	97	20
Romania	8	16	16	12	17	12	53
Serbia and Montenegro	2	1	0	3	12	10	58
Bulgaria	2	3	12	5	11	6	67
Whole world	4,500	4,468	4,981	5,014	5,497	5,315	-

Source: International Association of Conventions and Conferences 2003-2008 ICCA

**There are two reasons for this poor performance.** First, Romania does not have many conference centres specifically for this purpose, which meet the requirements of the international market of conferences and exhibitions - the segment associations, government and business. The second reason is that, despite the courageous efforts of the National Association of Professional Organizers of Conferences and Exhibitions, a lack of market studies and promotional activities to ensure international conferences is felt.

The main exhibition centre, Romexpo, is in Bucharest. This totals 52,100 m<sup>2</sup> exhibition space in 36 rooms. The exhibition rooms are functional, but not all are inter-connected, and many of them do not have facilities to international standards. According to the urban plans approved by 2008, there will be built a new 12,000 m<sup>2</sup> exhibition space that will provide the connection to some existing spaces.

Most exhibitions are held in the Romexpo exhibition centre in collaboration with the commercial organizations. Every year about 40 exhibitions take place. Around 20% of the exhibitors come from abroad. The total number of visitors is unknown. Romexpo also has 8 meeting rooms with the capacity of between 50 and 300 employees. These are not well connected to each other and need to find creative solutions to provide catering services for large-scale meetings. It is apparent the demand for conference facilities with seating capacity of 1000-1200 for launching products and other commercial events.

Constanta, at the moment, has begun construction of a small exhibition centre in Mamaia, combined with a conference room of 250 people. This centre will provide catering mainly for local and regional events.

The National Association of Professional Organizers of Conferences and Exhibitions (RCB) seeks to promote Romania as a destination for the conferences and exhibitions sector and acts as a clearing house for contacting the organizers of conferences and exhibitions who are looking for appropriate spaces. RCB is a member of the Association International Conventions and Conferences (ICCA), but it is the only private organizer of conferences and exhibitions member of the association. The majority of exhibition organizers is partly owned by state or local budgets and is funded either through direct loans or grants through the form of charge for accommodation. This reliance on private sector funding has limited the general activities and effectiveness of RCB. As Romania creates new modern conference and exhibition centres, the development of RCB will be necessary to effectively promote this product.

Business tourism is conducted throughout the year, in specially designated areas, resulting in the exposure of specific services, trading, accommodation, security, aesthetic accommodation, telecommunications, video and TV, copying, transfer, catering, media services, graphics, etc..

The main features of the business tourism are:

- it is the area with the highest quality;
- it reaches the highest peak in spring and autumn, but it is recorded in summer and winter months as well;

- it completes the free tourism sector;
- the investment in business tourism leads to urban regeneration;
- a large number of investments for infrastructure are designed especially for business tourism (hotels, restaurants, transport and communications facilities) and provide benefits that can be used by classical tourists and indigenous peoples;
- the high quality of service personnel required by the business tourists is found in the services provided by them;
- research suggests that approximately 40% of business travellers return to the destinations with their families, but this time for personal reasons;

○ business tourism has less adverse environmental impact than classical tourism;

Business travels may have an internal or external character according to the direct beneficiary and their results.

The forms of business tourism having an internal nature address to employees of businesses and have as objective the motivation of the staff aimed to raise productivity growth and to improve performance.

They are reflected in:

- seminars or meetings with company management employees (for knowledge, solution of problems, sharing the experience.)
- to provide training and updating staff training;
- reward travels (incentive);

The actions with an external nature aims at the proper conduct of business and prosperity of companies as a whole and consists of the professional nature travel (working on site, assisting) and participation in fairs, exhibitions, congresses, symposia;

Also, the business travellers can be classified in the following forms:

a. General business tourism refers primarily to activities of persons working for a short period of time away from the place of residence (e.g. journalists).

b. Tourism meetings are determined by the participation in events such as meetings, conferences, seminars, symposiums, congresses and are considered one of the most common forms of business tourism.

c. The main destinations for tourism meetings are: USA with 894 shares, France

(757), Great Britain (722), Germany (505), Netherlands (385) and the cities of Paris (361), London (268), Brussels (194), Vienna (177), and Geneva (166).

d. Trade fairs and exhibitions which are defined as "the provision of products and services for invited audiences in order to determine a sale or to inform the visitor" as a form of travel they stimulate the journey of two categories of people: exhibitors and visitors.

In recent years, Romania has taken a strong impetus to tourism. The foreign firms choose cities in Romania to organize congresses and conferences, at which even hundreds of people can participate. "From our experience as a representative of Business Travel International, Romania is preferred for conferences, due to the generous infrastructure. There are fully equipped conference rooms and the staff who organizes such events is well prepared," said Cristina Irimia, marketing manager of J'Info Tours travel agency.

In addition to the congresses or conferences, recipients are part of a whole package. "The package offer is complex. First, housing is offered in higher-standard hotels and transfers from airport to the hotel, the airline tickets and secretarial services are included in the package. Organizers make available conference rooms equipped with everything needed, plus simultaneous translation services. There are also organized visits, entertainment programs and dinners for participants," said Cristina Irimia. The market development and competitive prices have turned Romania into a favourite destination for such a travel. "The costs are lower than in other European countries. We found a trend of increased business tourism and travels in Romania and an approximate 15 percent increase of this type of tourism", says, Cristina Irimia.

Tourism in major cities in Romania is focused on the business tourism, as long as there is no concept of cultural tourism development. "When we talk about urban centres, business travel is about 60-65%," said Paul Marasoiu, presidential general manager of the consulting and market research company in the hospitality industry Peacock Hotels / Global Hotel Management.

Business Tourism is the main source of income for the local hotel industry, especially in recent years as the number of people coming to Romania on business has increased considerably.

The main destinations for those who come on business are Bucharest, cities of Transylvania and Banat, Constanta. "Here the most superior class hotels were built", according to an analysis by the Romanian tourism strategy project for the period 2007-2013. The specialists in the field believe that currently there is insufficient accommodation to meet the organization of all major events for which there is a demand, which makes forecasts for future years indicate an increase in the number of the three, four and five star hotels.

New hotel projects will be run in Timisoara, Arad, Oradea, Cluj, Sibiu, Alba Iulia, Iasi, Constanta and the Danube Delta and treatment resorts. Also, in Bucharest, the number of projects of investment in new hotel capacity is expected to increase. "The lack of adaptation of the offer to the demand makes in many cases that hotel operators and organizers of events refuse profitable businesses because Bucharest is unable to accommodate an event that may require a large attendance of over 2,000 people," the strategy shows.

Bucharest is by far the most attractive location for both tourists and investors, attracting approximately 75-80% of all events," as it is stated in the tourism document strategy. The analysis performed by the consulting firm Peacock Hotels on the three star hotels segment in Bucharest shows that there is a total of 43 such hotels, with a total of 2198 functional rooms totalling approximately 4500 seats. This means extremely limited availability in comparison with other capitals of other countries in Central Europe, which have an impressive number of such locations, consider the specialists.

In the case of the three star hotels in Bucharest, the average annual net tariff over the last few years is within the range of 59-66 euros without breakfast, which costs an average of eight Euros (without the local toll and VAT). The average tariff provides an average annual occupancy rate of 65-67%. In the first half of this year, the average occupancy level of hotels of three stars in the capital rose by about 3-4%, while the net

average rate increased during the same period with 4-6%, said the consultancy company representative. As for the maximum rates for the three star hotels, they are at 135 euros for double rooms (with an actual average of 88 euros) and 120 euros for single rooms (average of 78 euros). With the proportion of 82% of accommodation capacity in hotels of three stars, the maximum rates charged are at about 100 euros.

According to the statistics, in Bucharest, there are 7 five-star hotels and 19 four stars. We do not take into account the 1 and 2 star hotels because they do not correspond in terms of European standards," said the representatives of the Peacock Hotels consultancy company. Projections indicate that over the next 8-9 years, in Bucharest, the accommodation capacity will increase from 4.500-4.800 rooms, currently at about 9,000 rooms. Of these, nearly 54% will have a level of comfort of three stars, while 28% will be at 4 stars.

The segment of business travel could be most affected by the financial crisis, being estimated to fall by up to 10% in 2009. Companies are rethinking budgets and cut the amounts paid for travelling. On the other hand, officials say the travel agencies have not seen a downward trend in the business segment.

Within the business tourism, a wide range of companies operates: travel agents, hotels, agencies, interpreters, organizers of trade fairs and conferences, business centres, etc. They are gathered within the "Convention Bureau" professional structure.

Along with the **Romanian Convention Bureau**, another professional association with significant activity in fairs and exhibitions-ASOEXPO must be mentioned.

The professional organization of conferences, meetings and other events may be considered the most efficient and profitable component of tourism. Maybe that is why an increasing interest of the investors in developing this type of offer is observed, especially in Bucharest, Timisoara, Brasov, Oradea, Arad, Cluj, Sibiu, Constanta and others. However, tourism professionals argue that, currently, there is still a shortage of accommodation spaces for events, especially those events involving the participation of a large number of people (over 300 people).

A dynamic component is organizing "incentive" trips; more and more Romanian companies, with modern management, use as a means of motivation the paid travels by the company offered to the employees who deserve them. These companies also use modern methods of training, the product launches or team-buildings. Thus, there have appeared more and more travel agencies specialized in providing services related to these types of events.

## References

- [1] Davidson R., Cope B., "Business Travel", Prentice Hall Publishing House, London, 2003
- [2] Căndea M., Felicia Aurelia Stăncioiu, Mirela Mazilu, Roxana Cristina Marinescu, "The Competitiveness of the Tourist destination on the future Tourism Market", published in WSEAS TRANSACTIONS ON BUSINESS AND ECONOMICS, VOL. 6, Issue 7, ISSN: 1109-9526 August 2009, pg. 374-384
- [3] Ion Pârgaru, Mirela Mazilu, Aurelia Felicia Stăncioiu, "Tourism – Energy Source for the Sustainable Development", published in Metallurgy International vol. XIV, no. 8, Special Issue ISSN 1582-2214, 2009, pg.64-68.
- [4] Aurelia Felicia Stăncioiu, Ion Pârgaru, Nicolae Teodorescu, Mirela Mazilu, Marieta Stanciu, "Swot Analysis – Marketing Tool for Regional Development of Tourism", published in Metallurgy International vol. XIV, no. 8, Special Issue ISSN 1582-2214, 2009, pg.29-33
- [5] Mazilu Mirela Elena, Marinescu Roxana, "The Impact of Climate Changes on Tourism", published in ISI Scientific Proceedings of the WSEAS International Conference on Cultural Heritage and Tourism CUTH'08, ISBN 978-960-6766-89-3, ISSN 1790-2769, 2008, pg.77-83.
- [6] Mazilu Mirela Elena, Roxana Ispas, "The future on Hospitality and tourism in Romania depends on the human resources", in Romanian Economic and Business Review, Volume 4, Number 4, ISSN: 1842-2497, 2009, pag.165-173, Editura ProUniversitaria, Bucuresti
- [7] Mazilu Mirela Elena, "The Tourism and Climate Changes. Interferences", published in WSEAS Transactions on Business and Economics, Issue 7, Volume 5, ISSN: 1109-9526, July 2008, pg.393-402
- [8] Mazilu Mirela Elena, "The Urban Tourism and Sustainable Development", article published in Amfiteatru Economic Magazine, ISSN: 1582-9146, pg.254-265, magazine ranked: A-ISI code CNCSIS: 283

- [9] Mazilu Mirela Elena, "The revival of tourism in Mehedinti county-case study, the Danube bend Destination", published in Tourism Magazine, no. 7, 2009, ISSN:1844-2944, magazine ranked B+, Code CNCISIS 447, Suceava, 2009
- [10] Mazilu Mirela Elena, "Compétitivité et excellence dans l'aménagement touristique durable du territoire", published in Les Annales de l'Universite Valahia de Targoviste section: Sciences Economique, year XIV, no. 26, ISSN 1453-8202, 2009, pg 117-126, cod CNCISIS 765
- [11] Stăncioiu Felicia, Arsene Octavian, Teodorescu Nicolae, Mazilu Mirela Elena, Marinescu Roxana, "The swot analysis of the tourism destination – methodological aspects. Case study: the Oltenia or Oltenia beneath the mountain", article published in the Annals of the University of Craiova, Economic Science Series, ISSUE 36 ,vol. 5/2008, page. 2143 – 2150
- [12] Mazilu Mirela Elena, "Compétitivité et excellence dans l'aménagement touristique durable du territoire, published in Les Annales de l'Universite Valahia de Targoviste" section: Sciences Economique, year XIV, no. 26, ISSN 1453-8202, 2009, code CNCISIS 765
- [13] Minciu R.– "Tourism Economy", Uranus Publishing House, Bucharest, 2003
- [14] Newstrom J., Scannell E. – "The big book of team-building games", McGraw Hill, , 1998
- [15] Stăncioiu Felicia, Arsene Octavian, Teodorescu Nicolae, Mazilu Mirela Elena, Marinescu Roxana, "The swot analysis of the tourism destination – methodological aspects. Case study: the Oltenia or Oltenia beneath the mountain", article published in the Annals of the University of Craiova, Economic Science Series, ISSUE 36 ,vol. 5/2008, pg. 2143 – 2150
- [16] Stănciulescu G.– "Tourism procedures management", AllBeck Publishing house, Bucharest, 2004
- [17] [www.uia.org](http://www.uia.org) – The Union of International Association
- [18] [www.wttc.org](http://www.wttc.org)- The World Travel & Tourism Council
- [19] [www.conventionbureau.ro](http://www.conventionbureau.ro)
- [20] [www.iccaworld.com](http://www.iccaworld.com)



## A Vocabulary Analysis of the Restaurant Menus

MIHUT Silvia

“Ovidius” University of Constantza  
mihutsilvia@yahoo.com

### Abstract

*The present paper explores the genre of restaurant menus by analyzing existing online lists of breakfast, lunch and dinner options. It shows that a menu is a reflection of the restaurant itself and its vocabulary, whether formal, casual or playful, matches the restaurant concept, location or theme. In addition to providing the food and drink items, menus can also be used to offer other information to the customers. The restaurant menu vocabulary describes the owner/chef's philosophy about food and cooking, his/her experience, the mission statement of the restaurant operation or the particular location/culture.*

**Key words:** restaurant menu, descriptive language, menu vocabulary, restaurant image

**JEL classification:** D 83

One restaurant menu is different from others if the owner/chef decides what will separate his/her food and beverage presentation from the rest of the market. This is the driving force behind the restaurant menu writing.

The assumption of the menu writer is that not everyone, who will eat in the restaurant, knows the restaurant offers and he/she, consequently, makes use of a particular language variety, meant to reflect the business identity.

The menu design does not begin with the printing of what the restaurant can serve, but it starts before that. The art of menu writing begins with the conception of the eating place. When a restaurant is opened, a theme is set and this theme emanates through all the elements of the dining space. This topic will dominate what is inside the menu, from its

earliest version until the latest updates. Having a subject matter helps define clearly the menu, keep it simple, not only for the guest's eyes, but also for the restaurant's. The theme will give the owner/the chef an idea of what to include in the restaurant menu and will tell him/her what not to write in the list.

After establishing the restaurant's theme and listing the possible items to include in the menu, the next step is for the chef to write down the menu entries. If we take a look at most restaurant menus, we will see that they are arranged sequentially: appetizers, soups, salads, main entrees, desserts and beverages.

Each item has a short title and a simple description below the title. The picture includes details about the main ingredients, the taste, the manner of cooking and the calorie count.

Although the explanation is what helps a customer know about the type of food and beverage the restaurant offers, it has to be short as not many people are patient to read through long explanations. A sentence is enough as the owner/the chef wants to intrigue the guest. If the customer has more questions, the restaurant waiter may give further information about a dish or may recommend a house favorite.

Gregg Rapp says in the article “The Menu Magician” from *Time Magazine* that there are four types of customers. Some customers are called *entrees* as they do not want a lot of description, just the bottom line on what the dish is and how much it is going to cost. Others are called *recipes* as they ask many questions and want to know as much as they can about the ingredients. On the other hand, *barbecues* share food and prefer talkative servers, who wear personal identifiers, while *desserts* are fashionable people, who want to order fashionable things.[1]

Menu descriptions can stimulate increased sales and particular food is recast in a new language light. For instance, *chicken liver* is

what Daniel Meyer, a New York City restaurant owner, calls a *torpedo*. The same *chicken liver* may be unattractive and unpopular, but when an enhancer is added, *chicken liver* becomes *applewood smoked bacon*, on the menu at Meyer's restaurant *Tabla*. This new name not only excites the taste buds, but it goes to work on the mind and makes the dish sound chic. [2]

The menu descriptions are not usually monotonous, but interesting enough to make the customer's mouth water. The restaurant menu writer usually includes the dish's major ingredients and uses ethnic names if they fit to add the menu an authentic air. For example, *Chicken Margarita* sounds better than *Chicken topped with spicy tomatoes*. The menu writer explains what is in the dish, namely *spicy tomatoes*, in the description itself. Too much of technical jargon in the menu is usually avoided as not all customers will be able to read and understand all this.

Inserting local/global geography or history into a menu item name is also a way to make the restaurant menu unique. For example, *Maine Lobster Roll* sounds inviting, whether one is eating it in Maine or somewhere else. Following the same trend, *Texas Barbequed Ribs* and *Georgia Peach Pie* make a good impression everywhere.

Brian Wansink noticed in "How Descriptive Menu Labels Influence Attitudes and Repatronage" from *Advances in Consumer Research*, volume 29, [3] that descriptive menu labels increase sales and he divided descriptions into four categories: geographic labels like *Southwestern Tex-Mex salad*, nostalgia labels like *ye old potato bread*, sensory labels like *buttery plump pasta* and brand names. Finding that brand names help sales, chains are increasingly using what is known as co-branding on their menus, such as the *Jack Daniel's sauce* at *T.G.I. Friday's* [4] and the *Minute Maid orange juice* on the *Huddle House* menu. [5]

As a form of advertising, the text written on printed menus is famous for the promotional statements and claims that express subjective rather than objective views.

The purpose of the menu text is to impress customers with the notion that the dishes served at a restaurant require such skill, equipment, and exotic ingredients that the customers could not prepare similar foods at

home. In some cases, ordinary foods are made to look more exciting by replacing everyday terms with their French equivalent. For example, instead of stating that *A pork chop has a dollop of applesauce*, high-end restaurant menus state *Tenderloin of pork avec compôte de pommes*. In a similar way, although the French term *avec compôte de pommes* is an exact translation of *with applesauce*, it sounds more exotic and more worthy of a high level restaurant. Menus may also make use of the French term *concassé* to describe *coarsely-chopped vegetables* or of *coulis* to describe a *puree of vegetables or fruit*. Another example is the French term *au jus*, which means that *meat is served with its own natural gravy of pan drippings*. Restaurants which put *with au jus* on their menus pretend to be far more sophisticated than they really are.

Menus commonly emphasize the processes used to prepare foods, call attention to exotic ingredients, and add French or other foreign language expressions such as *spring mushroom civet*, *plin of rabbit* or *orange-jaggery gastrique* to make the dishes appear classy and unusual.

Higher-end menus often add adjectives to dishes such as *glazed*, *sautéed* and *poached*. Wansink [3] said that vivid adjectives can not only sway a customer's choice but can also leave him/her more satisfied at the end of the meal than if they had eaten the same dish without the descriptive label.

Moreover, there are restaurants like *Huddle House* and *Applebee's*, which add vocabulary related to intense satisfaction. For example, at *Applebee's*, dishes are described as *handcrafted*, *triple-basted*, *slow-cooked*, *grilled* or *slammed with flavor*. [6]

Brian McGrory mentions in an article from *The Boston Globe* newspaper that, when going to a high-end restaurant, he sometimes feels that he needs a dictionary just to decipher the meaning of *gianduja ice cream*, *hazelnut financiers*, *yellow watermelon* and *bulgur crackers*, which are considered impenetrable listings from the dessert menu. [7]

The name of the *Tabla* appetizer, *Boodie's Chicken Liver Masala*, [2] derives from the field of menu psychology because Boodie is the mother of Floyd Cardoz, *Tabla's* executive chef. It is known that people prefer the names of mothers, grandmothers and other relatives

on the restaurant menus and research shows they are much more likely to order those restaurant entries. We can exemplify by *Grandma's zucchini cookies, burgers freshly ground at Uncle Sol's butcher shop this morning* and *Aunt Phyllis's famous wedge salad*.

In the world of menu design, a dollar sign is usually avoided by one owner/chef, particularly at a high-end restaurant. First, it may sound like "You have to pay" into a guest's fragile psyche and secondly it can look aggressive and vulgar. The price of *Boodie's Chicken Liver Masala*, [2] for example, is \$9, written simply as 9, without no dollar sign as this is a friendly and manageable number. Moreover, consultants and researchers say that the price formats that end in the numeral 9, as in \$12.99, which tend to signify value but not quality, are also omitted from a restaurant menu.

Dining places around the world are continuously revising their menu vocabulary as they are hoping that some magic combination of words can try to persuade by begging guests to spend a little extra money.

Allen H. Kelson, [8] a restaurant consultant, said in his article "Ten Commandments for Menu Success," published in *Restaurant Hospitality Magazine*, in 1994, that, just like advertisements, menus contain plenty of subliminal messages. Restaurants might play up a profitable dish by using more appetizing adjectives and placing it next to a less money-spinning dish with less description so the opposition invites the customer to order the cost-effective dish.

Floyd Cardoz, who is the executive chef of *Tabla*, said he considered the menu to be an important tool for communicating with his customers. Even brief descriptions on menus

like *Tabla's* and *Craft's* seem for him wordy, compared to those on the menu at *Alinea*, which on a recent night featured esoteric dishes called *Peanut Butter* and *Bubble Gum*, with a few more words that did not provide much more illumination. Next to *Lemon Soda*, the menu simply said *one bite*. He said that *Alinea* offers no à la carte choices, but only predetermined tastings, so the menu is not attractive. He considers the restaurant menu "a language tool," meant to "uphold the philosophy of the entire restaurant with every component - the sense of nostalgia, the sense of humor." [9] *Alinea's* executive chef, Grant Achatz, said that "with *Bubble Gum*, there is a kind of mystique to the lack of description." [10]

In conclusion, descriptive language in the restaurant menus is customized to fit the image of the restaurant itself, such as the style of the eating space or the background of the foods.

## References

- [1]<http://www.time.com/time/magazine/article/0,9171,1200775,00.html>
- [2]<http://www.opentable.com/new-york-restaurant-listings>
- [3]<http://www.acrwebsite.org/volumes/display.asp?id=8588>
- [4]<http://www.tgifridays.com/home/welcome.aspx>
- [5]<http://www.huddlehouse.com/>
- [6]<http://www.applebees.com/>
- [7][http://www.boston.com/news/globe/magazine/articles/2004/09/19/2895\\_for\\_that/](http://www.boston.com/news/globe/magazine/articles/2004/09/19/2895_for_that/)
- [8]Kelson, A.H., The ten commandments for menu success. *Restaurant Hospitality*, 78(7), 1994, p.103
- [9] <http://www.tablany.com/>
- [10] <http://twitter.com/gachatz>

## Verbal Communication Skills in Different Tourism Contexts

MIHUT Silvia

“Ovidius” University of Constantza  
mihutsilvia@yahoo.com

### Abstract

*The present paper deals with the problems verbal communication conducts to in the tourism sector. Language plays a major role in determining the causes and the means of overcoming communication barriers. The theoretical part of the present paper sustains the importance of various elements verbal communication consists of, pointing out its roots and determinants. The practical part reveals the fact that, along with an ever growing number of tourism contexts, language has gained its position of mediator between the sender and the receiver. The research in the field of verbal communication, regarding the tourism sphere, gives a positive perspective on verbal communication at the workplace, showing the path to avoiding linguistic misunderstandings.*

**Key words:** verbal communication, communication skill, tourism workplace, tourism context, sender, receiver;

**JEL classification:** D 83

### 1. Introduction

*Tourism workplace* describes any work setting involved in the domestic tourism industry, in the inbound tourism industry, or in the outbound tourism industry. There are many different types of businesses in tourism, but the market itself is essentially a single stream, with many common elements. Tourism operators may include but are not restricted to traveller accommodation providers, transport operators, amusement attraction operators, food and beverage establishments, visitor information centres, tour operators and travel agents. Verbal communication is in accordance with all aspects of tourism workplace policies, procedures and expectations, regarding both

the sender and the receiver, in a wide range of contexts.

*Domestic tourism*, also known as *internal tourism*, consists of people staying in their own country, but visiting a different city/place in which they do not live in. *Incoming tourism*, also known as *inbound tourism* or *export tourism*, covers all international tourist traffic entering a country. *Outbound tourism* means when people go out of their own country for a holiday, business trip, a.s.o. *Tourism contexts* make reference to situations that occur in the day-to-day operation of a tourism workplace. *Tourism workplace policies and procedures* direct to documented instructions about workplace expectations. These may include but are not restricted to customer service delivery, personal presentation, legislation, organisational structure and business objectives. *Tourism workplace expectations* refer to those anticipations outlined in a job description, tourism workplace policies and procedures workbook, or equivalent. *Sender* is the tourism employee. *Receiver* refers to the customer, who may include, but who is not restricted to an individual, a couple, a family or a group. [1]

### 2. Basic communication skills for work in tourism

The basis of the verbal communication, which gives the tourism operator a competitive advantage, is the interaction between people. If a tourism provider has the purpose to provide/to obtain information, the essential communication skills involve, in general, the capacity to exchange a few words in a public contact role and, in particular, the capacity to obtain the wished information. Such abilities entail to understand and to make oneself understood orally, to gather, to select and to organize information, to understand the global meaning of a text, to summarize using one's

words, to describe charts and tables, to understand causal relationships, to distinguish opinions and to express the interview answers in a clear manner.

If a tourism provider wants to analyse the information, the central communication skills comprise the capacity to examine various elements of a verbal communication in order to identify strategies, which can be used to reach a definite goal. These skills refer to the capacity to speak in order to inform, to explain, to involve, to thank, or to complain, the capacity to tell implicit from explicit in a conversation, in order to deduce, to know, to presume, or to take for granted, the capacity to use a more proper linguistic code and the capacity to produce different dialogue typologies, suitable for different context situations. The capacity to enrich one's self-knowledge, through a comparison with different themes or different opinions about such themes, in order to mould and to defend one's opinion, in the relationships with the clients or with the work team, and the capacity to use the active listening with the other "opinion makers" are also necessary.

Verbal communication in tourism must include appropriate language, articulation, voice modulation or voice projection. Verbal communication is one manner for people to communicate face-to-face. Some of the key components of verbal communication are sound, words, speaking and language. Some words may be imitative of natural sounds, but others may come from expressions of emotion, such as laughter or crying. Words alone have no meaning. The development of languages reflects class, gender, profession, age group and other social factors. The huge variety of languages usually creates difficulties between different languages, but, even within a single language, there can be many problems in understanding. [2]

Speaking can be looked at in two important areas: interpersonal and public speaking. Since the majority of speaking is an interpersonal process, in order to communicate effectively, a tourism operator must not simply clean up his/her language, but learn to relate to people. In interpersonal speaking, etiquette is very important. To be an effective communicator one must speak in a manner that is not offending to the receiver. Etiquette also plays an important role in an area which

has developed in most all business settings, namely in hierarchical communication. In tourism today, hierarchical communication is of utmost importance to all members involved. The other major area of speaking is public speaking. Some of the key areas of public speaking are speaking to persuade, speaking to inform, speaking to inspire or speaking to motivate.

Verbal communication may be evaluated in a tourism workplace when appropriate situations arise, or, in a training environment, if simulated workplace conditions are able to be provided. This fact reflects the standards of a tourism workplace. One-way verbal communication will involve an individual presenting a relevant tourism topic face-to-face to a group. Interactions may be face to face, on the telephone or they may require a combination of both. Two-way verbal communication will involve an individual communicating within a tourism context, with at least one other person, either face-to-face or over the telephone.

### **3. Verbal communication skills in two different tourism contexts**

The specific form of communication does not occur in a vacuum. It is, or it should be, intimately related to particular situations, in which it is used. The circumstances of a communicative act are referred to as the *context of communication*. Two tourism situations will demonstrate suitable language used in appropriate *tourism contexts*. Gotti [3] describes two levels of expression for the language of tourism. This language may be similar to general discourse, when it is adopted in interactions between tourism clerks and guests, or highly specialized discourse, when it is used by the employees in the tourism field to communicate to one another. Our analysis involves some research in tourism industry discourse and it includes the use of appropriate language in accordance with two different tourism situations.

### **4. The first tourism context - booking a hotel room**

In what follows, we shall investigate a common dialogue, between a hotel

receptionist and a tourist, on booking a hotel room. It involves a two-way verbal communication, in order to reveal several hotel conversation strategies. They disclose the similitude to general discourse [4] together with specifically-devised elements referring to the tourism context, when the tourism language is adopted in interactions between specialists and non-specialists.

Receptionist: "Good afternoon, San Felice Hotel. *May I help you?*"

Mrs Ryefield: "Yes, *I'd like* to book a room, *please.*"

Receptionist: "Certainly. *When for, madam?*"

Mrs Ryefield: "March the 23<sup>rd</sup>."

Receptionist: "*How long will you be staying?*"

Mrs Ryefield: "Three nights."

Receptionist: "What kind of room *would you like, madam?*"

Mrs Ryefield: "*Er...double with bath. I'd appreciate it if you could give me a room with a view over the lake.*"

Receptionist: "Certainly, *madam. I'll just check what we have available. Yes, we have a room on the 4<sup>th</sup> floor with a really splendid view.*"

Mrs Ryefield: "Fine. *How much is the charge per night?*"

Receptionist: "*Would you like breakfast?*"

Mrs Ryefield: "No, *thanks.*"

Receptionist: "It's *eighty four euro per night excluding VAT*"

Mrs Ryefield: "*That's fine.*"

Receptionist: "Who's the booking for, *please, madam?*"

Mrs Ryefield: "Mr and Mrs Ryefield, that's R-Y-E-F-I-E-L-D."

Receptionist: "Okay, *let me make sure I got that: Mr and Mrs Ryefield. Double with bath for March the 23<sup>rd</sup>, 24<sup>th</sup> and 25<sup>th</sup>. Is that correct?*"

Mrs Ryefield: "Yes, it is. *Thank you.*"

Receptionist: "*Let me give you your confirmation number. It's 7576385. I'll repeat that: 7576385. Thank you for choosing San Felice Hotel and have a nice day.*"

Mrs Ryefield: "Goodbye." [5]

Regarding the content of this ordinary tourism workplace conversation on booking a hotel room, one can notice that the dialogue contains basic elements for this tourism situation. Therefore, the hotel clerk gives the following information: the name of the hotel,

the kind of room, the number of the floor, the view which can be admired from the room window or the charge per night. He asks for the date of arrival, the length of stay, the wished type of room and the tourists' surname. The guest asks for the charge per night and gives details about the intention to book a room, about the date of arrival, about the length of stay, about the exact dates, about the wished type of room, about the view which can be seen from the room window, about the fact that the tourists do not desire breakfast, about the fact that the tourists agree with the price, about the tourists' name and about the confirmation number.

The simple format of the dialogue, which consists of an exchange of replies between the sender (the receptionist) and the receiver (the customer), displays the following linguistic features, mirrored by numerous lexical forms/syntactic structures:

a. the use of general business-related terminology (e.g. *VAT*)

b. the use of specific hotel-related expressions (e.g. *I'd like to book a room, please, How long will you be staying?, How much is the charge per night?, Would you like breakfast?, Let me give you your confirmation number*)

c. informality (e.g. contracted forms of the auxiliary verbs, elliptical constructions, in which verb phrases are omitted such as *when for, three nights, double with bath*, the fill pause word *er*, which signals a change of some kind and the necessity to fill spaces in a conversation, the colloquial form *thanks* and the verb *get*, which is characteristic to the spoken discourse, instead of the verb *understand*).

d. accuracy (e.g. the insertion of both customers' surname, the spelling of the customers' surname, the insertion of the hotel name, the insertion of hotel specific messages such as the confirmation number and the dates included in the stay, the insertion of the question *Is that correct?* or of the sentences *I'll repeat that* and *Let make sure*, which ask for the confirmation of the previously given information, and the insertion of the room price)

e. politeness (e.g. asking for something and answering to the request in a respectful manner, the introduction of the refined forms of language *may, could, 'd appreciate, 'd like,*

*please, that'll be fine, madam, have a nice day, thank you)*

f. grandiousness (e.g. the adjective *splendid* and the construction *with a view over the lake*)

## 5. The second tourism context-making a tourism-related presentation

The second tourism text is an extract from Larry Dwyer's presentation, entitled *Tsunamis, Hurricanes, Terrorism, and???: Lessons for the Global Tourism Industry*. The main topic is the need for effective marketing response in order to encourage tourists to return to destinations affected by natural disasters. The transcript represents one-way verbal communication and it comprises highly specialized vocabulary, in a well-organized discourse. The presentation is uttered by a specialist in the tourism sphere:

The *tourism industry recovering from crisis* will naturally seek rapid *recovery* from losses they sustained during the *crisis* period. This often involves an intensive *marketing campaign* to focus positive awareness of a *recovering destination* coupled with a range of *consumer incentives*. *Destinations* should avoid *overselling or misrepresenting their product* and be ethical in the choice of *promotional content* or they *could* create their own *crisis*. Also, *incentive programs* to encourage *tourists* to return to *destinations* should avoid the trap of *irresponsible discounting* which *may* attract large numbers of *travellers* but at *prices* which are *unsustainable* for the *enterprises*. While *price reductions* *may* generate *additional tourism flows* in the short term, the *expenditure injections* *may* not be commensurate with the numbers, resulting in what has been called '*profitless volume*.' The focus *should* be on *marketing strategies* which *will* be perceived as beneficial to *consumers* without compromising the *financial viability* of the *businesses* involved.

To be successful, *incentive campaigns* *must* avoid the impression of desperation. The essential balancing act is between offering the *consumer* a perceived benefit for travelling to a *recovering destination* and it *being financially viable* for the *business* to offer the benefit. *Value-added incentives* are a more *cost effective* form of *marketing incentive*

than *discounting*. A *free breakfast at a hotel* is a relatively small cost for a major *hotel* but its value to the *consumer* is perceived as high. The major problem with *discounting* is that it results in a *measurable decline of profitability* and it tends to set a level of *consumer price expectation* which is difficult to change at a later date. This *can* help to maintain *tourism-related expenditure* while minimising the *possibility of erosion of destination image*. [6]

This part of the tourism presentation focuses on analysing a point and on giving recommendations. The language is used in accordance with the formal context, in which the tourism-related presentation is made. Various linguistic characteristics are shown by the vocabulary items/grammatical structures involved:

a. the use of general business-related vocabulary (e.g. simple nouns such as *benefit, businesses, consumers* and *enterprises*, compound nouns such as *consumer incentives, incentive programs, price reductions* and *expenditure injections*, noun phrases such as *financial viability, incentive programs, irresponsible discounting, unsustainable prices, profitless volume, incentive campaigns, value-added incentives, consumer price expectation, additional tourism flows* and *measurable decline of profitability*, the adjective *cost effective* and the verb phrase *being financially viable*)

b. the use of tourism-related vocabulary (e.g. compound nouns such as *tourism industry* and *tourists travellers* or noun phrases such as *recovering destination, free breakfast at a hotel, tourism related expenditure* and *erosion of destination image*)

c. the use of the marketing-related vocabulary, with reference to the secondary topic of the extract (e.g. compound nouns such as *marketing campaign, marketing strategies* and *marketing incentive*, the noun phrase *promotional content* or the verb phrase *overselling or misrepresenting their product*)

d. high-level explicitness (e.g. the use of many adjectives, as tools of a descriptive language, high use of the present tense simple, the repetition of words such as *crisis, consumer, destination, benefit, incentive* and *discounting* or various morphological forms of the same word such as *recovery* and *recovering*)

e. high-level objectivity

f. a subjective representation of what should be "going on"(e.g. agent-oriented modal auxiliary verbs such as *will*, *should*, *may*, *must* and *could*, which express future obligation, necessity, possibility or ability and the noun *possibility*)

## 6. Conclusion

Verbal communication in the two different tourism situations ranges from everyday speech to highly technical discourse. In both cases, we can distinguish the language of tourism, as a specific subsystem of the general language, with its own lexical, morphosyntactic and textual choices, used within a specific professional realm, by both experts and non-experts.

## 7. References

- [1] Jaworski, Adam, Pritchard, Annette, *Discourse, Communication & Tourism*, Cromwell Press, Trowbridge, 2005, pp. 5-7
- [2] Gotti, Maurizio, "The Language of Tourism as Specialized Discourse," in O. Palusci and S. Francesconi (eds.), *Translating Tourism. Linguistic Cultural Representations*, Trento, Editrice Università degli Studi de Trento, 2006, pp. 11-34
- [3][http://www.audioenglish.net/english-learning/english\\_dialogue\\_hotel\\_booking\\_a\\_room\\_2.htm](http://www.audioenglish.net/english-learning/english_dialogue_hotel_booking_a_room_2.htm)
- [4]<http://www.iipt.org/3rdglobalsummit/presentations/larry%20dwyer-speech.htm>
- [5] Lominé, Loykie & Edmunds, James, *Key Concepts in Tourism*, Macmillan, London, 2007, pp. 37-39
- [6] Sager, Juan, Dungworth, David, and McDonald, Peter, *English Special Languages: Principles and Practice in Science and Technology*, Wiesbaden: Brandstetter, 1980, pp.20-22



# Analysis of the Correlation between the Number of Employees and the GDP in the Romanian Tourism Industry

MURGOCI Cristiana Stefania  
DRIDEA Catrinel Raluca  
*Romanian-American University of Bucharest*  
*murgoci.cristina.stefania@profesor.rau.ro*  
*dridea.catrinel.raluca@profesor.rau.ro*  
IONESCU Emilia  
*Academy of Economic Sciences, Bucharest*  
*emacont@yahoo.com*

## Abstract

*Tourism employees contribute directly to GDP creation. Although, it has an important contribution to GDP production, tourism has a special role in creating the added value.*

**Key words:** employees, tourism industry, GDP

**JEL classification:** P52

## 1. Introduction

In the of general area of the domestic economy, tourism acts as a global dynamic element, represented by a specific demand for goods and services, demand that determines the enlargement in their production. The tourism demand influences a permanent adaptation to the offer, materializing in the development of tourism infrastructure and indirectly in stimulating the production of active sectors: the constructions of new transport facilities, leisure facilities for winter sports, nautical activities, etc. As a conclusion, the development of tourism activities leads to a significant production contribution.

## 2. The macroeconomic impact of tourism

Although, it has an important contribution to GDP production, tourism has a special role in creating the added value. Also, being characteristic, the use of human labor, intelligence and creativity, tourism participates to the creation of added value in a larger

proportion than other segments, with similar development particularities. Therefore, tourism stimulates the increase of production in different areas, as specialists show that some branches activity it's strictly determined by the tourism initiatives.

Tourism also, represents a method of diversifying the structure of countries economy. In this context, it is imperious that the tourism activities adapt to the more and more varied, complex needs of tourists, aspects influencing the appearance of a new leisure services, such as cable transportation.

Tourism represents a modality of superior fructification of all resources categories and in special the natural ones: the beauty of the landmarks, the curatives of mineral or thermal waters, the climate conditions.

There are countries that realize up to 80 % percents of GDP (Maldives Islands) of tourism activities, countries with a developed economy (France 7.3% in the GDP, Swaziland- 7% GDP) that have increased percents of tourism contribution to GDP. Regarding this situation, Romania presents itself with a contribution of 2-3 % percent to GDP.

For our country, in this actual stage, as a result of the lack of usage of tourism resources, and insufficient improvement, tourism constitutes a segment with large possibilities of enhancing and therefore remains an important field of activity.

Tourism as a big consumer of labor plays an important part in the economy. It creates new working conditions, by attracting the surplus of human resources from different sectors, determining the diminishing of the unemployment. The large number of those that

work in the tourism industry can be explained by the limited possibilities of mechanization of tourism operations.

Romania finds itself, in regard to the evaluation of the Tourism International Council, in the 76 place, in a world hierarchy, as for the contribution of tourism to GDP.

The Gross National Product represents the sum of added values brute of different institutional sectors of different fields of activities, to which it's been added excises and subtract the products subsidies (that are divided on sectors and fields of activities). Also, this account balance represents the total economy production.

Gross Domestic Product is a measure of the total flow of goods produced or services rendered in an economy over a given period of time, usually a year, in a process (actually, a lot of them) started by inputs (inputs = goods and services used in production), finished by outputs and are sometimes used for intermediate products (which go through several cycles of production, and are rather meant for intermediate consumption in order to obtain other products, and not to become the final product by themselves). GDP is an aggregation of final results of the engagement of various inputs. (According to Marshall, inputs are things needed to create a commodity. In modern terminology, reference is made to the above mentioned "input" which broadly includes: land, labor and capital (but is generally recognized that clustering is not unassailable, given the possibility of sub classification of each input into several components).

It is worthy to note that products subject to intermediate consumption are not collected (considering only goods used for final consumption by the population or investment goods). This is because values of intermediate goods are already contained implicitly in final goods prices.

Grade of "gross" indicates that there was no "cleaning" of the expenditure data of goods for replacement parts (used or exceeded), of the technical and material, by subtracting replacement costs the Net Domestic Product (NDP) would have been obtained.

Grade of "internal" indicates that there was no inclusion of the income from the investments made and the properties held abroad by locals, and there was no subtraction

of the income generated in the country by foreigners. By applying these two operations on GDP we obtain GNP (Gross National Product).

Research of the Romanian economy in the period 1995-1997 shows a pronounced decline. Gross domestic product marks a significant decrease as a result of changes that occurred in the whole economic structure of the country, changes caused, in turn, to the improvised economic policies. The changes have led to a sharp decrease of production in all branches, but also to a dramatic effort to adjust production capacity and labor force to the requirements of market economy. The two trends are influenced by a multitude of factors, some very aggressive, among them being: increasing import penetration rate on the Romanian market, the inevitable competition with domestic products, the continued worsening budget deficits, financial bottlenecks and decapitalisation of economic agents, low level of quality of the Romanian products which were losing or had already lost important external markets.

### 3. Analysis of number of employees in tourism and GDP using a single factor econometric model

Specifying an econometric model involves choosing a mathematical function that can be used to describe the relationship between two variables.

*Table: 1. Relationship between GDP and number of employees in Romania during 1999-2008*

Years 1999-2008	GDP -USD-	Number of tourism employees
1999	1,10413	371,14
2000	1,15008	372
2001	1,21404	358,609
2002	1,38474	354,043
2003	1,69985	357,072
2004	2,14675	362,854
2005	2,83548	361,201
2006	3,80616	392,297
2007	5,49231	417,74
2008	6,67191	438,663

Source: www.WTTC.org

Based on the available data a single factor econometric model can be built:

$$y = f(x) + u$$

where:

- $y$  equals the real values of the dependent variables (average monthly revenues);
- $x$  equals the real values of the independent variables (commercial surface);
- $u$  equals the residual variable, representing the influences of the other unspecified factors of the  $y$  variable, which are considered random factors with little to none influences over the  $y$  variable.

Existence and intensity of the relationship between GDP and the number of tourism employees were analyzed by the regression method.

Using multiple regressions involves estimating parameters of the regression function, performed by the method of the smallest squares:

Table 2: Study of the linear regression model

SUMMARY  
OUTPUT  
Regression  
Statistics

Multiple R	0,930969
R Square	0,866703
Adjusted R Square	0,850041
Standard Error	0,763472
Observations	10

ANOVA

	<i>df</i>	<i>SS</i>
Regression	1	30,31977
Residual	8	4,663113
Total	9	34,98289

	<i>Coefficients</i>	<i>Standard Error</i>
Intercept	-21,4109	3,358749
X Variable 1	0,063824	0,008849

<i>F</i>	<i>Significance F</i>
52,01637	9,14E-05

<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
0,000215	-29,1562	-13,6656	-29,1562	-13,6656
9,14E-05	0,043417	0,084231	0,043417	0,084231

ANOVA refers to the decomposition of the total variance (**SST**) of the dependent variable into two components: **variance explained by regression (SSR) and unexplained variance (SSU) or residual variance**.

Rule of decision on the acceptance of the model is: large values for F test statistic and low values for Significance. Significance F is the error value obtained by rejecting null hypothesis when in fact it is true.

SUMMARY OUTPUT offers information about indicators that show us how good the model we are analyzing truly is.

These indicators are: the ratio of correlation (Multiple R) determination coefficient (R Square) and adjusted determination coefficient  $\bar{R}^2$  (Adjusted R Square). Regression is better as the values of  $R^2$  and  $\bar{R}^2$  are closer to 1.

The third table gives us information about the estimated values of coefficients in the regression model in column **Coefficients**, standard errors of coefficients in the **Standard Error** column, elements for applying the significance test *t-Student* for each factor (columns *t Stat* and **P-value**). So the t-Stat value column is obtained by dividing the forecasts from the standard error of the estimator for each model estimator, and thus obtaining the resulting calculated value of t test for each model estimator. This calculated value is compared to the value from Student distribution table.

The value of the correlation ratio  $R = 0.93$ , confirms the existence of a strong direct link between the two indicators analyzed: GDP and number of employees in tourism.

By using the theoretical linear adjustment equation,  $\hat{y} = \hat{a} + \hat{b}x_i$ , in studying the link between the two indicators, it becomes:

$$\hat{y}_i = -21,41 + 0,06x_i$$

The regression coefficient = 0.06 shows that by increasing number of tourism employees by 1 the resulting average increase is approximately 0.06 people.

Value derived by applying the test "t" Student:  $t_{\text{calculat}} = 7.212237$  (P-value =  $9.14E-05 < 0.05$ ) for regression coefficient b, as well as the marginal values of the same positive sign, Lower and Upper (0.043417 and 0.084231) show that the coefficient is statistically significant.

The value of the determination coefficient  $R^2 = 0.8667$  shows that 86.67% is the influence on GDP of the number of tourism employees, the remaining 13.33 being subjected to change by other random, non-essential factors.

The result using the Fisher test:  $F = 52.016$  (P value =  $9.14 E-05 < 0.05$ ), shows that the model used expresses very well the established correlation between the number of employees in tourism and GDP in Romania during 1999-2008.

The results for the coefficient a, which is free time by *t-Stat* (-6.37466), *P-value* (0.000215 < 0.05), the margins with a negative sign, *Lower* and *Upper* (-29.1562 and -13.6656), show that the coefficient is also statistically significant.

Elements aimed at the acceptance of the model as valid and the existence of the statistically significant a and b parameters in the model, is considered a step which creates the possibility of forecasting GDP and number of tourism employees in coming years.

Tourism and travel industry is categorized as one of the largest industries in the world with over 225 million people and generating 9.6% of global GDP to 2008 year.

In Romania, tourism and travel industry is expected to contribute directly 2.1% to Gross Domestic Product in 2009 (i.e. EUR 10.8 bn or U.S. \$ 3695.2 mn), rising in nominal terms EUR 29.9 bn or U.S. \$ 9546.4 mn (2.5% of total) in 2019.

The Tourism Economy contribution (% of total) should rise from 5.7% (EUR 28.9 bn or U.S. \$ 9,942.6 mn) to 6.6% (EUR 80.2 bn or U.S. \$ 25,648.1 mn) in the same period.

Employment in tourism in the Romanian economy is expected to arrive by the end of 2009 to 582.000 employees, 6.8% of all employees.

For 2019 it is estimated a total of 631,000 employees in the tourism economy, i.e. 7.9% of all employees in the country.

In 2007 the travel and tourism industry were involved 287,000 employees around 3.4% of all active employees on the labor market in Romania, and estimates for 2019 indicates a total of 306,000 employees in total employees in this industry at that time.

#### 4. Conclusion

Finally we can say that the development of tourism industry can bring great economic benefits to the world and may even be the only chance of survival for many poorly-developed countries.

Should focus on labor involved in their training, because placing the key business is the human resource.

#### 5. References

- [1] Abrudan, Maria Madela, *Managementul Resursei Umane*, Editura Universităţii din Oradea, 2005
- [2] Bernard F., Pizzati L., *Labor, Employment and Social Policies in the EU Enlargement Process*, Washington, 2002
- [3] Cherrington, D.J., *The Management of Human Resources*, Allyn and Bacon, Boston 1991
- [4] Chann, Jo; Turner Lindsay, *The Economic Structure of World Tourism*, Tourism Economics, IP Publishing Ltd, volume 15, number 1, March 2009, pp 5-21, ISSN 1354-8166
- [5] www.euromonitor.com
- [6] www.eturbonews.com
- [7] www.guidetobceconomy.org
- [8] www.ilo.org
- [9] www.weforum.org
- [10] www.wttc.org
- [11] www.wto.org

## Romania in the Context of Community Trade Policy Mechanisms

NISTOR Costel  
MUNTEAN Mihaela-Carmen  
NISTOR Rozalia  
“Dunarea de Jos” University of Galați  
*cos\_nis@yahoo.com;*  
*mihaela\_c\_muntean@yahoo.com;*  
*rozalia.nistor@selir.com*

### Abstract

*The trade policy is one of the main pillars of the EU's relations with the rest of the world. More importantly, the implementation of a common commercial policy was part of the original plan of intergovernmental economic integration which is the origin of the European Union. The common commercial policy intends to support the sustainable development by involving a large number of countries in the community trade system. In order to do so, the European interests and certain values should be promoted, values regarding the concept of democracy, rule of law, environmental protection, social rights, public services, cultural diversity and food security, global markets opening by constantly eliminating the hindrances that prevent the international trade and by reducing the tariff barriers as well as by benefitting of the globalization potential by adopting a mutual set of rules that governing markets and by ensuring compatibility of the trade liberalization with the other social values.*

**Key words:** trade policy, common commercial policy, Romania

**JEL classification:** F13

### 1. EU dimensions and trade policy instruments

The policy that is being currently applied by the European Union and implicitly by all Member States distinguishes 3 dimensions, which can be grouped as follows:

**1.1. Unilateral dimension** mostly achieved within the World Trade Organization, which aims at promoting the market access rules in ensuring effective global governance. An example of this type of policy is represented by the policies regarding tariffs reduction and technical barriers elimination concerning trade, as far as the trade in goods is concerned. Within this dimension the expansion of the values promoted by the European Union is being tried to be accomplished, such as those connected with the environmental protection, food security, cultural diversity, the most difficult aspect to be promoted being the adoption of standards on labor. The difficulty of such an approach is obvious taking into account for example, the differences regarding the work-related rules in the European Union and China.

**1.2. Regional dimension** aims at signing certain bilateral agreements and adoption of specific measures concerning a third state or regional association. Currently 121 countries are potentially related to the EU through some regional trade agreements, most of them being negotiated during the '90s. The motivation of bilateral trade policy employment in the European Union trade policy is given by:

- the development of trade on the world level and the increasingly demand for generally accepted rules of the game by the participants under the WTO, the need to stimulate development on all levels and to promote the regional one;
- support of some new concepts of the European Union such as "neighborhood policy" or "Extended Europe" which have already had results in the relations with the Mediterranean countries. The EU has signed

association agreements and trade liberalization with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority and Tunisia. The EU main regional agreements include:

- Economic Partnership Agreements negotiated with A.C.P. countries (African Caribbean Pacific) – the Cotonou Agreement. The ACP Economic Partnership Agreement, signed in February 2000, promotes the non-reciprocal trade preferences granted under the Lome Agreement for another 8 years, while the EU intends to negotiate reciprocal free trade areas with subgroups of countries from Africa, Pacific and Caribbean;
- Free Trade Agreements with the European Free Trade Association, EuroMed, Mercosur, Mexico and South Africa; customs unions with Turkey, Andorra and San Marino;
- Partnerships and Cooperation Agreements with Russia and Ukraine.

**1.3. Unilateral dimension** is used to implement and adopt unilateral measures as additional instruments of trade policy to ensure proper development and political stability of the European Union's priorities. These measures have been frequently taken the form of trade concessions that are granted by the EU to the third country based on some economic interests to accelerate trade with a certain region and increase the economic benefits for both sides.

The instruments used by the European Union within its unilateral trade policy are the following:

• **Generalized System of Preferences (GSP)**, which is the classic instrument for stimulating development by granting the preferential customs duties. GSP grants either a duty-free access or a tariff reduction for the products imported from countries that are subject to these preferences, depending on the sensitivity of the products and the type of preferences granted to these countries. 178 countries and territories take advantage of the preferences granted by the European Union, which is by far the body which grants the highest number of preferences of the Organization for Economic Cooperation and Development.

▪ **Everything But Arms Initiative (E.B.A.)** which is a scheme of preferences granted to the least developed countries. Special arrangements are provided to a number of 49

countries classified by the United Nations as being the least developed. E.B.A. provides duty-free access to imports of all products from the least developed countries, without quantitative restrictions on imports except arms and ammunition. These preferences are granted by the EU indefinitely. The World Bank concluded that this measure, once fully implemented, will increase these countries exports to the European Union by at least 15-20%.

▪ **Granting of asymmetric preferences**, for example for the Balkan countries or Moldova, in order to ensure peace, stability, freedom and economic prosperity in the region, according to the "enlarged Europe" concept. In 2000, the EU Council granted the extension and improvement of autonomous EU tariff preferences for Western Balkan countries. This regulation had as consequence that 95% of imports from these countries have been exempted from customs duties. Moreover, in the context of the stabilization and association process it aimed at liberalizing trade in Croatia and the Former Yugoslav Republic of Macedonia.

Regarding the application and implementation of its trade policy, EU has employed two categories of instruments, namely:

**A. Defensive instruments**, as those tools that ensure fair conduct of trade and that defend the interests of European companies. These instruments were established in accordance with the World Trade Organization provisions which acknowledge the Member States entitlement to defend themselves against unfair trading practices. The main instruments employed in current in practice are the following:

▪ **Anti-dumping measures** that are designed to counteract dumping, especially those which take the form of trade distorting practices. The dumping phenomenon occurs when extra community entities redirects sales of goods to the community area below the sales price from the countries of origin markets or even below the production cost.

▪ **Anti-subsidy measures** that are designed to combat subsidies provided by government that distort trade if they help to the artificial reduction of production costs or export prices to the community area.

▪ **Safeguard measures** can be taken by any member of the World Trade Organization, and hence the European Union member states countries and require temporary additional restriction of imports of a particular commodity if the domestic production of those goods is significantly threatened by the recording of damage.

**B. Offensive instruments** that aim at opening the markets access and eliminating trade barriers through multilateral, bilateral and unilateral actions. The main offensive instruments are the following:

▪ **Regulations on trade barriers** that allow community economic entities to claim the European Commission Community trade barriers that restrict their access to a third country markets. Regulations can be also used to evaluate the situation of breaching the international trade rules with negative implications. If the lawsuit is won, you can appeal to WTO mechanisms for resolving disputes.

▪ **Database regarding the community economic entities access to third markets** which allow to obtain information on access conditions in third country markets, to use systematic methods of tracking by the European Commission of complaints on uncompetitive practices and last but not least to ensure the compliance of the EU trading partners of the obligations under the signed agreements. This database is not a direct action instrument, but a support instrument that also substantiate the measures and initiatives which the EU can take against those trading partners that bring about commercial difficulties to community traders.

## **2. Applying the European Union common customs tariff**

Romania's adhesion to the EU has brought about, as it is well known, significant changes regarding intracommunity goods exchange. Moreover the changes that occurred in the foreign trade relations with EU member countries caused implicitly changes concerning the rehabilitation of international trade in goods and services.

The European Union is currently the largest global trade player, covering approximately 20% of world exports and imports. It plays a

key role in promoting world trade which is mainly based on trade rules agreed by the WTO. Starting January 1, 2007, Romania's trade policies are accomplished by applying the European rules. Thus, Romania has withdrawn its involvement from all previous free trade agreements and in the future will apply the Community legal framework of foreign trade.

Of all the implications brought about by the integration into the European structures, the one that had the greatest impact had the common customs tariffs. Thus the overall tariff level has shown a downward trend compared with the corresponding pre-accession period, taking into account that approximately 70% of Romania's foreign trade has been conducted with EU member states.

EU regulations regarding the common commercial policy shall be binding and directly applicable in all Member States. Therefore, on the accession time, Romania withdrew its membership from the European Agreement and the Central European Free Trade Agreement (CEFTA) and free trade agreements signed with Moldova, Turkey, Israel, Serbia - Montenegro, Albania, Bosnia and Herzegovina, EFTA (European Free Trade Association). In the same context, all non-preferential trade agreements and economic and trade cooperation agreements were cancelled.

Romania's trade had been largely conducted in the Free Trade Agreements (approximately 83.91% from 70.56% in exports and imports) during the pre-accession period. Concerning the weight, the Romanian trade exchanges under these agreements mentioned above, the first place was occupied by the European Union holding 67.8% of exports and 74.6% of total imports during January-October 2006, which means that the majority of imported products reduced the price level, as a result of the customs duties cancellation.

Among the free trade agreements signed by the European Union, which are applied by Romania as a member state as well beginning with January 1, 2007, agreements with Mediterranean countries, with Mexico, Chile, South Africa and the Stabilization and Association Agreements with Western Balkans countries are also included. Moreover non-preferential trade agreements with third countries and other commitments concerning

the economic and trade cooperation shall be applied.

Regarding the commercial benefits, the adoption of the Community trade policy has as consequence the significant improvement of Romanian products and services access on the European Union's unique market and on the third countries markets in return to the import liberalization measures in Romania. In addition, Romania as European Union state member, will be able to promote more effectively its interests in international trade negotiations, taken into account that the European Union is the world trade leader, therefore having great negotiating power.

In terms of marketing costs, by applying the EU rules a considerable increase in the degree of liberalization of imports of goods and services can be accomplished both on the *most-favored nation treatment* and on preferential basis, therefore the corresponding reduction of the national production protection over the foreign competition.

The costs on the financial plan arise from the need for Romania's participation in the financial assistance for EU development through the European Development Fund, established in *UEACP, MEDA* financial program, established in the Euro-Mediterranean Partnership, the Common Fund for Commodities financing and other similar funds.

### 3. EU trade policy impact on Romania

On the short term, the adoption of European Union common customs tariff can have a negative impact, manifested by trade deficit increase due to the average level of tariff protection applied by Romania during the pre-adhesion period was higher compared with that used in the Community. By participating in the Customs Union, Romania was forced to reduce tariffs, thus meeting the requirements of the EU. As a direct consequence of this measure, the domestic market is currently facing an additional influx of goods from third countries, resulting in a significant increase in imports.

In addition to working out the problems related to conversion between different types of duty, the adoption of the Common Customs

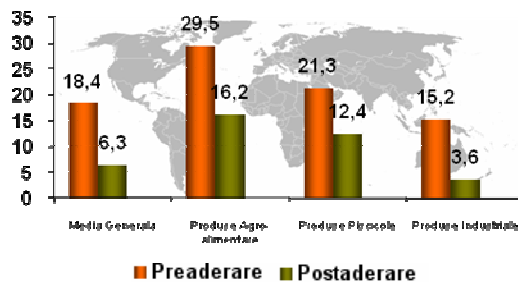
Tariff duties has also implied the import custom duties alignment to the existing ones applied in the European Union on Romania accession time. Custom Duties charged by Romania during the pre-accession based on the most-favored nation clause reach an overall average of 18.4%, but which if spread out it shows a level of 29.5% for agricultural products, 21.3% for fishery products and 15.2% for industrial products. In comparison, the customs duties charged by the EU in relations with third countries reach an overall average of 6.3%, of which 16.2% is applicable to agricultural products, 12.4% to fish products and 3.6 for industrial products.

Table no. 1 Level of custom duties applied by Romania to the main product groups before and after EU accession

Product group Period	General Average	Agricultural Products	Piscicultural Products	Industrial Products
Preadhesion	18,4	29,5	21,3	15,2
Postadhesion	6,3	16,2	12,4	3,6

Source: C.E., Regular Report on Romania's progress towards accession

Figure no.1 Level of custom duties applied by Romania to the main product groups before and after EU accession



Regarding the food products, the adoption of common customs tariff will reduce or even eliminate customs protection. The most significant reductions in customs duties levels had to be made in beverages, spirits and vinegars - from an average of 121.1% to 8.1%, tobacco and manufactured tobacco substitutes



- from an average of 51.8 % to an average of 21%.

Concerning imports which do not compete directly with domestic products such as coffee, coffee-based products, olives, peanuts or whiskey, the border protection reduction affected only the state budget revenues from customs duties without any significant implications on the commercial flow or resident commercial operators.

On the other hand, however for a less significant number of products, the common customs tariff induced a significant increase in customs duties. These duties are subject to trade with live animals - where the custom duties were increased from 15.4% to 26.2% and cereals – they rising from 14.2% to 47.3%.

For some agricultural products, the customs duty tariff increase caused by the common customs tariff was so high (rice from 117 to 141.4%, meat 99 to 105.5%, tomato 97.6 to 104.2%, apples 66.4 - 70.4%) that this aspect has brought about domestic production increase and imports reorientation to the Community, thus being able to induce a certain increase in domestic prices.

Table no. 2 Changes induced by common customs tariff aligning on certain food products (%)

Product	Alcoholic beverages							
	Alcoholic beverages	tobacco and tobacco substitutes	live animals	Cereals	Apples	Tomatoes	Meat	Rice
Preadhesion	121	51,8	15,4	14,2	66,4	97,6	99	117
Postadhesion	8,1	21	26,2	47,3	70,4	104,2	105,5	141,4

Source: Țarcă, Viorel, Comerțul exterior în strategia dezvoltării economiei românești, pag. 217

Nevertheless, the new duties have involved relatively minor changes to a few products such as pork and poultry, prawns, a species of bananas, soya beans, some vegetable fats and oils, flours, meals and certain fish products or shellfish and soy oil extraction residue.

Figure no. 2 Changes induced by common customs tariff aligning on certain food products

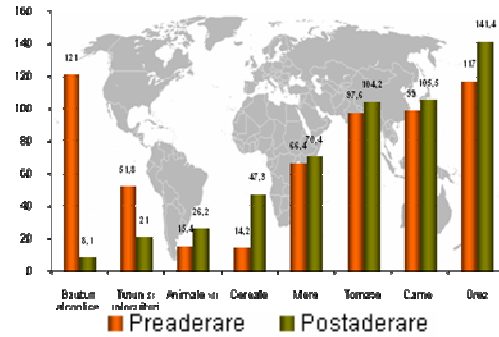


Table no. 3 Food products trade in during the pre and post accession \*

Product	Alcoholic beverages		Live animals		Maize	
	Import	Export	Import	Export	Import	Export
2006	65285	178365	41866	21197	9753,8	37962,89
2007	83588,4	361374	56389	24973	127113,87	75689,94

\* thousand EURO

Source: Ministry for SMEs, Commerce, Tourism and Liberal Professions, the Romanian Trade Promotion Centre

Regarding the industrial products, the application of the single tariff has brought about a decrease in border protection, because as far as the average customs tariff were significantly higher than the European average. Thus, according's total imports weight, the most significant reductions were recorded in the import of drugs (8-10%), plastic articles and plastics (13.5%) in various metal processing products (7.5 to 17, 6%), replacement parts for piston engines (12.3%), machinery or apparatus used for filling, sealing and labeling (13.3%), non-automatic sewing machines (16.3%) and cars (20%).

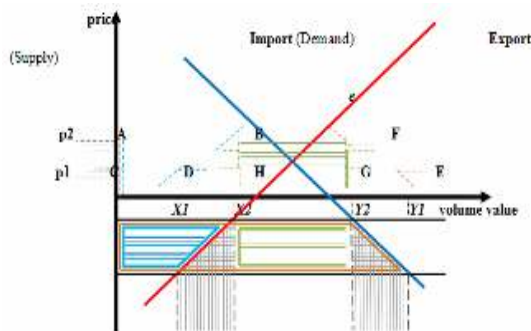
#### 4. EU accession impact on agricultural products trade

The *acquis communautaire* adoption in food products refers to the EU rules that were taken over as far as the Common Agricultural Policy is concerned, which involves a single internal market for food products and a single trade policy for trade in those products with third countries. The *acquis* implementation meant complete suppression for Romania on a mutual basis from January 1, 2007, of customs duties on foodstuffs imports from the Community, Romanian food prices alignment to unique prices guaranteed by the EU due to the price system of intervention, then the adoption and application of technical regulations, product standards, veterinary and phytosanitary standards of the European Union in the agro alimentary sector.

Moreover, the *acquis* adoption has also brought in certain contribution to the Community budget for the agro alimentary sector financing and taking advantage of its products, the application of the common customs tariff on imports of agricultural products in third countries and the *acquis* adoption regarding the rural development.

Regarding the mutations brought about by the single customs tariff implementation on the internal market, the graphical modeling of the import duties impact on a small country such as Romania, will be taken into consideration concerning its trade with food products, especially its maize, alcoholic beverages and live animals trade.

Figure no. 3 Impact of single customs tariff on maize trade



p1	p2	X1	X2	Y1	Y2
14,2	47,3	37962,89	75689,94	9753,8	127113,87

$$A_{ABCD} = (75.689,94 + 37.962,89) * 33,1 / 2 = 1.880.954,34 \text{ EURO (producers profit)}$$

$$A_{CEFA} = (127.113,87 + 9.753,8) * 33,1 / 2 = 2.265.159,94 \text{ EURO (consumers loss)}$$

$$A_{HGFB} = (127.113,87 - 75.689,94) * 33,1 = 1.702.132,08 \text{ EURO (state profit)}$$

$$A_{DHB} = (75.689,94 - 37.962,89) * 33,1 / 2 = 624.382,68 \text{ EURO (net loss)}$$

$$A_{GEF} = (127.113,87 - 9.753,8) * 33,1 / 2 = 1.942.309,16 \text{ EURO (net loss)}$$

$$A_{DHB} + A_{GEF} = 2.566.691,84 \text{ EURO (aggregate net loss)}$$

Common Customs Tariff increases the domestic price from 14.2 units to 47.3 units, thus the producer's surplus increases the trapeze area  $ABCD$ . The difference of 33.1 units will be redirected as direct debits to the state budget, the revenues total being illustrated by the rectangle area  $HGFB$ . In this case, the losers will be consumers, because they will have to pay a higher price than the one set up during the pre-accession period, consequently reducing the consumption of this particular commodity, situation whose truth value is supported by increasing the exported quantity in 2007.

Thus, a reduction in consumer surplus is achieved which is equal to trapeze area  $CEFA$ . Therefore, a part of the consumer loss is transferred to the Government in the tax collection process equal to the rectangle area  $HGFB$ , another part is transferred to domestic producers, respectively the trapeze area  $ABCD$ .

Two dimensions can be identified, the triangles areas  $DHB$ ,  $GEF$  that can be found neither in budgetary levies nor in the producer's surplus. The two areas represent the net welfare loss resulting from the customs duty change, i.e. costs incurred by Romania as a result of the price distortion due to the free trade regime.

#### 5. References

[1] Botez, Octavian Gheorghe, Militaru, Mădălina, Comerțul internațional și comerțul exterior al României, Ediția a III-a, Editura Fundației România de Măine, București, 2006

- [2] Botez, Octavian Gheorghe, Politica comercială externă, Editura Fundației România de Măine, București, 2004
- [3] Drăgan, Gabriela, Fundamentele comerțului internațional, Editura ASE, București, 2004
- [4] Pușcaci, Florin Dan, Comerț Internațional, Editura Didactică și Pedagogică, București, 2004
- [5] Rujan, Ovidiu, Teorii și modele privind relațiile economice internaționale, Editura ASE, București, 2001
- [6] Țarcă, Viorel, Comerțul exterior în strategia dezvoltării economiei românești, Junimea, Iași, 2004
- [7] Negrescu, Dragoș, Ciupagea, Constantin, Politica Comercială a României în perioada de tranziție, lecții din experiență și perspective, Centrul Român de Politici Economice
- [8] Institutul Național de Statistică, Anuarul de Comerț Exterior al României, 2007
- [9] WTO, World Trade Report 2008
- [10] External and intra-European Union trade Statistical yearbook — Data 1958-2006, 2008 edition, EUROSTAT

## Pro or Anti-Crisis Measures in Romania?

PATACHE Laura  
GRAMA Izabella Gilda  
„Spiru Haret” University of Constantza  
iacob\_laura@yahoo.com  
izabella.grama@spiruharet.ro

### Abstract

*The global crisis leaves no country unharmed and no doubt remains about this. But, should we wait for global solutions or we must try to make our one way through crisis? Global crisis is not only economic; it is politically constructed in different ways, depending on state, region and history. The most problematic effect of the actual crisis is the increasing unemployment, so that, the first aim of this paper is to estimate the evolution of the unemployment costs in period 2002-2009. Secondly, based on information from National Institute of Statistics (NIS), National Agency for Employment (NAE), Eurostat and in correlation with specific literature and Romanian government decisions we make a forecast of the unemployment costs for the next two years. We tried to reveal the fact that some of government decisions in crisis period can aggravate the situation and not support the economic recovery.*

**Key words:** crisis, unemployment, Romania

**JEL classification:** J64

### 1. Introduction

We are all agreeing the idea that the global crisis needs global solutions and concerted efforts.

*Global crisis is not simply 'economic'; it takes place within a capitalist political economy which is, ab initio, structured through a system of nation-states which maintain a kind of formal sovereignty in tension with an extreme material inequality. It is hardly surprising that 'crisis' is politically constructed in different ways, depending on state, region and history. [1]*

The major economies share neither the same political system nor the same historical reference points, which makes coordinated action difficult.

Leaders of the world's largest economies, known as the G-20, met in London (April 2009) to explore possible responses to the global financial crisis, to that end, they decided to levy sanctions against clandestine tax havens and to institute strict financial regulations. Such regulations included tougher controls on banking professionals' salaries and bonuses, and increased oversight of hedge funds and credit rating agencies. While France and Germany were emphasizing stricter financial regulations, the United States and the United Kingdom were advocating public spending to deal with the economic crisis. On the Pittsburgh Summit of G-20 (September 2009), the officials decided to let the burden of economic recovery in private demand account, relieving the public demand.

One of the most important consequences of the crisis is the permanent and increasing number of unemployed. Year 2010 may be for Romania, exit from the crisis year, but it is very possible to be in the same time, the most burdened with negative consequences of the crisis year, too.

Unemployment phenomenon generates a range of costs; they may be monetary and non-monetary, direct or indirect, economic and social. Unemployment affects not only the unemployed but also those who are in employment, because they participate with a share of their income at public funds to social security. Another important cost of unemployment is the loss of production and income that it entailed.

To summarize, we can state that unemployment is a phenomenon that affects, in different degrees, all nations/regions/areas

and has many negative economic and social effects. Among the most important, we mention these: *non-use and wastage of a part of the labour force from a country/area*, with a more negative aspect, so that the society and the individuals bear significant costs of education and workforce training unoccupied, expenditure still not recovered; lead to reduced incomes, and increasing social tensions, as a factor in lowering the standard of living and worsening quality of life, contribute to increased economic and social costs that an economy has to bear in the form of unemployment benefits. [2]

## 2. Estimating unemployment costs

Next, we'll try to make an assessment of the costs of unemployment in the period 2002-2009.

From all the social and economic *costs of national unemployment*, we focused on economic and, especially, on the money, aimed at following (see Table 1).

Assuming that the unemployed person should be pursued gainful activity, considering the average values of labour productivity (calculated as ratio of real GDP per person employed, even if GDP is the result of more factors working together, such as: labour, capital, total factor productivity etc.) correlated with the number of unemployed corrected, we can determine which is the *loss of national GDP* (see relation 1). We mention that we made a recalculation of the number of unemployed allowances based on data provided by the National Agency for Employment and Statistical Yearbook of Romania, correcting the number of unemployment with unemployment duration, thus resulting in an average of unemployed being unemployed for over 1 year, we added the unemployed without allowances obtaining so, the final average number of unemployed corrected.

$$\text{Loss of GDP} = W_L \times U_c \quad (1)$$

where:  $W_L$  - labour productivity;  
 $U_c$  - unemployment corrected.

Thus, loss of national GDP has increased steadily until 2007, due to the productivity growth, especially as a consequence of real

GDP growth – supported by demand in conjunction with a high rate of consumption and an expansion of lending -, correlated most of the time with a diminishment of the number of unemployed. On the other hand, if we observe the evolution of weight of loss of GDP in total GDP in period 2002-2007 it decreased from 5.6% at 4.1% in 2007. Year 2008 reveals a change in the trend evolution of the unemployment; the number of unemployed increased from 368,000 persons (December 2007) till 625,000 at the end of 2008 (according to NIS). The NAE' source of dates gives us an overview of 2008 year, in which unemployment felt steadily until October when the balance between in - out was tilted decisively in favour of becoming unemployed. We mention that GDP and the labour productivity are calculated at real values, so the nominal losses may be following another trend.

In terms of loss of GDP, 2010 year highlight a late measure, regarding technical unemployment, according with the Government is saving funds generated by the difference between the cost supporting employers in the direction of keeping staff and the cost of unemployment.

By revolving the average wage that would be obtained if it were rendered unemployed labour and compensation they received as unemployment benefits we may obtain a picture on the *net loss of income (NLI)* (see relation 2).

$$NLI = (ANW \times U_A - U_B) + ANW \times U_{notA} \quad (2)$$

where: ANW – annual net average wage;  
 $U_A$  - unemployed with allowances;  
 $U_B$  - unemployment benefits;  
 $U_{notA}$  - unemployed without allowances.

Thus, at national level, there was a net loss of income, following up by the increase in net average wage and deepening the phenomenon of chronic unemployment. This loss of income limits the ability of consumption and investment being put onto the future capacity growth in global demand for goods and services and, thus, the possibilities of creating new jobs.

The existence of a large numbers of unemployed imposed on budget revenue, too, therefore, we can determine the *loss of*

*budgetary revenue (LBR)* due to unemployed (relation 3). We mention that we don't take into account the employer and employees contributions at unemployment benefits budget and the other contributions to the state's budgets; all these would increase the budgetary losses.

$$LBR = AGW \times U_c \times 16\% + U_B \quad (3)$$

where: AGW - annual gross average wage;

$U_c$  - unemployment corrected;

$U_B$  - unemployment benefits.

\* - is representing the flat tax on income.

Loss of budgetary revenue is increasing; this lost diminished the demand for goods and services from the state side and is affecting employment, the effects induced on finding alternatives ways of providing financial resources to the state income tax contribution account.

The total loss of budgetary revenue is much higher, because, we could add to the unemployment, others causes, like the various forms of activities on informal labour market.

In Romania, informal employment takes various forms such as subsistence agriculture, wage-employees who do not declare their earnings, employers not registering their employees, workers without labour contracts, tax evasion and social security evasion both by employers and employees, under-declaration of earnings, false self-employment and many others. Many of these forms constitute deliberate actions to hide earnings in order to evade paying taxes and social security contributions; others represent activities at the subsistence or survival level that can hardly be regarded as evasive. [3]

### 3. Romanian Government measures

According to data from the Organization for Economic Cooperation and Development (OECD), most developed countries have registered economic growth in the first quarter of this year, confirming what analysts have said lately, namely that the crisis ended; but which is the Romania point of view?

Table 1. The unemployment costs in Romania, in period 2002-2009

Indicator/ Year	2002	2007	2008	2009*
Real GDP (bn. USD)	41.2	111.8	125.5	95.4
Employment (th. pers.)	9234	9353	9413	9527
$W_L$ (th.lei/pers.)	4.5	12	13.3	10
NIS unemployment (th. pers.)	761	368	625	709
$U_A$ corrected (th. pers.)	199	129	109	324
$U_{notA}$ (th. pers.)	317	258	254	273
$U_c$ (th. pers.)	516	387	363	597
Loss of GDP (%)	5.6	4.1	3.9	6.3
Loss of GDP (mn. USD)	2304	4625	4842	5979
AGW (USD)	197.2	709.5	803.1	663.4
ANW (USD)	137.0	519.2	591.1	484.4
$U_B$ (mn. USD)	128.5	297.3	243.2	597.1
NLI (mn. USD)	721	2114	2332	2873
LBR (mn. USD)	3540	4902	5095	12623

\* - provisory data

Source: NIS, NAE, estimates of the authors

Even if for Canada, Germany, Italy, France or U.K. the crisis was ending, it led to difficult inheritance left: high debt, monetary and trade imbalances, especially between the largest consumer, the United States and the largest producer - China.

Economic balance of this year is a disastrous one for our country. Global economic downturn has affected all Romanian companies, from the largest to the smallest neighbourhood business. The access to banks funds for the business environment is blocked by the state because the Government, through the Ministry of Finance, borrows from private banks almost all the money supply to pay salaries and pensions for budgetary persons. According to sources from the financial environment, thousands of companies across the country expects VAT reimbursement funds, at which they are entitled, and the

Fiscal State Control delay to refund it, deadlines being exceeded months in a row. Instead, for every invoice issued, but not received, the state requires businesses to pay VAT, decapitalizing them and pushing them in to towards bankruptcy. Establishing a flat rate tax to be paid even for companies which resulted in no profits determinates that this year 120,509 companies to suspend operations. In this context, there are fewer voices announcing the return of Romanian economy in 2010.

The global economic crisis imposes global measures for recovering, as well as national measures.

According to the European Commission's analysis, unless policies face up the new challenges, potential GDP in the EU could fall to a permanently lower trajectory, due to several factors. First, protracted spells of unemployment in the workforce tend to lead to a permanent loss of skills. Second, the stock of equipment and infrastructure will decrease and become out-dated due to lower investment. Third, innovation may be hampered as spending on research and development is one of the first outlays that businesses cut back during recession. [4]

The European Economy Recovery Plan (EERP) was adopted by Commission in 26 November 2008 and has two key pillars: to boost demand and stimulate confidence (200 billion Euro -1.5% of Union's GDP) and as direct short term action to reinforce Europe's competitiveness in the long term ("smart" investments in energy efficiency to create jobs and save energy, in clean technologies for sectors like construction and automobiles, in infrastructure and inter-connection to promote efficiency and innovation).

The economic crisis starts to be felt in Romania, for the first time, in automobile industry. The Romanian government reacted by accelerating "Jalopy" program for sustaining the sale of new cars, tractors and agricultural machines, too. As well as the implementation of the "First house" program that generates a slow movement on purchasing of houses till 60,000 Euro – the real estate market offers at this price, generally, old and with one or 2 rooms apartments and houses, "Jalopy" program limits the demand at around 60,000 Euro – if we don't take in to account the fact that for obtaining this value you must

have an income net wage of 3,400 lei/ month, almost 3 times more than the average wage (1,282 lei/month in 2009). Since 2010, for new construction, the state guarantees loans till 70,000 Euro. The government solutions seem not to achieve their targets of increasing the sales of new houses and new inland cars for supporting the construction sector and the national automotive industry. More national economists disapprove the measures taken by national authorities in crisis period such us: minimum tax (with its expressed goal of curative and cleaning effects); ensuring the pension point to 45% of the gross average wage; late measures for reactivation of the real estate market with loan state guarantee; few programs to stimulate the economy and support the employers; lack of strategy to combat unemployment and others.

Romania's biggest problem is, still, current-account deficit: far more money has been pouring into the country than going out. Much of the money comes from the estimated 2 - 2.5 million Romanians - around 10 percent of the population - who work in countries such as Italy and Spain and send earnings back. But with those economies now suffering as well, many emigrants are expected to return home bare hands; even the protection system for unemployed in these countries is vastly superior to the national system.

#### **4. Forecasts for unemployment costs**

The forecasts for years 2010 and 2011 were made based on Eurostat forecasts for real GDP growth evolution [5] and on government announcement of the dismissal of 70,000 budget employees in 2010 and another 230,000 in 2011-2015 period. If we consider that 80% of the total unemployed are from private sector, the dismissal from public sector will induce an increasing of unemployment at 1.059 million persons in 2010 and 1.289 million persons in 2011, if emergency measures would not be carried out to support and revive the productive sector so that to absorb labour force.

The unemployment costs in 2 years will be double. In the present conditions, Romania, with an unbalanced social security budget, with a strong current-account deficit, and, generally with a long-term deficit will induce

never ending dependence loans of the foreign capital.

Statistically, in Romania, beginning with 2008 the unemployment increased and, in present conditions, despite the NAE communications that the unemployment is around 8.39% at the end of March this year from 5.6% (in 2009), we sustain the official forecast of the IMF official for 2010 for over 1 million unemployed (see Table 2).

*Table 2. Forecasts of the unemployment costs for 2010 and 2011 years*

Indicator/ Year	2009	2010	2011
Real GDP (bn. USD)	95.4	96.2	99.4
Employment (th. pers.)	9527	9177	8947
W <sub>L</sub> (th.lei/pers.)	10	10.5	11.1
NIS unemployment (th. pers.)	709	1059	1289
U <sub>A</sub> corrected (th. pers.)	324	484	589
U <sub>notA</sub> (th. pers.)	273	408	496
U <sub>c</sub> (th. pers.)	597	892	1085
Loss of GDP (%)	6.3	9.7	12.1
Loss of GDP (mn. USD)	5978.9	9344.2	12047.9
AGW (USD)	663.4	639.7	689.6
ANW (USD)	484.4	471.5	509.0
U <sub>B</sub> (mn. USD)	597.1	716.3	877.5
NLI (mn. USD)	2872.9	4328.3	5750.7
LBR (mn. USD)	12622.9	16740.1	21105.9

To support our aforementioned opinion, we highlight the following aspects:

- in March 2010 were 765,285 unemployed, 462,289 with allowances and 302,996 without allowances, an unemployment of 8.39% (NAE) but the ILO calculation for the same indicator are higher with 1-3%. Standing ILO unemployment rate that is higher than NAE's one because some of those who declare themselves unemployed not fall in employment agencies as people seeking employment;

- according to the Government communication, in less than two months over 57,300 persons from 2,190 companies came into technical unemployment (around 1% from the employment), due to a settlement, starting from 1 February 2010, who for no more than 90 days, during the temporary suspension of activity, total or partial, of a employer, said that the state budget will pay all social security contributions, following that the employee to receive 75% of base salary job properly filled. Also, the employee is exempt from income tax. In consequence, it is possible that some of these persons, after 3 months, to increase the number of unemployed.

## 5. Conclusions

In terms of GDP growth, 2002-2007 period was one of the most appropriate time for the Romanian economy in all it' history, but even the unemployed number is decreasing from 761 thousand at the beginning of 2002 at only 368 thousand persons at the end of 2007, the number of employees decreased, too, with around 119 thousand, so that some hundreds of unemployed are lost in the process. Some of them decided to emigrate in countries like Italy, Spain, UK, Germany and so on and send earnings back and this has generated an increase in consumption (the rate of consumption was more than 100% the last few year before the recession).

On the other hand, Romania had between 20-50% of total employment in informal sector, depending on the definition used. The informal employment includes two main groups: those who work informally because they have no real alternative for survive (the survival agriculture) and those who deliberately avoid taxes and social security contributions (non-registered firms or firms which not registered their workers and hire them without labour contracts or with workers paid with "envelope payments"). [3]

The great financial crisis had hit Romania with a delay of one year, period in which Romania was more concerned about the European Parliament elections (2007), Parliamentary elections (2008) and culminating in the 2009 with Presidential election than to the recession and the measures that must to be taken.



Although the recession may be seen as a period of cleaning and restructuring, if the government doesn't find appropriate alternatives to keep unemployment under control the consequences will be catastrophic for our country.

## 6. References

[1] G. Harrison, R. Cline-Cole, Global Crisis, African Governance and a Sense of Deja Vu, Review of African Political Economy, 119, 2009, pp. 1-7.  
[2] S. Douglas, H. J. Wall, The Revealed Cost of Unemployment, Review of Federal Reserve Bank of St. Louis, 2000, available at <http://research.stlouisfed.org/publications/review/00/03/0003sd.pdf>.

[3] J. Parlevliet, Th. Xenogiani, Report on Informal Employment in Romania, OECD working paper, 271, 07/2008, Available at <http://www.oecdilibrary.org/docserver/download/fulltext/5kzhhbjf5k20.pdf?expires=1270729255&id=0000&accname=freeContent&checksum=B79DF4074B49FAB9E1E2386969972B22>.

[4] European Commission, Economic Crisis in Europe: Causes, Consequences and Responses, Luxembourg, 2009, available at [http://ec.europa.eu/economy\\_finance/publications/publication15887\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication15887_en.pdf).

[5] European Commission, Europe in figures. Eurostat Yearbook 2009, Luxembourg, 2010, available at [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-CD-09-001/EN/KS-CD-09-001-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CD-09-001/EN/KS-CD-09-001-EN.PDF).

## The Concept and Definition of EU Tax in EU Law and the Compatibility with the Romanian Law

PAUN Ciprian Adrian

JULA Octavian

„Babe-Bolyai” University of Cluj-Napoca

*ciprian.paun@econ.ubbcluj.ro*

*octavian.jula@econ.ubbcluj.ro*

### Abstract

*The accession of Romania to the EU took place in a moment in which the concepts referring to taxes are clearly marked by the Founding Treaties stipulations and by ECJ jurisprudence. Romanian fiscal law has suffered successive modifications in the past 18 years. The modifications have been inspired by Romania's accession negotiations to EU, and also by the economic changes of the period. Because of the European Commission technical sustaining, Romania started to define concepts like "tax", "duties", "taxes" or "taxation" using the communitarian meaning of the Founding Treaties and the ECJ jurisprudence.*

**Key words:** taxes, fiscal law, Romania

**JEL classification:** F36

### 1. Interpreting the article 269 of the EC Treaty

The Article 269 of the EC Treaty comprises an extremely generous stipulation in the first paragraph and extremely exigent conditions in the second one. If we take into consideration two different articles of the Treaty: Art. 37, paragraph 2 and Art.269, paragraph 2. In Article 37 EC Treaty, the legal settlement is formulated in the following manner: "The Council shall, on a proposal from the Commission and after consulting the European Parliament, acting by a qualified majority, make regulations, issue directives, or take decisions, without prejudice to any recommendations it may also make." The

Article 269, second paragraph, affirms that: "The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, shall lay down provisions relating to the system of own resources of the Community, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements."

According to our opinion, the Article 269 of the EC Treaty does not give the possibility to adopt a regulation because of the recommendative formulation of the second paragraph. Unlike the second paragraph of the Article 37 which uses the verb, "make", art.269 uses "recommend". In the same time, from the point of view of the fiscal strategy, the tax can be included in a special protocol annexed to the treaties, signed by the presidents or prime-ministers or in a Council Resolution.

Romania is a national state, from the constitutional point of view, and it does not have the judicial-institutional culture of federalism. That is why the doctrine interpreted in a restrictive way the stipulations of the Founding Treaties in full consensus with the French judicial doctrine. According to the Romanian Constitution, Article 148, second paragraph: "As a result of the accession, the provisions of the constituent treaties of the European Union, as well as the other mandatory community regulations shall take precedence over the opposite provisions of the national laws, in compliance with the provisions of the accession act". Art. 139 of the Romanian Constitution stipulates in paragraph 1 that "Taxes, duties and any other revenue of the State budget and State social security budget shall be established only by

law.” This text is applicable only to national budget but, according to art.56 par.1 “Citizens are under the obligation to contribute to public expenditure, by taxes and duties.”

From the description of the above texts, it results that the adoption of an additional special protocol to the EC Treaty or a Council resolution concerning the collection of an EU tax would not contravene the Romanian constitution. In the same time, this kind of settlement would constitute a legal base for the collection of all three types of taxes mentioned in the Commission Report. A resolution of the Council, followed by a constitutional ratification would not give more legitimacy to the citizen-community relation. The ratification is in Romania a technical-judicial proceeding, which can pass unnoticed by the simple citizen.

To include a stipulation dedicated to the European taxes in Romania’s Constitution will offer the chance of a better involvement of the citizen, because the modification of the constitution supposes the approval of the citizens through referendum. The proceeding is very complex and does not justify the modification of the Constitution in order to include such an article.

## **2. EU TAX based on Article 308 of the EC Treaty?**

Article 308 of the EC Treaty stipulates that “if action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community, and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures.” In our case, the common market functions since 1957 using finances previewed by different normative acts. The problem is, as mentioned in the Romanian speciality literature, assuring more independence to the EU institutions in their relation with the member states. In the present state, the member states contributions and VAT levies supply the EU budget. The European Union is trying to find solutions to allow it to expand its competencies above the ones mentioned in the founding treaties.

Article 308 cannot be used as a legal base to institute the EU taxes.

## **3. Interpreting Article 37 second paragraph of the EC Treaty as a legal base for EU Taxes**

The Common Agricultural Policy has been a very important subject on the member states’ agenda, and also for the founding institutions since the beginning of the Communities. Article 37, second paragraph contains a proposal to streamline the activities in the agricultural domain. According to ECJ, two conditions must be fulfilled in order to apply the stipulations from the mentioned article.

The stipulations must have as a purpose the production and trading of agricultural products, as it is mentioned in the first Annex of the EC treaty.

The legal regulation must contribute to the accomplishment of CAP.

In the same time, the majority required by the Article 37, second paragraph is a qualified majority, while Article 94 of the EC treaty imposes unanimity for tax collection. Considering the arguments mentioned above, there is no way the second paragraph of the Article 37, can be used as a legal source for the EU tax based.

## **4. Provisions primarily of a fiscal nature” and the interpretation of the Article 175, second paragraph of the EC Treaty**

Article 175, second paragraph of EC Treaty, introduced by the Treaty of Nice refers to the environmental policies. The first part of the article contains the following provision: “By way of derogation from the decision-making procedure provided for in paragraph 1 and without prejudice to Article 95...” If we check with Article 95 of the EC Treaty, we notice that it does not have as an object applying fiscal provisions, as mentioned in paragraph 2. “The Council shall, acting in accordance with the procedure referred to in Article 251 and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal

market. 2. Paragraph 1 shall not apply to fiscal provisions, to those relating to the free movement of persons nor to those relating to the rights and interests of employed persons.” Noticing the logic of the communitarian texts, one can conclude that the provision from the Article 175, paragraph 2 is a special provision dedicated to the environment, which also, comprises taxation stipulation. The expression “Provisions primarily of a fiscal nature” indicate that the stipulation can have a different content or can contain other measures, but must have the judicial nature of a fiscal provision. Using an energy-based fiscal resource should be connected with the environmental protection purpose. In this case a tax on the energy consumption can be promoted due to the Article 175, paragraph 2 of EC Treaty. If this tax had not been tied to the communitarian interest in the environment, it would not have been possible to revendicate it from that provision.

### **5. No Taxation without representation!**

The point of view sustained earlier concerning the EU institutional levels of development remains valid. Through its institutional structure, the European Community is an interesting compromise between the member states interests and the interests of the European citizens. A new political and institutional system, proposed by the European Constitution has been rejected by the direct vote of the European citizens of France and Holland. Considering this, it must be mentioned that EU democratic deficit is a problem of communication and transparency. If the simple European citizen had more time to read the evaluation of his personal gain due to the creation of the EU, he would have a more opened position in front of the communitarian project. Not having an access to the academic media, magazines, books, conferences, the communitarian citizen selects from the mass-media the information that intrigues him. Most of the times, the media presents the negative part of things, respecting the criticising role it must have in the society. We will not read in the papers how impressed were the Romanian students that have visited Brussels because it is a news that does not sell!

The members of the European parliament expressed their opinions about EU's own resources in the latest Report of the Committee of Budgets, concerning the future of such resources, publicised on 11.01.2007.

The report starts from an actual legal basis: „the current Own Resources Decision of 29 September 2000 that entered into force on 1 March 2002, has as its main features: an own resources ceiling of 1.24% of the Union's GNI, an allowance for the Member States for their collection cost of traditional own resources of 25%, a maximum call-in rate of VAT of 0.50%, a value added tax base of the Member States restricted to 50% of their GNP (capping of the VAT base) and a rebate in favour of one Member State with exceptions for some other Member States concerning the financing of this rebate”. The proposal “calls therefore for a two-stage approach aiming, in its first phase, at an improvement of the current system of national contributions, for which the following political principles should be applied:

- Equality between Member States
- Simplicity of presentation for elected representatives and citizens alike
- Solidarity and equal dignity amongst Member States
- Establishment of a political link between a reform of revenue and a review of expenditure as it is already correctly included in the Interinstitutional Agreement
- Provisional and transitional character of the system, (...) and in the second one, it proposes principles “which have emerged in all contacts with national parliaments, as cornerstones for any future own resources system:
  - Full respect for the fiscal sovereignty of the Member States
  - Fiscal neutrality
  - No changes to the order of magnitude of the EU budget
  - Progressive phasing-in of the new system
  - Establishment of a clear political link between a reform of revenue and a reform of expenditure”

## 6. Conclusion

The conclusion of the project is extremely clear “the project reiterates that, in all contacts with the national parliaments of the Member States, a general consensus has emerged that the time for a genuine new European tax has not yet come; has chosen to respect this wish of an overwhelming majority of the Member States' parliaments and not to pursue this option for the time being. Stresses, however, the interest in examining the creation of a new system of own resources based on a share of a tax already existing in the Member States, the idea being that a certain percentage of an existing tax would be fed directly into the EU budget as a genuine own resource, thus establishing a direct link between the Union and the European taxpayers; underlines that this kind of solution would only mark a return to the principle laid down by the Treaty of Rome, whereby European expenditure has to be financed by European resources. In the same time it recalls that the candidate taxes most commonly mentioned for this purpose during the exchanges with the national parliaments are the following:

- VAT
- excise duties on motor fuel for road transport
- excise duties on tobacco and alcohol
- taxes on corporate profits”

In conclusion, the idea of sustaining an authentic European tax has more supporters in the “non-democratic” structures like the Commission than in the original European democratic forum- the European Parliament.

## 7. References

- [1] Cosmin Flavius Costas , *Jurisprudenta fiscala a Curtii de Justitie Europene*, in *Curierul Fiscal* nr. 1/2007.
- [2] Angela Miff, Ciprian Păun, *Dreptul Afacerilor*, Ed. Imprimeria Ardealul, Cluj-Napoca, 2006, p. 254-289.
- [3] Ion Deleanu, *Instituții și proceduri constituționale în dreptul român și drept comparat*, Ed. C.H.Beck, București, 2006, p.86-165.
- [4] Draft Report on the future of the European Union's own resources (2006/2205(INI)), 11.1.2007

# New Characteristics of Services within the Knowledge-based Society

PLUMB Ion

ZAMFIR Andreea

*Academy of Economic Studies, Bucharest*

*ionplumb@yahoo.com*

*zamfir\_andreea\_ileana@yahoo.com*

## Abstract

*The study investigates the main changes in characteristics of services within the knowledge-based society as compared to the industrial society. The findings of this study reveal an ambiguity in characterizing services and goods within the knowledge-based society. There is a “grey” zone, populated by tangible and/or homogeneous and/or separable and/or durable services, as well as intangible and/or heterogeneous and/or inseparable and/or perishable goods. The study was carried out by combining a wide variety of sources, such as research papers, literature reviews, conceptual papers and books. The results reported in this research may be used for designing new methods for the management of services so as to consider the changes in characterizing services.*

**Key words:** knowledge-based society, industrial society, characteristics of services, goods.

**JEL classification:** L80

## 1. Introduction

The evolution of society from an industrial society to a knowledge-based society determines conceptual transformations of services. Therefore, the aim of this study is to analyze the main characteristics of services in a comparative manner, both within the industrial society and within the knowledge-based society. The characteristics of services have a significant influence on the management of services due to the specificities of the managerial methods used. Our findings reveal an ambiguity in characterizing services and goods within the knowledge-based society. There is a “grey”

zone, populated by tangible and/or homogeneous and/or separable and/or durable services, as well as intangible and/or heterogeneous and/or inseparable and/or perishable goods.

The research was conducted using evidence provided by articles (such as research papers, literature reviews, and conceptual papers) as well as books. It has illustrated the influence of the knowledge-based society on the service sector by identifying logical connections between changes in society and changes in characteristics of services. The research question was answered by analyzing published sources, and by evaluating and interpreting evidence. Answering the research question was difficult, due to the variety of approaches, concepts, definitions, and classifications found in the literature.

## 2. Background

In the last decade, services became the main dynamic component of economic competition within developed countries. The broaden interpenetration and integration relations between the sector of services and other sectors of the economy and the growth of economic development opportunities through the extension of international transactions with services may be the main causes of the increasing role of services within national economies. Moreover, nowadays people often buy goods for the services that these goods are offering to them.

Within the industrial society the predominant conception on services is that services have a series of characteristics that allow for their identification on one hand, and their delineation from other fields of economic activity (especially from goods) on the other hand. Over many years, researchers have conceptualized a range of characteristics that

were considered to distinguish services from goods within the industrial society, having implications for management practice. However, these characteristics may not correspond with the new conceptions on services in a knowledge-based society.

The most common characteristics of services identified by several authors are intangibility, variability, inseparability and perishability [1, 2, 3, 4]. These characteristics will be further investigated in order to reveal how they were conceptually changed throughout the years and whether they are still relevant within the context of the knowledge-based society.

### 3. New characteristics of services

**The intangibility of services** means that a service is “an act or performance that cannot be seen or touched” [5], or tasted, felt, heard, smelt before purchase or even before consumption. According to [6] intangibility of services may be defined as “lacking the palpable or tactile quality of goods”.

As a consequence of intangibility clients cannot perceive or evaluate the services before consumption and therefore their confidence regarding those services is limited. Thus, the sale of services depends on the provider’s capacity to point out the visible parts of the services (e.g. personnel, equipments, prices, etc.). There are some factors that contribute to revealing the visible parts of services: (a) the environment in which the service is provided (for instance, in case of higher education the inadequate temperature in classrooms, the noise or the furniture design may significantly influence the students’ behaviour and attitudes); (b) the communications regarding the service (e.g. brochures, advertisements, advertising spots); (c) the price of the service, which more or less indicates the level of quality.

In recent times, scholars have questioned intangibility as a characteristic of services, considering it to be “an ambiguous and limited concept” [7] with “myopic and goods oriented” focus on manufactured output [6].

According to [7] intangibility seems to be linked to pre-purchase activities characterized by lack of clients’ experience with the service, but they argue that this could happen in the

case of some goods too. Also, during the delivery of many services the clients are experiencing through their senses some tangible performance activities.

In addition, other authors [6] criticize this characteristic of services on the basis that: (1) services often have tangible results, (2) tangible goods are often purchased for intangible benefits and (3) tangibility can be a limiting factor in distribution. Furthermore, they argue that “a more central weakness with differentiating services from goods in terms of tangibility is that the distinction represents the producer’s orientation, rather than the consumer’s, and thus what should be the marketer’s orientation” [6].

Intangibility does not characterize all services in all their stages of existence: “Although the concept of intangibility might sometimes remain useful – for example, in relation to the growing number of e-services – we conclude that it is not a universally applicable characteristic of all services during all stages from pre-purchase through delivery, consumption, and output” [7].

Moreover, due to the development of services and the increasing complexity of the economy, many goods require complementary services in order to be used, and conversely, there are services that require the existence of goods. According to [8] a company can offer to its clients: (a) a relatively simple, pure, unmixed good, the company’s offer being limited to a tangible good, with no service added (e.g., perfumes, detergents, etc.); (b) a good with more services added, in which case the company supplies a basic good that is complemented by several additional services (for example, a manufacturer of refrigerators offer the product and also warranty service, or transport service at home); (c) a service with other goods or services added, the offer being a basic service, supplemented by certain goods or services (e.g. airline service is made up of the basic service – transport, as well as more goods or services such as drinks, food, watching movies, listening to music, etc.); (d) a relatively simple, pure, unmixed service, in which case the offer consists of a single service, unaccompanied by another good or service (e.g., the service provided by a psychologist, the counselling service offered by a lawyer, etc.).

It should be noted that in their effort to

achieve customer satisfaction most companies nowadays tend to offer goods with services added, or services with other goods or services added. For example, a company that produces packaged foods (relatively distinct goods) may install telephone lines to inform customers and to offer them food recipes. As well, a lawyer who provides legal counselling (a relatively distinct service) can offer to its customers Internet access for the time waiting to be spent pleasantly.

On the basis of what has been revealed above we may bring to a close by saying that within the knowledge-based society it may be appropriate to maintain the concept of intangibility only for some services. To some extent companies offer products that are not tangible or intangible products, but different combinations of tangible and intangible outputs of their activity. Diversification of services has made the delineation of services from goods more difficult, and intangibility may be a characteristic for some goods too.

**The variability of services** may be encountered in the service literature as heterogeneity, differentiation, diversity, inconsistency, or non-standardization [7]. The term heterogeneity is used when [6] evoke this characteristic of services, defining it as “the relative inability to standardize the output of services in comparison to goods”. Variability suggests that “different customers require different types or levels of service in different situations” [5]. We note the (intentional) repetition of the word “different” that may have the role to emphasize the idea of change. The services cannot be identically repeated since their results depend on the time when they are provided, on the place where they are provided and on the service provider’s and client’s states of mind, dispositions, health, tiredness, etc.

This characteristic of services, irrespective of the name it is given in the literature (more frequently, heterogeneity or variability), is very much correlated with the concept of standardization. This concept came into view during the industrial revolution when mass production that characterized it required standardization in order to evaluate its quality. However, within the knowledge-based society many services may also be standardized, and this means that variability is no longer a reliable criterion to delineate services from

goods. The same output of a service (a mixture of standardized offerings) may be provided to several clients belonging to relatively homogeneous groups (market segments), and thus services are relatively standardized [6]. For example, a lecture may be considered a standardized, homogeneous service because it is identically provided to all the students present in the classroom. Nevertheless what each student absorbs is very heterogeneous because it depends on his/her capacity of perception.

On the other hand, scholars [6, 7] have lately emphasized the idea of replacing heterogeneity with customization on the ground that customization is more responsive to demand because clients may create the service package that best suits their needs by selecting services from a variety of standardized modules. For instance, mobile telecommunications service is standardized in design, but offers modules for customizing specific elements, such as alternative service plans on subscription (in case of voice services), alternative data service plans, different prices, etc. Similarly, banking services offer modules for customization such as different ways of performing operations (alternative channels transactions: phone, internet, front-desk), different bank accounts, different cards, alternative bill paying options, etc. As a result, variability or heterogeneity is no longer a distinctive characteristic that distinguishes all services apart from all goods.

**The inseparability of services** or the simultaneity of services is related to their production and consumption. It designates the simultaneous nature of service production and consumption, contrasting with the sequential nature of production, purchase and consumption that characterizes physical products [6]. The inseparability of services also means that customers are involved in the service mix [5]. For example, a taxi operator drives the taxi, and the client uses it, therefore the physical presence of the taxi driver and client are indispensable to provide the service. Also, the client must be physically present in order to use the services of a hotel, of a restaurant, or of a ski resort. Besides the fact that the client is physically present, he/she also interacts with the service provider. For instance, the patient communicates information to the physician, thus really



participating to the service providing. Furthermore, one can argue that the customer is always involved in the “production” of value, in the case of both goods and services [6].

In order to outline this participation of the consumer to the service production process and the transfer of work from the provider to the client, the term “coproduction” is used (the client is a coproducer in the case of many services) [7]. However, the generalization that inseparability is a distinctive characteristic of all services is criticized, arguing that “there is a large group of *separable* services that do not involve the customer directly, with the result that production and consumption need not be simultaneous” [7]. Examples of such “separable services” performed in the client’s absence are: laundering clothes (cleaning), repair and maintenance services, transporting freight, government services (defence, police, maintenance of infrastructure), banking, etc.

Regarding **the perishability of services**, we note that services tend to perish in the absence of consumption because their value exists only when they are required by the clients. Therefore, the services are forever lost if they are not required and used (consumed). The perishability of services means the relative inability to inventory services as compared to goods [6]. Perishability is “a multidimensional concept encompassing productive capacity, the producer’s output, the performance experienced by customers and the output they obtain from the service” [7].

The perishability of services as a general criterion to delineate services from goods has been questioned, as well as the other characteristics of services. Based on the fact that there are perishable tangible goods and long-lasting benefits resulting from many services, scholars state that “perishability in value potential is a characteristic of all market offerings rather than a characteristic disadvantage of services”. Furthermore, they emphasize that both tangible and intangible capabilities can be inventoried [6] and therefore “inventoriability (storage of output) is not (should not be) a normative goal for what are traditionally categorized as either goods or service firms”. They claim that “the normative goal should be to find ways to maximize the service flows desired by consumers while minimizing output inventory

and its limitations” [6].

Additionally, [7] state that there are some service performances and output that can be captured through recording and to be sold, replayed, and resold later. For example, performances of information-based services such as education, entertainment, music, information and news can be recorded on CDs, DVDs, or other storage media for later reuse and resale. However, this is only an exception to the rule that, generally, services cannot be stored and resold later.

We may conclude that the four “unique” characteristics of services have considerably changed during the past few years. Consistent with [9], “as the domain of services has expanded, the boundaries that define it have become more obscure. (...). Issues regarding the scope and the future of services persist”.

The new “delineation” of services from goods may be seen as the vagueness of the demarcation between these products. There is a “grey” zone, where we find tangible and/or homogeneous and/or separable and/or durable services, on one hand, and intangible and/or heterogeneous and/or inseparable and/or perishable goods, on the other hand. This ambiguity in characterizing services and goods has determined changes in types of services (for instance the emergence of high-tech services based on knowledge and information and communication technology) within the knowledge-based society. Knowledge-based services are delivered by highly educated and informed employees responding to specific, diagnosed customer demands by offering and delivering customized value-added solutions and relations.

#### 4. Conclusions and further research

This study has shown that the characteristics of services have changed within the knowledge-based society as compared to the industrial society. Within the industrial society the predominant conception on services was that services have a series of “unique” characteristics (namely intangibility, variability, inseparability, and perishability) that allow for both their identification and their delineation from other fields of economic activity (especially from goods). However, within the knowledge-based society the demarcation between goods and services is

blurring. There is a “grey” zone, populated by tangible and/or homogeneous and/or separable and/or durable services, as well as intangible and/or heterogeneous and/or inseparable and/or perishable goods. This conclusion is based on the premises that: (1) within the knowledge-based society it may be appropriate to maintain the concept of intangibility only for some services. To some extent companies offer products that are not tangible or intangible products, but different combinations of tangible and intangible outputs of their activity. Diversification of services has made the delineation of services from goods more difficult, and intangibility may be a characteristic for some goods too; (2) the variability or heterogeneity is no longer a distinctive characteristic that distinguishes all services apart from all goods; (3) the inseparability of services may be maintained as a concept only for some services, which are not separable services; and (4) the perishability of services is no longer valid as a criterion due to information-based services development.

Further research in this area could focus on investigating the changes in types of services that have appeared due to the ambiguity in characterizing services and goods. Another direction for further research could be to identify the opportunities and challenges for service providers within the knowledge-based society. We also suggest that research could focus on examining the changes in the

management of services due to the knowledge-based society.

## 5. References

- [1] Zeithaml, V. A., Parasuraman, A., Berry, L. L. (1985), “Problems and Strategies in Services Marketing”, *Journal of Marketing*, 49 (2), 1985, pp. 33-46.
- [2] Lovelock, C., Wright L., *Principles of Services Marketing and Management*, Upper Saddle River, NJ: Prentice Hall, 1999.
- [3] Kotler, Ph., *Marketing Management*, 11<sup>th</sup> Edition, Upper Saddle River, NJ: Prentice Hall, 2003.
- [4] Solomon, M. R., Stuart E. W., *Marketing: Real People, Real Choices*, Upper Saddle River, NJ: Prentice Hall, 2003.
- [5] McKee, D., Simmers, C. S., Licata, J. (2006), “Customer Self-Efficacy and Response to Service”, *Journal of Service Research*, 8 (3), 2006, pp. 207-220.
- [6] Vargo, S. L., Lusch, R. F., “The Four Service Marketing Myths: Remnants of a Goods-Based, Manufacturing Model”, *Journal of Service Research*, 6 (4), 2004, pp. 324-335.
- [7] Lovelock, C., Gummesson, E., “Whither Services Marketing?: In Search of a New Paradigm and Fresh Perspectives”, *Journal of Service Research*, 7 (1), 2004, pp. 20-41.
- [8] Zeithaml, V. A., Bitner, M. J. (1996), *Services Marketing*, New York: Mc Graw Hill, 1996.
- [9] Grove, S. J., Fisk, R. P., John, J., “The Future of Services Marketing: Forecasts from Ten Services Experts”, *Journal of Services Marketing*, 17 (2), 2003, pp. 107-121.

## Advantages and Risks Offered by Romanian to Foreign Investors

POPA Lucia - Ramona  
“Constantin Brâncoveanu” University of Pitești  
lucia\_ramona10@yahoo.com

### Abstract

*Romania a EU member state confronts with serious economic and social problems increased by the world economic crisis. Since the foreign investments represent the engine of economic development, the paper proposes to analyze the reasons which determines the foreign investors to make placements in different areas of the world and also the factors existing in Romania. The study makes use of the data base offered by specialty international publications such as World Investment Report, UNCTAD as well as by data offered by National Bank of Romania, National Statistics Institute, Romanian Agency for Foreign Investments.*

*The results of the study show that Romania represents interest to investors largely because of its natural resources and skilled workforce but remunerated by competitive prices, because of its fiscal advantages such as 16% taxation, and of advantages offered by the market and its strategically position.*

*The conclusions of the paper show that the solution of weak points, of so much necessary infrastructure of improving, the educational system as well as the adjustment of corruption and bureaucracy problems may determine the drawing of a larger volume of DFI which are vital for Romania in order to overpass the economic problems it faces nowadays.*

**Key words:** foreign investors, economic and social problems, Romania

**JEL classification:** G10

### 1. Introduction

The foreign investments have the role to complete and stimulate the local efforts of a state, sustaining the rise of competition, of

resource efficiency, of the assets and capabilities of that state.

The decision - making process in connection with direct foreign investments is based on the motivations it represents both for the economies of host countries as well as for the countries of origin, motivations which concentrate in the form of capital inflows, technology transfer managerial and administration survey creation of new working places, the increase of purchasing power, market diversification, the rise of profit and the consolidation of links with market economy.

The foreign investor has many possibilities of activity internationalization, but the chosen variant will be the one corresponding to his interests. The maximization of income from sales, the return maximization, the settling of the firm rate development and its continuous rhythm, the shareholders remuneration for their contribution to the productive process with an amount at least equal with resource opportunity costs and capacities they offer the company, the observance of management and employment interests, etc., all this determines the reasons for direct foreign investments.

### 2. The reasons for direct foreign investments

- The investors motivated by resources represent that category of investors who try to exploit certain production factors, at low costs with regard to those which might be got in the country of origin, a thing which makes them more profitable, more competitive.

The reasons for which they make investments are the existence of basic raw materials ( minerals and farming products, specific to producers belonging to processing

industry motivated by the low processing costs, but also by the necessity to assure a long-run supply sources; of a semiskilled and skilled workforce, as a rule they come from countries in which the expenses with the workforce are high, the aim being the export of semi-finished or finished products in their own countries or the sale on the local market of the host country or for getting high-technology, superior management and experience in marketing.

- Investors motivated on the market represent the category of those investing in a country or a region, other than the origin, with the aim to increase sales, either in the host country or in the neighboring ones. In this way the customs barriers, the growth impact and the importance of the respective market are removed, a thing which makes for an investor the production at the working place to be more efficient than the export. In general, this investment comes to replace the profitable exports got by corporations in some countries, in case of some import barriers (or of other nature) of the host countries.

Generally, the main reason of getting such investments is given by the market extension, its growing potential, the level of local demand for the products or services offered by the company, and last but not the least by the importance of the role and place held by this in the market portfolio of the company.

- Investors interested in efficiency may appear when the company places parts of its chain of added value in different countries, with the aim of rising global probability. This motivation is specific to mature corporations whose production is standardized, which have production experience in different locations and the capacity to exploit opportunities resulting from cost and price difference among countries.

The expenditure of corporations through this form of direct foreign investments presupposes, in the main, the development through foreign units of production, marketing, research, finance, transport and purchasing activities. In each of these domains there are important competitive advantages which the company can develop through operations in the country of origin and on the international markets, the process

presupposing international specialization. As regards the marketing activity, the multinational company will extend activities to use the most efficient promotion channels, to create and reinforce the identity of a brand, but also to establish distribution, of the service system, etc.

The financial activity will extend depending on the access level to financial instruments and to the capital sources, on the international capital markets, the Eurobond and shares included. The purchasing activity is done by taking over the raw-material suppliers, with the aim to diminish costs and to keep the position on the market. The research-development activity instead is done in most cases in the country of origin and it is very difficult to move it in other countries because of reticence and lack of trust to foreign markets.

Through investments motivated by efficiency, the corporations also follow the risk diversification, an objective which, as a concept, integrates in the theory of financial diversification, of CAPM (Capital Asset Pricing Model) model which, in case of direct foreign investment takes the form of systemic risk, specific to the organization connected with the business environment of the origin country of the multinational firm. By the diversification of activities beyond the frontier, these can be achieved a reduction of the risk peculiar to the firm. In the same time, the profits of a country can be negatively correlated with the profits of another country, and an investor can get a greater stability as regards profitability, by diversifying its portfolio and by investments done in different countries.

Diversification is the motivating force of international investments looking for efficiency, allowing the spreading of risk at corporation level. More than that, the managerial strategy of international diversification has in view the risk diminution associated to the income of the respective firm components, by making investments in economies being in different stages of the development cycle, having as a final goal the prevention from major exposure to recession which may affect the mature economies.

- Investors motivated by strategic assets represent the category of investors who make DFI with the aim to get assets of some firms in order to promote the strategic objectives on a long term and especially to assure competitiveness on international level. They follow:

- to add new assets to the existing ones in order to enforce their position on different markets:

- to increase their profits by gaining new markets and research-development centers ( to diminish the transaction costs, to increase flexibility and to share risks).

By this type of investments, the integration of international production takes place by localizing any component of the chain of added value which can contribute in a large extent to the corporation profitability. In this stage, the corporations have the tendency to concentrate more on the function of deep knowledge in the detriment of the production functions which by means of more independent forms like: licensing, management contract, subcontracting, etc., are spread at international level.

Some companies are totally drawn back from production, letting it go under the contract producers. Their aim is innovation, a fact for which they can make mixed arrangements with competitors, suppliers, customers or with the large research laboratories or universities.

Romania, an EU member state confronts with many economic and social discrepancies as compared with the other member countries. Even if in the period 2004- 2008 it drew a large volume of foreign investments, they do not represent the potential and need of Romanian economy for investments in technology, management, knowledge.

### **3. The main factors which draw foreign investments in Romania**

Advantages due to resources:

- skilled work force, whose level of wages is inferior to the average of European Union, who have solid knowledge of foreign languages, technology, IT, engineering, etc.

Since the wages are 2.5 times lower and productivity is only 0.5 times lower than in the neighboring countries, Romania can become

in the following years the source of growing efficiency for great investors, who concentrate more on costs reduction.

According to some studies in sociology, the workforce is potentially adaptable to the changes in professional environment and able for an intense regime if it is offered motivations and incentives, by using training programmes it can reach a level of productivity similar to those of EU. Another advantage is the tradition in certain sectors such as wood processing, food industry, textile industry, civil works, machine building;

- rich natural resources, shallow and under- ground waters included, fertile farming fields, oil and natural gases ( petrol, coal, different metaliferous and non – metaliferous minerals- Fe, Cu, Pb, salt), which offer investors the possibility to associate with partners or local firms. Another advantage is that of raw material reserves for certain economic sectors such as wood processing and civil works;

- significant touristic potential of the Romanian Carpathian mountains both for their display on a third of the country area of 66.303 kms, and for its central position, its general configuration and altitude, imposes as a basic component in the geographic and landscaping structure of Romania. The Carpathians also enlist as importance in touristic activities with their tourist variety and potential: going hiking, having a rest, winter sports, climbing, hunting and fishing, nautical sports, balneotherapy;

- Economic advantages:

- economic growth in the period 2004-2008;

- decreasing evolution of inflation level;

- growing interest of foreign investments – main destination of DFI flow in the region (source: Ernst & young, SEE Attractiveness Survey – South East Europe: An Emergent FDI Destination in Europe, April, 2008);

- a sound fiscal policy (16% corporation rate). Unique tax quota presupposes the same taxes both for natural person and for companies, therefore a system of correlated taxation, with a unique tax quota, for all kinds of income from different activities. The success of this rate depends on its level i.e. the lower it is the more efficient its collection. Beginning with 1 January 2005 all taxes

become 16%- taxes on global income, on banking interest, stock exchange gains, but also estate taxes from firm and private transactions;

- Romania was among the first EU member countries that passed to the European unique tax quote;

- Political advantages:

- stability factor in the region – Romania being a NATO member country;

- stability guarantee in South- East Europe;

- EU member status from 2007. The quality of European Union member is necessary and beneficial for the political and social stability in which an investor decides to start a business. The accession to EU is associated with the increase of direct foreign investments due to predictable level, legislative stability and last but not the least to the continuous decrease of financing costs. The status of a member state brings some more trust for both local and foreign investors. In the same time the European accession brings beneficial effects on SME such as: a better access to markets, competition increase, the improvement of legislation and regulations, access to new technologies and a better cooperation to innovation, access to structural grants and also more correct acquisition procedures;

- Advantages resulting from international relations:

- bilateral agreement concluded by Romania with other states regarding the mutual promotion and protection of investments;

- bilateral diplomatic relations with 177 states out of 191 UNO member states, to which are added: the Holy Chair, the Sovereign Military Order of Malta and the National Palestinian Authority;

- member of United Nations and of other international organizations: OSCE, the European Council, the International Francophone Organization;

- the conclusion of free trade treaties with UE, EFTA, CEFTA countries;

- member of World Trade Organization (WTO) beginning with January 1995.

- Advantages offered by the market and geographical position:

- Romania is one of the largest Central East and East market (7 place, with a population of over 21 million inhabitants);

- access gate to the unique European market (about 500 million consumers);

- attractive location – situated at the crossroads between the European Union, Balkans and CIS, Romania is crossed by three important pan European corridors; corridor no.4 which connects West to East Europe; corridor no.9 which links the North and the South of the continent and corridor no.7 which facilitates the navigation within Europe.

- Legislative advantages:

- fiscal policy regulated by Fiscal Code;

- legal provisions similar to those of EU (the implementation of Community Acquis); the juridical frame is competitive as compared to the frame existing in competitive countries in the region and which regulates the fiscal incentives and the encouraging policy of the great investment projects;

- Other advantages:

- mobile phone networks in well developed GSM systems;

- well- developed industrial infrastructure, petrol and petrochemical industry;

- the existence of international bank branches and agencies;

- facilities offered by sea and river navigation.

Investment interest is also influenced by other factors such as political stability, the unitary character of the state, the Romanian culture and civilization, the Latin origin of the language the same with other four important European countries (France, Portugal, Italy, Spain);

There are some rigorous principles lying the Romanian legislation which regulates the regime of capital foreign investments:

The liberty of juridical forms and of the ways of making investments. By this principle the foreign investors are guaranteed the free choice of juridical forms of investments, by observing the legal provisions and also the type of contribution to the capital of trading company (cash or in kind);

Free access to all sectors of Romanian economy, investors can freely choose the type of activity they will undertake in Romania, taking into consideration the regulations which

settle the way of getting license and State monopoly for certain activities;

Equal treatment for Romanian and foreign investors, either resident or not.

The natural and juridical persons who invest in Romania benefit from equal treatment, regardless their nationality, office or house. The non-resident persons investing in Romania benefit from the right to transfer abroad their income, without any restrictions, after having paid taxes and duties provided by law, according to customs regulations.

Investment protection against nationalization, expropriation or other similar measures.

Investments made in Romania cannot be nationalized, expropriated or have other similar measures, except the cases in which such a measure meets cumulatively the following conditions: they are necessary for public utility, they are undiscriminating, they develop according to law provisions, they are made by paying previous, adequate and effective damages;

The guarantee of rights and facilities. In order to encourage investments, there are provided some fiscal and customs facilities in accordance with European legislation and practice.

Nevertheless Romania meets difficulties in drawing foreign investors, as our country has to recover a very high difference from the rest of European countries in infrastructure because out of about 80.000 km of net roads, only 20% represent the national roads. As regards the railway infrastructure, it can reach the European standards over ten years because investments in this sector have not been made any more.

The bureaucracy existing by counter queues and the run from one counter to another, the window pane between the citizen and the office worker, insufficient transparency and also the poor development of private public partnership, represent another problem still unsolved by the Romanian State.

The fluidity of bureaucratic mechanisms, the eradication of corruption but also the legislative and financial stability – all these are problems the foreign investors confront with.

Beside this there are a series of risks the foreign investors face with: the emigration of skilled work force, legislative instability, lack of credibility of business environment, the

suppression of many research centers, generalized corruption, the formation of a extremely high rate of unemployment which might lead the national economy to bankruptcy.

#### 4. Conclusions

Romania needs a significant volume of foreign investments in order to solve the social and economic problems emphasized by the world crisis and to reduce the difference from the other EU member states

Although the size of the internal market and the costs of production factors are the main motivations of multinational companies to invest in Romania, an ever greater attention is paid to a stable economic and political environment, to the quality of governmental institutions, to the transparent juridical system, to the level of access to information and to the infrastructure level of development.

#### 5. References

- [1] Korten David, *Corporațiile conduc lumea*, Ed. Samydat, București, 2003.
- [2] Matei Mirela, *Investițiile străine directe, funcții și evoluții 1990-2000*, Ed. Expert, București, 2004.
- [3] Mazilu Anda, *Transnaționalele și competitivitatea. O perspectiva est-europeană*, Editura Economică, București, 1999.
- [4] Moise Elena, *Investiții străine directe*, Ed. Victor, București, 2005.
- [5] Munteanu Costea, *Investițiile străine de capital*, Ed. Oscar Print, București, 1995.
- [6] Munteanu Costea, Horobeț Alexandra, *Finanțe transnaționale: decizia financiară în corporația modernă*, Ed. All Beck, 2003.
- [7] Negrițoiu Mișu, *Rolul investițiilor străine în strategia națională de dezvoltare economică*, Ed. ASE, București, 1999.
- [8] Rujan Ovidiu, Pârgaru Ion, *Economie internațională*, Ed. Economică, București, 2004.
- [9] Krugman, Paul R., *International economics: theory and policy*, Pearson, Addison - Obstfeld, Maurice Weslez, 2005;
- [10] Pike Richard, Weal Bill, *Corporate finance and investment: decisions and strategies*, Prentice hall, 2003.
- [11] Caballero Ricardo J. & Krishnamurthy Arvind, "Global Imbalances and Financial Fragility",

National Bureau of Economic Research, Inc, NBER Working Papers, nr. 14688, 2009.

[12] Fama Eugene; French, Kenneth, "The Capital Asset Pricing Model: Theory and Evidence", Journal of Economic Perspectives, 18, 2004.

[13] Ozturk Ilhan, "Foreign Direct Investment – Growth Nexus: A Review of The Recent Literature, Euro-American Association of Economic Development, International", Journal of Applied Econometrics and Quantitative Studies, 2007.

[14] Index of Economic Freedom, The Heritage Foundation, The Wall Street Journal, New York, 2008.

[15] Research Reports 352, The Vienna Institute for International Economic Studies, Austria, December, 2008.

[16] UNCTAD, World Investment Report: Transnational Corporations and the Infrastructure Challenge, New York and Geneva, 2008.

[17] UNCTAD, World Investment Report: Transnational Corporations and the Infrastructure Challenge, New York and Geneva, 2009.



# The Impact of Direct Foreign Investments on the Economic Growth in Romania

POPA Lucia - Ramona  
„Constantin Brâncoveanu” University of Pitesti  
lucia\_ramona10@yahoo.com

## Abstract

*In the actual context of world economy, the foreign investments tend to become, beside the resources of each country, the main financing and stimulating source of economic development.*

*The foreign investments represent a way by which, in the economy of host country it is introduced the behaviour specific to the market economy and where an improvement of production factors quality takes place. The present paper tries to analyze the foreign investments contribute to the growth of Romanian economy.*

**Key words:** foreign investments, economic growth, Romania

**JEL classification:** G10

## 1. Introduction

The foreign investments strongly influence the economy of host country with implications whose effects are felt regionally and globally.

The amplitude of foreign investments propagates effects in all the economic, financial, social, natural, scientific, educational, environmental, etc fields, as well as in the domain of juridical relations, of international relations and cooperation among states. The problem of direct foreign investments influence on the host country is not only delicate but also questionable, due both to various possible effects and to the possibility of generating positive or negative effects, depending on the DFI flows and on the real conditions existing in the receiving country.

From conceptual point of view the positive implications at macroeconomic level refer mainly to the fact that foreign investments

sustain the economic growth, a fact which may be attained differently, depending on the form the direct foreign investment takes. When the investment is made „on an empty place” the economic growth is due to the creation of new productive capacity, additional working places, to the tax payment. When participating in privatization, the positive effects appear when the activity of the economic agent is effective and his competitiveness rises, thus allowing the survival of the private organization on a long term.

The effects generating welfare are: the accelerating growth of GNP and GDP, the development of a certain type of performant technology, the assurance of a competition increase, the income raise to social domains, the improvement of means to protect the environment, the keeping of cultural and traditional identity.

The welfare distribution mostly depends on foreign and domestic firms strategies, on the microeconomic and macroeconomic position, on the government policies used by any host country.

## 2. Theoretical aspects

The bidirectional relation between direct foreign investments and the economic growth is due on the one hand, on their impact on the economic environment in each country and on the other hand, on the positive influences which the sustainable economic growth has on the received foreign capital flows. According to the specialists in the field, for a given country, the periods of intense economic growth are characterised by drawing some important direct foreign investment flows.

In the same time, the investments (inland and foreign) represent an essential factor al economic growth, the modals elaborated in this way (the best known being of R.F.

Harrod) reflecting the real functional relation between the accumulation rate and the growing rhythm on the national income, by means of the capital rate. There should not be neglected the fact that the potential positive impact of DFI drawn in a certain country on its economic growth must be considered through the light of redistributing GDP of the implanting country to the benefit of the investing transnational companies.

Therefore on the background of an increased globalization sustained by the internationalization and diversification of production, the transnational companies achieve abroad greater added value than in the country of origin, as a result of lower production costs.

Many foreign companies which make investments in the developing countries have in view the low costs of production factors in order to have an increased efficiency. Thus with the same selling price of the end products the added value of the production achieved abroad includes a greater profit than the one obtained in the country of origin of the transnational companies, so that by the DFI made, these companies may be a factor of redistributing GDP in the host countries.

In a survey published during 2000, Robert Lipsey submitted the results of a regression analysis that targeted a country's economic growth over a period of 5 years, by making use of the following economic indicators:

- Investment rate in GDP ( INV);
- Real GDP growth rate ( ROG);
- FDI inflows as percentage in GDP ( FDI);
- Modification of the labor force occupation rate (PART);
- The level of education at the beginning of the period ( SCH);
- Modification of the prices in the analysed country as compared with the international prices (PR);
- Real GDP/ capita level as compared with the one registered in USA at the beginning of the period (RGDP/ US).

The researcher used the following relation between the above mentioned indicators:

$$ROG(t)=f[ROG(t-1),INV(t-1),FDI(t-1),SCH(t),PART(t),PR(t),RGDP/US(t)]$$

The conclusions of the research have been, in essence, the followings:

1. The impact of the FDI inflows received during the previous years over the economic growth rate is elusive, mainly due to the fact that the foreign direct investments effects intermingle with those of the other economic growth factors;

2. A significant FDI impact over the economic growth has been observed into combining the foreign direct investments and labor force education.

Although the FDI impact over the economic growth is elusive and difficult to quantify, practice showed that in most cases, there is a positive relation between the inward foreign direct investment stock and real GDP growth rate that strengthens even more as the inward FDI stock and the real GDP gets bigger. Generally experts consider that FDI significantly influence the economic growth of the receiving country the moment the value of this indicator exceeds the 40% level.

Companies achieve foreign direct investments in order to capitalize in a more money-making manner the own advantages that

Dunning referred to as ownership or competitiveness advantages. Ascertaining that holding these advantages implies a minimum development level of the source countries John Dunning analyzed the FDI inflows from the dynamic point of view, trying to serve an explanation for the alteration foreign direct investment level and structures received and engendered by a country, as per the economic level.

John Dunning initiated the concept of Investment Development Path. According to this theory (Dunning and Narula), the countries run through five development stages, starting from an infant stage associated to pre-industrialization and ending with the final stage, typical for the well developed countries.

During the first stage, the inflows and outflows of foreign direct investments are almost absent as the local market is more reduced, the infrastructure is not adequate, the labor force is not prepared, and legal framework is hardly developed.

During the second stage, countries develop certain location advantages owing to the infrastructure, resources improvement and the internal market growths. Consequently it is registered an increase of foreign direct

investment inflows, especially in the traditional branches of the processing industry and in the intensive branches in terms of labor force as well as in constructions, distribution and commerce. During this stage we assist at a more rapid increase of the inward FDI stock than the GDP.

The third stage is characterized by a less spectacular growth of the FDI inflows which are overcome by the foreign direct investment outflows, being specific only to those countries that have managed to create a stable legal system and a physical and commercial satisfactory infrastructure. Consequently for the first time, it has been registered an increase of the net outward FDI stock, though it may be the case for negative values to appear.

The powerful companies shall become more competitive and shall involve in resource capitalization investments (in less developed countries) and assets or market capitalization (in developed countries). At this stage the government has a very important role as it can support the local companies in generating some competitive advantages as well as their capitalization by means of foreign direct investments.

The fourth stage characterized by the prevalence of the output foreign direct investments as compared to the received ones, is specific only to those countries that targeted a certain degree of economic maturity. The localization advantages are given especially by the created production factors and the ownership advantages are mostly the result of the scattered assets coordination and organization from the geographical point of view. The transnational corporation are more inclined to internalize commerce and production.

During the fifth stage the outward and inward foreign direct investment stock is very high the net position being almost zero. At this investment development stage, the competitiveness is no longer accurately reflected by the absolute GDP value, but by the net outward investment position.

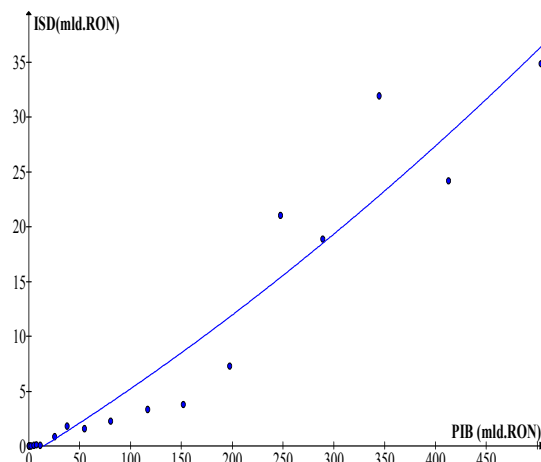
According to this theory, the Investment Development Path varies from one country to another as per the economic growth level. In the beginning, the FDI inflows prevail, being directed towards resource-based industries or towards a low/medium level of knowledge. Further on the foreign direct

investments outflows prevail and the received FDI move towards industries intensive in technologies and knowledge.

### 3. The impact of direct foreign investments on the economic growth

In order to identify the received DFI influences on the Romanian economic growth, we will analyse the correlation between GDP (billion RON) and the DFI flows drawn (billion RON) in the period 1990-2008.

Figure 1 Correlation GDP-DFI in the period 1990-2008 (billion RON)



Source: INS, BNR

If up to 1999, there cannot be identified a correlation between the received direct foreign investment flows and the gross domestic product, because of the low levels of foreign capital input concretized in a low rate of DFI stock in GDP, respectively 8.28% (1999), beginning with 2000, the Romanian economy has entered an ascending line registering an increased economic growth, at rates between 32.13% in 2000 as compared with 1999, of 20.19% in 2004 as compared with 2003, of 16.16% in 2006 as compared with 2005 and of 18.09% in 2008 compared with 2007.

In the same time, there were also received important DFI flows, with rates between 28.8% in 2000 as compared with 1999, of 65.25% in 2004 as compared with 2003, of 40.83% in 2006 as compared with 2005 and of 30.55% in 2008 compared with 2007, Romania becoming the greatest receiver of

foreign capital in the South-East Europe, alongside Bulgaria.

The correlation analysis confirms the bidirectional relation between direct foreign investment flows draw in a country and its economic growth. Beginning with 2000, in the Romanian economy becomes manifest the favourable impact of direct foreign investments on the economic growth which, in its turn, has produced a significant increase of foreign capital input.

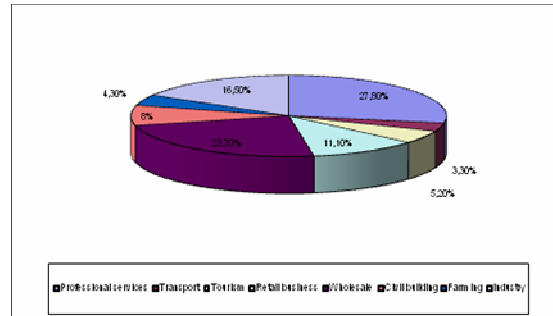
Even if the DFI stock as a ratio in GDP does not exceed th level of 40% considered by some specialists necessary to register a significant impact, the firms which were set-up as a result of direct foreign investments have become, in time, one of the engines of the growth of Romanian economy, positively and significantly influencing the gross domestic product achieved beginning with 2000.

The Romanian economy destabilized by massive investments in huge objectives, great energy consumers, suddenly passed from a centralised economic and political system to a transition period lacking clear objectives and human resources professionally trained to build a new system based on the principles of market economy.

As regards the input of foreign investments, they do not express the Romanian potential, having low rates compared with other neighbouring countries, the highest values being registered in the period between 2004-2008 and the lowest in the period between 1990-1996. As regards the investment output in Romania, they were insignificant.

If we analyse the structure on the fillds of activity of the number of commercial units with foreign investment to social capital we notice that the professional services in the retail business and industry have the greatest number of companies while in agriculture, transport and civil building the least.

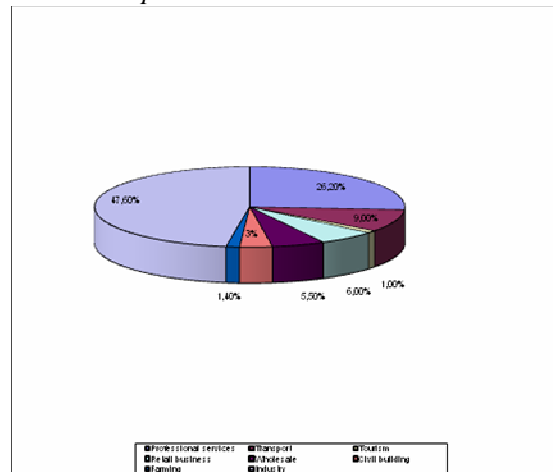
Figure 2 The structure on fields of activity of companies with foreign investment to social capital, during 1991- December 2008



Source: Business units with capital foreign investments, Sinteza Statistica no 131, Romania Chamber of Commerce and Industry and of Bucharest Country, Buc. 2009

As regards the structure on fields of activity of the value of foreign capital subscribed by companies with foreign capital investment, between 1991 and December 2008, we notice that the industry and professional services registered the greatest values but in civil building, tourism and agriculture the lowest.

Figure 3 The structure on fields of activity of social capital value subscribed by business units with foreign capital investment, in the period 1991- December 2008



Source: Business units with capital foreign investments, Sinteza Statistica no 131, Romania Chamber of Commerce and Industry and of Bucharest Country, Buc. 2009

According to data of the Chamber of Commerce and Industry in the period 1991-2008 the greatest foreign investments depending on region of economic development were registered in Bucharest, Ilfov, North-West and West of the country, and as regards the countries in the Bucharest Country, in the Timis Country in Cluj and in Prahova countries.

*Table 1. Trading company with foreign capital investment and the value of total social capital subscribed on regions of economic development*

REGIONS OF ECONOMIC DEVELOPMENT	NUMBER OF TRADING COMPANY*	TOTAL CAPITAL SUSCRIBED IN RON	TOTAL CAPITAL SUSCRIBED IN USD	TOTAL CAPITAL SUSCRIBED IN EURO	HIERARCHY	
		The value of total social capital subscribed **			*	**
ROMANIA	166728	78730295	33915262.8	25236251		
NORTH-WEST	7281	4460881.2	1743919.6	1248455.2	7	7
SOUTH-EAST	9653	5999011.8	2092494.9	1497996.9	5	3
SOUTH MUNTENIA S-V OLTENIEI	7713	7829599.8	2454882.7	1757426.8	6	2
WEST	18665	6317648.7	2498239.2	178865.3	2	4
NORTH-WEST	18617	5187800.4	2244324.2	1606690.1	3	5
CENTRE	17041	6861131.7	2764922.9	1979381.6	4	6
BUCUREȘTI-ILFOV	83317	38463695.0	18813916.5	14425343.2	1	1

Source: Business units with capital foreign investments, Sinteza Statistica no 131, Romania Chamber of Commerce and Industry and of Bucharest Country, Buc. 2009

Most of foreign investments are achieved in the countries having an important activity as regards production, commerce, services and building works.

#### 4. Conclusions

Since a sustainable economic growth is possible only under the conditions of a harmonious development to include all the regions of the country, the diminution of regional differences, even through the sharing of foreign capital should represent a real priority of decisional factors. In this way, the first steps should aim at some main directions:

- a more active involvement of development agencies and of the agency for foreign investments (ARIS) in the promotion of the country regions as investing areas by elaborating concrete projects and by identification of potential foreign investors. The drawing of foreign investors through real

projects which have in view the specific character of the area and its maximum taking into account of its potential, especially in the underdeveloped areas as regards the economic development, might contribute to the decrease of regional differences;

- the significant growth of absorption level of European funds and their efficient use, which might generate a development of physical and institutional substructure with a positive impact on the drawn DFI flows;

- a more efficient use of EU policy as regards the state assistance, even that referring to foreign and inland investments, by eliminating aids of „saving- restructuring” type and their direction mainly to the objectives which have in view the long- term benefit effects such as: regional development, the development of innovation, research and development activities, the raise of workforce training level, sustainability of small and medium enterprises which are the backbone of an economy.

A greater contribution to the Romanian economic growth can be attained by drawing a greater amount of DFI to be directed not only to the speculative sectors such as retails or estates but to sectors to produce a sustainable development such as innovation and high technology capable to generate export competitiveness. In the same time, once the direct foreign investments will be accumulated in significant stocks, the business companies which will become the engine of the economy, positively influencing the country gross domestic product.

#### 5. References

- [1] Florea Staicu, Dumitru Pirvu, Maria Dumitru, Marian Stoian, Ion Vasilescu, Eficienta economica a investitiilor, Editura Didactica si Pedagogica, R.A., Bucuresti, 1999.
- [2] Ioan Denuta, Investitiile straine directe ( in tarile est si central-europene), Editura Economica, 1998.
- [3] Ion Vasilescu, Alexandru Gheorghe, Claudiu Cicea, Catalin Dobra, Eficienta si evaluarea investitiilor, Editura Eficon Press, .1998
- [4] Frank K. Reilly, Edgar A. Norton, Bernard J. Hank, Investments- Seventh Edition, Editura Thomson South Western, 2006.
- [5] Munteanu Costea, Horobeț Alexandra, Finanțe transnaționale: decizia financiară în corporația modernă, Ed. All Beck, 2003.

[6] Negrițoiu Mișu – Rolul investițiilor străine în strategia națională de dezvoltare economică, Ed. ASE, București, 1999.

[7] Rujan Ovidiu, Pârgaru Ion, Economie internațională, Ed. Economică, București, 2004.

[8] UNCTAD, (2009), World Investment Report: Transnational Corporations and the Infrastructure Challenge, New York and Geneva., 2009.

[9] Romania Chamber of Commerce and Industry and of Bucharest Country- Business units with capital foreign investments, Sinteza Statistica no 131, București, 2009.

## Cross-cultural Negotiation: Cultural Assumptions and Social Expectations

ROGOVEANU Raluca –Nicoleta  
„Ovidius” University of Constanta  
ralu\_ionita@yahoo.com

### Abstract

*In any cross-cultural context, the potential for misunderstanding is great since the process of negotiation is always influenced by new behavior and social environments. The difference between international negotiation and domestic business negotiation lies in the fact that the former is influenced by a wide diversity of environments. This article analyzes the main cultural systems that condition the planning and the development of cross-cultural negotiations (communication-related factors, protocol issues) as well as the common obstacles that prevent international negotiations from achieving full success. Such factors require changing perspectives that determine the selection of appropriate tactics and strategies of the negotiations to be adopted since what is right, reasonable, or appropriate are parameters largely dependent on the cultural values of the country in which the act of negotiation takes place.*

**Key words:** cross-cultural, negotiation, cultural differences

**JEL classification:** F50, F51

Negotiation is the process by which at least two parties attempt to reach an agreement on matters of mutual interest. Negotiations involve two elements: the substance of negotiation as such and the process. The latter is irrelevant when negotiations are conducted within the same cultural setting. Only when dealing with someone from another country, with a different cultural background does process usually become an obstacle to matter to be negotiated; this becomes more evident in intercultural negotiations, when cultural differences must be bridged. When two people communicate, they rarely project the same

type of “reality “by means of their words, since effective meaning is determined by each person's own cognitive and cultural conditioning. Culture influences negotiation in three four ways: by determining one's perception of reality; by dismissing information inconsistent or unfamiliar with culturally accepted notions; by projecting meaning onto the other party's words and actions.

The negotiation process is an interplay of perception followed by information processing and reaction, all capitalizing on implicit assumptions regarding the issue being negotiated, and on an underlying matrix of conventional beliefs and social expectations.

It is naive indeed to start an international negotiation with the simplistic assumptions that "after all, people are quite alike everywhere and behave much as we do." (see Hendon & Hendon 23). Despite many similarities in term of language preference and clothing style, there are innumerable other elements that dissociate people from different cultural backgrounds. Consequently, the effective negotiation style used at home can be thoroughly inappropriate when dealing with people from other cultures. Heightened sensitivity, more attention to detail, and perhaps even changes in basic behavioral patterns are required when working in another culture.

In some cultures, the attention of people is directed more toward the specific details of the agreement (documenting the agreement), while other cultures may focus on how the promises can be kept (process and implementation). Americans negotiate a contract; the Japanese negotiate a personal relationship. [...]American and Russian people are not similar; their ethical attitudes do not coincide: they evaluate behavior differently. What an American may consider

normative, positive behavior (negotiating and reaching a compromise with an enemy), a Russian perceives as showing cowardice, weakness, and unworthiness; the word "deal" has a strong negative connotation, even today in contemporary Russia. Similarly, for Russians, compromise has negative connotation; principles are supposed to be inviolable and compromise is a matter of integrity. The Russians are not alone here: a Mexican will not compromise as a matter of honor, dignity, and integrity; likewise, an Arab fears loss of manliness if he compromises. (Hendon & Hendon 45)

Nations tend to develop a "national personality portrait" that influences the types of goals and processes the society pursues in negotiations. In international negotiations, you bring to the negotiating table the values, beliefs, and background interference of your culture which guide our presentation and interpretation of the data. Cross-cultural negotiators bring into contact unfamiliar and potentially conflicting sets of categories, rules, plans, and behaviors. Difficulties sometimes arise from the different expectations negotiators have regarding the social setting of the negotiation. These patterns can encompass styles of decision making (the way officials and executives structure their negotiation communication systems and reach institutional decisions) and logical reasoning (the way issues are conceptualized, the way evidence and new information are used or the way one point seems to lead to the next, paying more attention to some arguments than others, giving different weight to legal, technical, or personal relations). (see Hendon & Hendon 51)

A negotiating style is deeply embedded to a cultural system, being therefore shaped by each nation's culture, geography, history, and political viewpoints. A successful negotiation should start from acknowledging the sense of difference of the members gathering round a table. Unless one is willing to be empathic so as to see the world through the other's eye, one may never become a sophisticated negotiator. Even so, no one can avoid bringing along his or her own cultural assumptions, and prejudices into a negotiating situation. The way to succeed in cross-cultural negotiations is by fully understanding others, and by using that understanding to one's own advantage to realize what each party wants from the

negotiations, and to turn the negotiations into a win-win situation for both parties.

A negotiator is able to communicate, to understand, to plan, and to anticipate more effectively when he is familiar with the other party's cultural background. In intercultural context, preparation includes reading about the history and customs of the country in question and discussion with others who have had experience dealing with citizens of the foreign country. The focus of these preparations should be on culture rather than on language. Armed with flexibility and with intimate knowledge about the "other" culture, the negotiator should be careful in avoiding irritating things. Although planning is crucial, implementation is even more important, as even the best laid plans often go wrong.

The most common obstacles in cross-cultural negotiations are: (see Frank 1992):

Insufficient understanding of different ways of thinking.

Insufficient knowledge of the host country--including history, culture, government, status of business, image of foreigners.

Insufficient recognition of political or other criteria.

Insufficient recognition of the decision-making process.

Insufficient understanding of the role of personal relations and personalities.

Insufficient allocation of time for negotiations.

Over two-thirds of U.S.-Japanese negotiation attempts fail, even though both sides want to reach a successful business agreement (The U.S. Department of Commerce estimates that for every successful American negotiation with the Japanese, there are twenty-five failed efforts.) This is illustrative of the fact that barriers to a successful agreement are of a cultural nature rather than of an economical or legal nature. Each side understands facts from its own ethnocentric background and experience, and neither side is fully aware of why a resolution could not be reached. Yet, it is precisely this ignorance concerning the culture of "the other" and the "unnatural" expectations of the other side that hinders effective negotiation.

In cross-cultural negotiations, many of the skills which are guaranteed to make for an ideal negotiator within the confines of his



native country may prove worthless or unacceptable in alien cultural settings. The stereotypical image of a successful European and American negotiator is that of a persuasive communicator, highly skilled in debates, able to overcome objections with verbal flair. Yet, these valuable assets may be regarded by members of other cultures as unnecessarily aggressive, superficial, insincere, even vulgar and repressive. To the Japanese, those very same traits indicate lack of confidence in one's convictions and insincerity. Instead, terms such as thoughtful, cooperative, considerate, and respectful are the "must have" traits in the Japanese and many Asian cultures.

The two business negotiators are separated from each other by a different way to perceive the world, to define business goals, to express judgment and affection, to show or hide expectations and interests.

A good negotiator should never take things for granted, nor should he imagine the outcome of a bargaining as determined by a fixed set of unalterable circumstances. His realism should be proven by his endeavor to "reinvent" the balance of forces, in a permanent attempt to have precedence over his interlocutor. His flexibility should not dismiss a firm position and he must distinguish between situations where it would be disastrous to make a threat and from others where it is essential to be slightly more aggressive. Sophisticated negotiators know that the best deal is one that is good for both sides. If the agreement is mutually beneficial, both sides are stimulated to maintain it. It is better to recognize the possibility of renegotiation at the outset and set down a clear framework in accordance with which to conduct the process. In short, the successful negotiator must envisage the possibility of redoing the deal, while still controlling the process.

A successful negotiator is eager to note to the distinctive qualities of the people with whom he is negotiating. He has to appreciate the meaning of their actions so as not to mislead or be misled by them, and to make his own points in a way that promotes advantageous outcomes. Effective negotiators operate as detectives searching for clues to the values and interests of their counterparts. They avoid assumptions about partner concerns;

they look for what does matter to the partner rather than what should matter. Other attributes of a successful, complete negotiator include: having outstanding communication skills; being persistent; having flexibility, tact, open mindedness, subject knowledge; being willing to take risks; having physical stamina, self-confidence, decisiveness, creativity, willingness to listen, self-control, and a long-run outlook; and being sensitive to the interests and needs of others. (Hendon &Hendon 23).

To enhance his/ her own expertise, a business negotiator can employ cultural experts, translators, outside attorneys, financial advisors, or technical experts who have a certain degree of familiarity with both the counterpart's and the negotiator's cultures. These experts serve the role of "agents" (who replace the negotiator at the negotiating table) or as "advisers" (who provide information and recommend sources of action to the negotiator). The use of go-betweens, middlemen, is a largely spread practice within many cultures and increases significantly one's chances for success.

The cultures that emphasize dialogue, mediation and compromise (as American and many European cultural systems do) acknowledge the importance of negotiation as the least troublesome method of settling disagreements or alleviating conflict between two parties in a dispute. Negotiations may be exploratory and serve to formulate viewpoints and delineate areas of agreement of convention. Or it may aim at working out practical arrangements. The success of negotiation depends upon whether (a) the issue is negotiable (b) the negotiators are interested not only in taking but also in giving and are able to exchange value for value and compromise.

For instance, the Arabs want direct, face-to-face discussions, but tend not to bring open disagreements into a formal session. In fact, rather than admit that they disagree, many Arabs will say they agree, but then take actions that suggestively hint that they do not agree at all, hoping that the other party will get the message. In Algeria, an American consultant once said: "My clients never disagree with my recommendations. They just do not try to implement the ones they dislike." (see Hendon &Hendon 35)

The Japanese are willing to meet face-to-face, but they also use third parties much more frequently than Americans do, since they prefer to use that buffer. They are uncomfortable with open conflict and hardly ever express it directly. They talk about it, or do not react at all, or give indirect hints that they disagree. In fact, they hardly ever say no directly; one must infer it from the way they say yes. In Tokyo, the running joke (though true) is the Japanese have twenty ways to say "No" without having to say it.

In Japan and the Arab countries, direct negotiations are combined with social activities. Yet, in both cases the focus is on good manners. One purpose of these activities is to demonstrate hospitality and a more subtle purpose is to determine whether you are the sort of person with whom they want to do business. Consequently, the social process can be as important as the negotiations process.

The Russians tend to regard negotiations as debates. Their ideological orientation guides them into believing that giving and taking are seen as immoral, a compromise of their principles. Instead of trading concessions, they restate their original position, with all of the arguments supporting it.

When negotiating with someone from your own country, it is often possible and acceptable to develop communications by making reasonable cultural assumptions. The situation can backfire when two cultures are involved, since making assumptions about another culture is often counterproductive due to the fact that it can lead to misunderstandings and miscommunications. The international negotiator must not allow cultural stereotypes to influence his or her relations with local businesspersons.

National negotiating styles combine culture, history, political system, and economic status. Some cultures favor the search for compromise; others will opt for consensus, while others will fight until the "opponent" surrenders. Some cultures prefer a deductive approach: first agree on principles and later apply such principles to particular issues. Other cultures think inductively: deal with real-life problems and principles will follow suit.

The process of international business negotiation is largely influenced by two groups of variables:

1. Background factors, which includes the parties objectives. Other aspects include third parties involved, such as consultants, agents, and the respective government. The position of the market (seller's vs. buyer's) and finally, the skills and experience of the negotiators.

2. Atmosphere-related factors, which can often include those as perceived cooperation / conflict, power and dependence (that one of the parties gains more power in the relationship) and perceived distance (that the parties are unable to understand each other). Finally, this category also comprises the expectations of sides, long-term expectations of the true deals or benefits and short-term expectations concerning the prospects of the present deal. Weiss (1993) identified twelve variables in the negotiations process which will lead to understand negotiating styles better.

**Basic Concept.** Different groups conceive of the purpose and process of negotiation differently. Negotiation may be seen as a conflict (one side prevails over another), as a competition (to identify who is best) or as a collaborative process (to formulate some undertaking). If Americans tend to see negotiations as a competitive process, the Japanese see it as a collaborative enterprise.

**Criteria for Selecting Negotiators.** Negotiators may be selected on the basis of their previous experience, their status (or relationship with the powers structures), knowledge of a particular subject, or valuable personality traits. Americans tend to select negotiators on the basis of ability and experience; the Japanese look for high-status negotiators.

**Issues Considered.** Different groups stress different aspects of the negotiations. Some groups emphasize substantive issues directly related to the agreement while others stress relationships. Americans tend to stress substantive issues (price, delivery, quality), while the Japanese are more concerned with building relationships.

**Protocol.** Various groups have their own particular etiquette associated with the negotiation process and their observing the protocol varies according to its perceived importance. Protocol factors that should be considered are gift giving, entertainment, dress codes, seating arrangements, numbers of negotiators, timing of breaks, and planned

duration of the process of negotiations. Degree of formality or informality is an important component of protocol that should be assessed. Americans tend to be informal whereas the Japanese are conservative and formal.

**Communications.** Groups communicate in many ways and tend to develop preferences for one or another form of communications. Some groups rely on verbal communications, others on nonverbal such as gestures, space, and silence. The more varied the methods of communications, the more complex is the communications context. Americans tend to be verbal; Japanese often use periods of silence and use extensive non-verbal means in their putting a message across.

**Nature of Persuasive Arguments.** Some groups rely on facts and logical arguments, others on tradition and the way things used to be tackled in the past, still others on intuition or emotion and others on the beliefs derived from a religion or philosophy. Americans emphasize empirical information and rational arguments while the Japanese rely more on sensible intuition.

**Role of the Individual.** In some groups, an individual's success or failure can heavily influence the outcome of the negotiation process. In other groups, individuals are subordinate to the negotiating group and their personal ambitions are obliterated in the process. Americans are individualistic; the Japanese are collectivist and rely on the group as a whole in the negotiations process.

**Trust.** This is of vital importance if groups are going to work together to ensure their mutual benefit and all groups seek to establish trust with the other parties in the negotiation process. Each group may, however, establish trust on different coordinates. Some groups consider past experience and past records, while others base their judgment on intuition and emotion and still others feel secure when penalties are stipulated in case the performance standards are not met. Americans look to the past record of those with whom they are negotiating and trust in sanctions; the Japanese are more concerned with the relationships that have been built with their counterparts.

**Risk-taking Propensity.** Any type of negotiation involves a degree of risk because the final outcome is unknown when the

negotiations begin. Different groups consider uncertainty and risk as relatively desirable or undesirable. Some groups therefore welcome new ideas and unexpected suggestions whereas others prefer to remain within the boundaries of accustomed agreements. Americans tend to take risks and accept uncertainty; the Japanese are more likely to avoid risk.

**View of Time.** Some people view time as limited and punctuality, agenda, and specified timeframes are important to them. Others view time as plentiful and always available; therefore they are more likely to expect negotiations to progress slowly and are flexible about schedules. Americans view time as rare commodity that must be fully used so as not to be wasted; the Japanese have a laxer perspective upon time.

**Decision-making Systems.** Decisions may be made by individuals or by the group as a whole. Within a group, participants may defer to the person of highest status or to the most senior group member. Some other groups accept the decision of the majority of the group members and other groups seek to achieve consensus among group members and postpone the final decision until all members have agreed.

**Agreement.** In some cultures, written agreements are a must but in others, verbal agreements or a handshake is enough. In some cultures, agreements are detailed and contingencies and potential event are thoroughly discussed and elaborated; in others, broad general agreements are preferred and specificities are worked out as they arise. In some cultures, agreements are legally binding; in others, much more emphasis is placed on a person's obligation to keep his /her word.

Since people come from have different cultural backgrounds, they tend to interpret verbal and non-verbal signals differently. Their ability to encode and decode messages differently increases the chances of misunderstanding. The first step in preventing this is to acknowledge that people react, think and act quite differently from us. To imagine otherwise is to display a potentially destructing ignorance, likely to lead to a great deal of frustration for members of both cultures. An ethnocentric position (which makes one imagine that their cultural beliefs, reactions and assumptions are always right) is

only a byproduct of gross ignorance and cultural misunderstanding. It is imperative that in the global economy cross cultural awareness should be seen as a necessary asset investment in the personality profile of present day and prospective negotiators.

## References

- [1] Hendon, Donald W., Rebecca Angeles Hendon, Paul Herbige. *Cross-Cultural Business negotiations*. Praeger Publishers, 1996
- [2] Hofstede, Geert. *Culture's Consequences, Comparing Values, Behaviors, Institutions, and Organizations Across Nations* Thousand Oaks CA: Sage Publications, 2001
- [3] Moran, R.T. and Stripp, W.G. *Dynamics of Successful International Business Negotiations*. Houston, TX: Gulf Publishing Company, 1991
- [4] Mnookin, Robert H. and Lawrence Susskind eds. *Negotiating on Behalf of Others*. California: Sage Publications, 1999
- [5] Mnookin, Robert H. et al.. *Beyond Winning*. Cambridge: Harvard University Press, 2000
- [6] Salacuse, Jeswald W. *Ten Ways that Culture Affects Negotiating Style: Some Survey Results*  
[http://search.yahoo.com/search;\\_ylt=A0geu9eSZVhJWx4Br6VXNyoA?p=Salacuse+%281998%3A237&y=Search&fr=yfp-t-501&ei=UTF-8](http://search.yahoo.com/search;_ylt=A0geu9eSZVhJWx4Br6VXNyoA?p=Salacuse+%281998%3A237&y=Search&fr=yfp-t-501&ei=UTF-8)
- [7] Weiss, Stephen E. "Teaching the Cultural Aspects of Negotiation. A Range of Experiential Techniques". *Journal of Management Education*, Vol. 27, No. 1, 96-121 (2003)

## Country Risk in The Contemporary Global Economy - Theoretical Concept and Operational Tool

ROVINARU Flavius – Ioan  
DECEANU Liviu – Daniel  
„Babeş Bolyai” University of Cluj-Napoca  
flavius.rovinaru@econ.ubbcluj.ro  
liviu.deceanu@econ.ubbcluj.ro

### Abstract

*Economic globalization has advantages and disadvantages. We believe that the first ones' dimension is significantly higher than the inconveniences' one, and, as Professor Pascal Salin<sup>1</sup> said, globalization is an objective necessity.*

*However, the negative side of the internationalization of economic life is a reality, the country risk being an important vector of it. More than a mere academic specialty, the concept of country risk has now become an operational necessity, being the focus of analysis institutions (rating agencies, for example), but also of the different categories of agents interested in ratings (governmental creditors, various borrowers, banks, investors, multinational companies, exporters, etc.).*

*Currently, risk assessment in the world of international businesses differs significantly from that methodology used several decades ago; risks have multiplied and diversified, and are present in any international economic transaction. Foreign direct investments in particular face the problem of country risk; it covers all the obstacles that affect the implantation process – administrative, institutional and social behaviors and practices that discourage the investment. In order to improve economic decisions, a serious study of the country risk is necessary; this analysis is based on fundamental issues accompanying economic, financial and political imbalances.*

**Key words:** country risk, globalization, foreign direct investments, multinational companies, ratings

**JEL classification:** F34

### 1. Considerations on the concept of Country Risk and its evolution

Certainly, the activities of economic agents can not be separated from a context of risk, of uncertainty. What varies is the intensity of risk, its manifestation forms; its presence is a constant of economic life.

Phenomena occurred in recent years on the global economic scene have generated and continues to generate mutations in the semantics of different concepts. These include **country risk**, an economic concept, and in the same time an important instrument used in the decision making process world wide.

Currently, economic globalization and financial liberalization, as well as the dilution of national state concept and the interdependence of economies are obvious realities, as the recurrence of crisis – of different types – who have expressed and manifested. Result of deregulation, but also of dangerous and irresponsible behavior, as most authors tend to emphasize, or, conversely, the disastrous consequences of regulation, of rules imposed on different markets, after the opinion of a liberal minority with some solid arguments, global economic and financial crisis entered in its fourth year of event.

Of course, the crisis is a form of manifestation of the risk, obviously as a result that crossing a period of crisis leads to changes in risk analysis itself. In fact, as shown in some studies [9], the concept of

---

<sup>1</sup> Former President of the Mont Pelerin Society, Professor at Université Paris-Dauphine.

country risk (which means losses of various types generated by economic relations with a foreign partner, private or public, caused by particular events influenced by governmental factors) has undergone significant shifts in the five decades over which it has been studied. Thus, if during the decades 7 and 8 of the last century the analysis was done to a national scale, and national states presented an importance in country risk analysis, which is associated with political and social climate of a country, and its solvency too, in the last two decades, economic globalization, the network-type activity of corporations and the interdependence of economies has so profoundly transformed the country risk, significantly widening its coverage.

A number of understandings of the term are highlighted in the literature; so, we can talk about the country risk as the fruit of sovereign actions, political decisions, but also as an economic or financial risk. In the first category we highlight the political risk, broadly covering those actions of national governments which are harmful to foreign private companies, or the uncertainty often driven by the vacuum of power and law due to changes in the political regime<sup>2</sup>.

Of course, a country risk analysis that focuses only on political risk would be shallow. The vision would then be too narrow, simplistic, in a context where the risk has a much broader scope. Financial deregulation in recent years (or regulation itself, according to some opinions<sup>3</sup>), connections between states and economies have made political risk to join the economic, financial and even systemic risk<sup>4</sup>.

Moreover, recent papers have multiplied the approaches of the country risk concept, together with entities that deal with its analysis. For example, studies<sup>5</sup> in the last

decade develop new perspectives from which the risk can be contemplated:

- The perspective of the economic actor type reached by risk (creditor): banks, investors (financial or industrial risk), exporters (commercial risk);

- The Type, nature of risk (specific entity receivable, generating the risk) - in this regard, authors such as John Calverley (1990) develop the sovereign risk and the non-transfer one;

- The type of crisis that leads to the manifestation of risk: we evoke here the sovereign risk and the political one (with their clear differentiation), as well as the economic risk<sup>6</sup> and financial risk.

At the same time, we add to this the fact that country risk approaches can depend on the type of state considered or on the nature of the considered agent. It should be distinguished, for example, between sovereign and country risk. In general, the note given by the analysts to the sovereign coincides with the maximum score of state (sovereign ceiling), no local agent does receive a rating higher than that of the sovereign. This approach is not always the correct one, as revealed in his book *Economie du risque pays* Nicolas Meunier; for example, during the Russian crisis, Gazprom continued to honor its own debt while the Russian Federation has suspended payments.

The mutations occurred in addressing the concept of country risk over time can be seen in the figure that we show in this paper (Enclosure 1).

## **2. Country Risk Analysis, its determinants and categories of beneficiaries of the studies**

Beyond the concept itself, country risk analysis is a strategic tool in supporting decisions and reducing uncertainty. The challenge is to anticipate changes in the situation, events that may affect the development of transnational business – macroeconomic, financial or socio-political fragility of a state, that are likely to have repercussions on financial or commercial operations.[5] The conclusions of such an analysis are addressed – without claiming completeness – usually to banks, credit

---

<sup>2</sup> Authors such as Jarvis (2004) stress the fact that political regime changes are not always harmful and can have beneficial effects.

<sup>3</sup> Dr. Emmanuel Martin, Exposure - The causes of the current crisis, Faculté d'Economie Appliquée, Université Paul Cézanne Aix-Marseille 3, Aix-en-Provence, march 2010.

<sup>4</sup> The collapse of several debtors in the context of the serious degradation of economic situation in a country.

<sup>5</sup> Gautriaud, S., *Le risque pays: approche conceptuelle et approche pratique* – document de travail, ATER, Université Montesquieu Bordeaux IV, 2002.

---

<sup>6</sup> Translated mainly by volatility in GDP and GNP.

institutions of all types, investors or exporters. Investors will be interested in industrial risk sizing (which involves the faulty running manufacture or sale process and may extend to expropriation / confiscation) or financial risk sizing (changes to the remuneration of securities), while lenders will be concerned with nonpayment risk or late payment risk. Of course, interest in risk assessment depends on the state considered, so it is evident that taking into account country risk will be re-analyzed especially in the case of a relationship with an emerging state or economic agents from it.

The aspect that we raise further in discussion concerns methods of country risk analysis. In his book [5], N. Meunier evokes two main tracks:

➤ Use of specific indicators and establishment of a diagnosis;

➤ Empirical method - the relationship of a pre-selected set of variables.

Identification of reliable and quality indicators, which help significantly to anticipate difficulties are a major challenge for analysts. This approach has gained particular importance especially after the South American debt crisis of the '80s, event that showed that a state may be in the situation of being unable to pay a debt in foreign currency. Of course, the difficulty of payment must be explained, defined; according to the literature, states in difficulty of payment generally have an external debt higher than the average of the emerging markets. But when can we speak of over indebtedness? What causes it? What are the main determinants of country risk?

Nicolas Meunier brings to the fore, in this context, three concepts, also used by most rating agencies, which set their own thresholds for alert:

➤ Solvency (debt versus the wealth state);

➤ Sustainability (evolution of the states' wealth versus debt evolution – long term orientation);

➤ Liquidity (the ability of debt payment at maturity – short-term orientation).

Among determinants of country risk, we can mention:

- External debt relative to gross domestic product – it should be noted that we are interested in the currency in which this debt is expressed, a major part of the debt being expressed in foreign currencies providing an

additional risk if the national currency is experiencing a depression;

- External debt relative to export volume (we can substitute, without any mistake, with “the external debt relative to the ability to attract foreign currency”) – when the value of the indicator exceeds 150%, we can talk of an alert corresponding to an over indebtedness; from this perspective, it needs to be emphasized that a favorable development of exports improves prospects for external debt repayment;

- External debt service to GDP and external debt service relative to the volume of exports (indicators used frequently by the World Bank to rank states according to the level of indebtedness);

- Currency exchange reserves (upper than three months of imports);

- Total external debt (dangerous if it exceeds 50% of GDP);

- Inflation rate (dangerous if it exceeds the threshold of 10.5%);

- Real interest rate;

- Existence of agreements with the International Monetary Fund (essentially a positive aspect, generating trust, but it can hide a potential crisis);

- Political risk and psychological factors;

- Economic structure of incomes;

- Balance of payments flexibility – in this context, balance of payments analysis presents a particular importance in tracking the various disturbances (supply / demand, savings / investment, private saving / public saving). Also, in this way we can explain the current deficit, and determine the status of international creditor or debtor of the analysed state.

Among methods of country risk assessment, an extremely popular one is to make ratings, these having multiple facets, for both securities issuers and creditors. It is a characterization of the risk to which are exposed economic entity signatory of an international agreement.[4] Analysis is carried out by specialized institutions, or in some cases, specific departments of banks or firms. With regard to specialized companies, it needs to be said that they should provide and disseminate information through press releases, publications or the Internet. In the study *Evaluation du Risque pays par les agences de rating: transparence et*

*convergence des méthodes*, Yasmine Guessoum distinguish different types of institutions that carry out country risk assessment:

➤ Rating agencies - most notable are Moody's, Standard & Poor's and Fitch, which activity will be explained briefly below;

➤ Insurance companies (e.g. COFACE - Compagnie Française d'Assurance pour le Commerce Extérieur);

➤ Consultancy offices (North South Exports to France, Business Environment Risk Intelligence);

➤ Financial publications (Institutional Investor, Euromoney Publications);

➤ Banks, etc.

An important word to say, in the country risk analysis, has the credit rating agencies. Three of them are well known there are two U.S. agencies, Moody's and Standard & Poor's, and one European, Fitch IBCA. Their evaluations rank the states in terms of loans and bonds issued. Four major classes of risk are defined, for Standard & Poor's and Moody's, the descending order (from highest level of risk, when the country's ability to repay both the debt and interest, to the most unfortunate situation) is as it follows:

S&P: AAA AA A BBB BB B CCC  
CC C D

Moody's: Aaa Aa A Baa Ba B  
Caa Ca C D

Two nuance indicators are found "+" and "-". They point perspectives, the possible development of note, and are the first to change.

Among the factors used by agencies in conducting evaluations, we include: balance of payments and current account, the level of debt, deficit level, structure and economic growth, exchange rate and convertibility, GDP and GDP per capita, labor cost factor and productivity, level of reserves, interest rates, inflation, liquidity, the political environment, international agreements, etc. The share of different criteria and evaluation methodology are unknown to the public. We note the possibility of classifying factors into two categories: quantitative factors (objective criteria) and qualitative factors (subjective criteria).

Although they overlap largely, criteria used vary from agency to agency, so Standard & Poor's uses 9 families of criteria (political risk,

international relations, social environment, economic structure and growth prospects, flexible tax system, flexibility of balance of payments, external debt and liquidity, borrowing costs, price stability), Moody's, 5 families (political dynamic and social interaction, structure and economic performance, tax indicators, external payments and debt, monetary indicators and liquidity), while Fitch call to no more than 14 families of criteria (policy and state, international position, demographic factors, employment, production and trade structure, dynamic private sector, supply / demand balance, balance of payments, macroeconomic policies, FDI policy, banking and finance, foreign currency assets, the external debt, economic growth).

A problem to us is the transparency of the scoring process, as we mentioned, most institutions do not communicate the process used, and, secondly, a number of factors [4] may cause differences between various evaluations: criteria taken into calculation methodology used, the type of grades awarded. Not finally, the reliability of studies is given by the state matching between of the profile of analyzed state and the share given to the different evaluation criteria.

### **3. Contry Risk for investors – a tool used in decision making**

The behavior of transnational companies is strongly influenced, in addition to traditional factors (differences in production costs, differences in taxation, market size, proximity to sources of raw materials, etc.), by country risk, in all its complexity. However, literature dealing with foreign direct investment is not focused mainly on the study of country risk, even though, we underline, investment and risk are inseparable.

This is because the investment is based on assumptions and not certainty, being exposed mainly to the macroeconomic risk factors [1] such as changes in monetary and fiscal policy, law, etc. Of course, the risk of implantation is boosted by other elements, such as the relation with local firms (the danger being higher when the market is not known), but also by the multitude of irreversible events that culminate with confiscation or expropriation. A strategic



investment decision will always be linked to the international situation, risk aversion, the perception of uncertainty, the host state characteristics (social and economic situation, labor costs and its qualification), market attractiveness, and the institutional framework. Making a successful FDI necessarily involves the exercise of a high control on the market and competitors, as well as high degree of competitiveness. In the same time, there are to be taken into account the communication costs, as well as the possession of essential information. In situations of uncertainty, the optimal decision involves the choice of the export channel, pending the obtaining of information, instead of operating a direct investment; these investments should be made during periods when the risks are minimal, costs are reduced, when it is possible to achieve economies of scale, and the host country market has the right size. From the perspective of foreign direct investments, the thing that mainly interests is the institutional adaptation of the FDIs as well as the borrower's characteristics. The main risks are related to the possible negative effects of financial deregulation or to an external opening which evolves too fast.

We can also include here the transfer risk, which involves dysfunctions of the financial transfers operated abroad (reduction of transfer possibilities), or even cases of debt payment incapacity. International activity of an enterprise is led by its strategy of internationalization [7] - set of techniques, methods, practices and concepts integrated into a complex form that allows carrying out activities beyond national borders of a country. Within this strategy, we plead for the integration – each time – of the relevant variables in the definition of country risk. Its rating will influence the decision, and allow the quantification of the total risk. (integrating macroeconomic and microeconomic risks).

Finally, we say that today, overcoming boundaries – in its literary sense as in its figurative one – supposes investors to be subject to risks, but it is a necessity.

Challenges of globalization have led to spectacular developments in flows of foreign direct investments into developing states (from 10% of flows into emerging states, during 1981-1985, to over 70% in the last 5 years)[5]; the emerging markets environment involves specific risks and, consequently, their study, whether conducted in enterprises' special departments or offered by agencies, represents nowadays one of the key success factors so strongly conveyed in the contemporary concurrenial economy.

#### 4. References

- [1] Boujedra, Faouzi, *La prise en compte du risque pays dans le choix d'implantation des investissements directs étrangers en direction des pays en développement – analyse théorique et empirique*, doctoral thesis, Université d'Orléans, 2006.
- [2] Calverley, John, *Country Risk Analysis*, Second Edition, Ed. Butterworths, London, 1990.
- [3] Gautriaud, S., *Le risque pays: approche conceptuelle et approche pratique* – working paper, ATER, Université Montesquieu Bordeaux IV, 2002.
- [4] Guessoum, Yasmine, *Evaluation du Risque pays par les agences de rating: transparence et convergence des méthodes*, Université de la Méditerranée Aix-Marseille II, 2004.
- [5] Meunier, Nicolas, Sollogoub, Tania, *Economie du risque pays*, Ed. La Découverte, Paris, 2005.
- [6] Negoescu, Gheorghe, *Risc și incertitudine în economia contemporană*, Ed. Alter-Ego Cristian, Galați, 1995.
- [7] Păun, Cristian, Păun, Laura, *Riscul de țară*, Ed. Economică, București, 1999.
- [8] Robock S., *Political risk: Identification and assessment*, *Columbia Journal of World Business*, 6, 1971.
- [9] Yao Amewokunu, Zhan Su, Chiraz Saidini, *Proposition d'un cadre d'analyse du risque-pays dans le contexte de la mondialisation*, Conférence Internationale de Management Stratégique, Annecy/Geneva, june 2006.
- [10] [www.coface.fr](http://www.coface.fr)
- [11] <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>
- [12] [www.fitch.com](http://www.fitch.com)
- [13] [www.moodys.com](http://www.moodys.com)
- [14] [www.standardandpoors.com](http://www.standardandpoors.com)

## The Importance of Corporate Governance in the South Est Europe Countries

SARCHIZIAN Sergiu

Doctoral School of Economics, „Al. I. Cuza” University of Iasi  
ssarchizian@yahoo.com

### Abstract

*Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the shareholders, management, the board of directors and other stakeholders (employees, suppliers, customers, banks).*

*Policy makers in both developed and emerging economies face challenges in ensuring good corporate governance. The OECD Principles of Corporate Governance set out a framework for good practice which has been agreed by the governments of all 30 countries that are members of OECD.*

*The White Paper on Corporate Governance in South Est Europe is the result of four Roundtable between 2001-2003 and it is the emulation of experiences of all participants based on the OECD Principles of Corporate Governance.*

**Key words:** corporate governance, policy makers, South Est Europe

**JEL classification:** G34

### 1. Introduction

Corporate governance is the system by which companies are directed and controlled. “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good

corporate governance should provide the proper incentives to pursue objectives that are in the interest of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources effectively”[19].

### 2. Definitions

1. "Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return"[11]
2. “Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”[11]
3. "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance"[19]
4. "Corporate governance - which can be defined narrowly as the relationship of a

- company to its shareholders or, more broadly, as its relationship to society -...."
5. "Corporate governance is about promoting corporate fairness, transparency and accountability"
  6. "Some commentators take too narrow a view, and say it (corporate governance) is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders. Others use the expression as if it were synonymous with shareholder democracy. Corporate governance is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges...corporate governance as a subject, as an objective, or as a regime to be followed for the good of shareholders, employees, customers, bankers and indeed for the reputation and standing of our nation and its economy"[8].

### 3. The OECD principles

Current preoccupation with corporate governance can be pinpointed at two events. First event, The East Asian Crisis of 1997 saw the economies of Thailand, Indonesia, South Korea, Malaysia and The Philippines severely affected by the exit of foreign capital after property assets collapsed. The lack of corporate governance mechanisms in these countries highlighted the weaknesses of the institutions in their economies. The second event was the American corporate crises of 2001-2002 which saw the collapse of two big corporations: Enron and WorldCom, and the ensuing scandals and collapses in other corporations such as Arthur-Andersen, Global Crossing and Tyco.

In this context, there was necessary to adopt generally accepted standards. The merit for elaborate the first set of corporate governance principles it have the Organisation for Economic Co-operation and Development (OECD). The OECD Principles of Corporate Governance set out a framework for good practices which has been agreed by the governments of all 30 countries that are members of the OECD. They have been designed to assist governments and regulatory bodies in both OECD countries and elsewhere in drawing up and enforcing effective rules,

regulations and codes of corporate governance. In parallel, they provide guidance for stock-exchanges, investors, companies and others that have a role in the process of developing good corporate governance.

The OECD principles for a good corporate governance are:

#### I. *Ensuring the Basis for an Effective Corporate Governance Framework*

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

#### II. *The Rights of Shareholders and Key Ownership Functions*

The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

#### III. *The Equitable Treatment of Shareholders*

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

#### IV. *The Role of Stakeholders in Corporate Governance*

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

#### V. *Disclosure and Transparency*

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

#### VI. *The Responsibilities of the Board*

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

#### **4. The White Paper on corporate governance in South East Europe**

The First South East Europe Corporate Governance Roundtable was launched in spring 2001 and is a regional flagship initiative of the Investment Compact for South East Europe. The Investment Compact established in February 2000, is a vital part of economic reform activities to be carried out under Working Table II of the Stability Pact for South East Europe, dealing with economic reconstruction, co-operation and development. The Roundtable has benefited from the financial support of the Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ).

Between September 2001 and March 2003, four Roundtable meetings were organised to discuss improving corporate governance in South Est Europe. Using the OECD Principles as a conceptual framework, the Roundtable examined the five key elements of a strong corporate governance framework described in the Principles: (i) the rights of shareholders; ii) the equitable treatment of shareholders; (iii) the role of stakeholders in corporate governance; (iv) disclosure and transparency; and (v) the responsibilities of the board.

Roundtable meetings were carried out in co-operation with regional and local partners and hosts, whose assistance has been invaluable in securing the success of these meetings. The Romanian National Securities Commission and the Bucharest Stock Exchange co-hosted the first Roundtable in Bucharest in September 2001. The OECD Centre for Private Sector Development and the Turkish International Cooperation Agency (TICA) co-hosted the second Roundtable in Istanbul in May 2002. The Zagreb Stock Exchange co-hosted the third Roundtable in Zagreb in November 2002. Finally, the Securities Commission of the Federation of Bosnia and Herzegovina co-hosted the fourth Roundtable in Sarajevo in March 2003.

The result was the elaboration of White Paper on Corporate Governance in South East Europe.

Other two roundtable took place on 10-11 June 2004 in Ohrid, Former Yugoslav Republic of Macedonia and on 16-17 February 2006 on Istambul, Turkey.

This White Paper proposes a series of practical recommendations and should serve as a means for setting priorities and implementing reforms at the national and regional level. It is a non-binding, consultative document reflecting the discussions and recommendations of Roundtable meetings. It was written, debated and endorsed on a consensual basis by all the Roundtable participants. To ensure maximum relevance, an inclusive approach was adopted, whereby all constituencies with an interest and expertise in corporate governance were considered. Roundtable participants were also invited to provide written comments on various drafts of this White Paper.

The White Paper focuses primarily on publicly traded companies although in many aspects it also addresses issues related to widely held but not publicly listed companies. This is particularly important in South East Europe as privatisation has led in some countries to non listed but widely held companies and economic development will depend, to a significant extent, rely on the the success of these small and medium-sized unlisted enterprises. Finally, the White Paper may also be useful in some aspects of the governance of privately held firms and state enterprises.

#### **5. Recommendations for future action in South East Europe**

Taking into account the discussion in the latest Roundtable meeting, the results of a survey undertaken among Roundtable participants and additional research, the Roundtable considers the following topics a priority for its concrete policy work in the future:

- a) effective enforcement of corporate governance rules;
- b) commitment of the private sector, in particular of boards, to the corporate governance reform process;
- c) disclosure of financial and non-financial information.

## 6. Conclusions

There is no single model of good corporate governance. However, work carried out in both OECD and non-OECD countries and within the Organisation has identified some common elements that underlie good corporate governance. The Principles are built on these common elements and are formulated to embrace the different models that exist.

The Principles are non-binding and do not aim at detailed prescriptions for national legislation. Rather, they seek to identify objectives and suggest various means for achieving them. Their purpose is to serve as a reference point. They can be used by policy makers as they examine and develop the legal and regulatory frameworks for corporate governance that reflect their own economic, social, legal and cultural circumstances, and by market participants as they develop their own practices.

The Roundtables in South East Europe should continue to play an important role in reviewing and comparing progress of countries on priority issues. This will enable policy-makers especially to identify remaining shortcomings to compare and contrast the situation in their country with developments in other countries in the region, as well as to observe and respond to emerging trends.

The participants proposed that the Roundtable report back regularly to future meetings of the Investment Compact concerning progress on the above agenda for action as a way of working to further raise awareness and strengthen support for corporate governance improvements in South East Europe.

## 7. References

- [1] Berle, A., Means, G., (1932), *The modern corporation and private property*, Macmillan, New York.
- [2] Cadbury, Sir Adrian, (2002), *Corporate Governance and Chairmanship, a personal view*, Oxford University Press, [www.ecgn.org](http://www.ecgn.org)
- [3] Iordache, Gratiela, (2004), *Guvernanta Corporativa*, ASE, DAFI, [www.ase.ro](http://www.ase.ro), Suport de curs
- [4] Jensen, M. C., (2001), *Value Maximization, Stakeholder Theory and the Corporate Objective Function*, The Monitor and Harvard Business School
- [5] Jensen, M.C., Meckling, W.H. (1995), *Specific and general knowledge and organisational structure*, Journal of applied Corporate Finance, vol. 8, no. 2, p. 4-18
- [6] Jensen, M. C., Meckling, W., (1976), *Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure*, Journal of Financial Economics No.3
- [7] Mathiensen, Henrik, *The Encyclopedia about Corporate Governance*, [www.encycogov.com](http://www.encycogov.com)
- [8] Maw, Graham, Nigel, Horsell Lord of, Lane, Craig-Cooper Sir, Michael, (1994), *Maw on Corporate Governance*, Dartmouth Publishing Company Limited, p. 1
- [9] Ploae, Victor, (2005), *Corporate Governance – a new paradigm of the economics ( Conceptual approaches )*
- [10] Ploae, Victor, (2005), *The OCDE Principles of corporate governance and their implementation in countries with emerging markets.*
- [11] Shleifer, Andrei, Vishny, Robert,W., (1997), *A Survey of Corporate Governance*, The Journal of Finance, LII, p. 737-783
- [12] \*\*\* European Corporate Governance Institute, [www.ecgi.de](http://www.ecgi.de)
- [13] \*\*\* Glossary of Corporate Governance Terms&Acronyms
- [14]\*\*\* OECD, (2004), *White Paper on Corporate Governance in South East Europe*, [www.oecd.org](http://www.oecd.org)
- [15] \*\*\* OECD, (2001), *Corporate Governance in Romania*, Bucuresti, [www.oecd.org](http://www.oecd.org)
- [16] \*\*\* OECD, (2003), *Survey of Corporate Governance Developments in OECD Countries*, [www.oecd.org](http://www.oecd.org)
- [17] \*\*\* OECD, (1999), *OECD Principles of Corporate Governance*, [www.oecd.org](http://www.oecd.org)

# How Can We Measure the Corporate Governance ?

SARCHIZIAN Sergiu

*Doctoral School of Economics, „Al. I. Cuza” University of Iasi  
ssarchizian@yahoo.com*

## Abstract

*Corporate Governance Scores represents Standard & Poor's approach to analyzing corporate governance both at a country and at a company level.*

*The Country Governance Classification reflect the degree to which the macro legal, regulatory, informational and market environments provide a supportive infrastructure for effective corporate governance.*

*The company Corporate Governance Score provides an assessment of how a company's governance process serves the interests of stakeholders.*

*The Governace Index ('G') allow the comparison between individual American companies.*

**Key words:** corporate governance, scores, classification

**JEL classification:** G34

## 1. Introduction

There is no one model of corporate governance that works in all countries and all companies. Indeed, there exist many different codes of “best practices” that take into account differing legislation, board structures and business practices in individual countries. However, there are standards that can apply across a broad range of legal, political and economic environments. Organisation for Economic Co-operation and Development (OECD) has articulated a set of core principles of corporate governance practices that are relevant across a range of jurisdictions. These are:

- Fairness
- Transparency
- Accountability

## ➤ Responsibility

These same principles can be used as cornerstones in a corporate governance scoring methodology for individual companies.

## 2. Corporate governance score

### 2.1. The concept of corporate governance scores

The most known method for measuring the corporate governance is “*Standard & Poor's Corporate Governance Scores*”. This methodology presents Standard & Poor's approach to analyzing corporate governance both at a country and at a company level.

A company *Corporate Governance Score* (‘CGS’) reflects Standard and Poor's assessment of a company's corporate governance practices and policies and the extent to which these serve the interests of the company's financial stakeholders, with an emphasis on shareholders' interests. For purposes of the CGS, corporate governance encompasses the interactions between a company's management, its board of directors, shareholders and other financial stakeholders.

A *Corporate Governance Score* (‘CGS’) is assigned on a scale from CGS-10 (highest) to CGS-1 (lowest). In addition, scores from 10 (highest) to 1 (lowest) are awarded to the four individual components that contribute to the overall CGS. These are:

- Ownership Structure & Influence
- Financial Stakeholder Rights & Relations
- Financial Transparency and Information Disclosure
- Board Structure & Process

This reflects the premise that the quality of a company's governance process can affect its ability both to honor contractual financial obligations to creditors and to maximize the

value of a company's equity and distributions for its shareholders.

"Standard & Poor's Corporate Governance Scores" are designed specifically for financial stakeholders (the company's shareholders and creditors).

The *Corporate Governance Score* ('CGS') consist of two parts:

a) *Country Governance Classification* – the effectiveness of the legal, regulatory informational and market infrastructure. This focuses on how "external forces" at a macro level can influence the quality of a company's corporate governance.

b) *Company Corporate Governance Score*– the effectiveness of the interaction among a company's management, board, shareholders and other stakeholders. This focuses on the internal governance structure and processes at an individual company.

## 2.2. Country governance classification

The Country Governance Classification assesses the extent to which the external environment in a given country either supports or inhibits healthy governance practices at the corporate micro level. Standard & Poor's use a numeric scale of 1 to 10 to articulate its opinion about the extent of support. A score of 10 is the highest and strong support.

A Country Governance Classification is not an exhaustive study of a country's legal, regulatory, informational market infrastructure, but is a through analysis of these factors that allows Standard & Poor's to form an opinion which this support governance at the company level.

In assessing a country's corporate governance, Standard & Poor's determine the extent to which the external environment in a given country supports or inhibits healthy governance practices at the corporate or micro level.

The external environment can be important in motivating good or bad internal governance practices by individual companies. It is also of importance in formulating answers to the following questions:

➤ What are the rights of financial stakeholders and how do these impact the company's relations with its financial stakeholders?

➤ How effectively does the relevant infrastructure encourage and protect these rights?

The four main areas of focus in this analysis are:

- Legal infrastructure
- Regulation
- Information infrastructure
- Market infrastructure.

## 2.3. Company corporate governance score

The company *Corporate Governance Score* ('CGS') provides an assessment of how a company's governance process serves the interests of stakeholders.

Individual company governance standards can reflect a company's degree of adherence to externally imposed governance standards. In countries where the external environment is weak, these individual company practices may also reflect the extent to which internal company governance discipline may or may not offset the weaker external infrastructure.

The CGS is intended to be relevant to different national approaches to corporate governance.

The OECD Principles of Corporate Governance form the basis of the methodology used to determine a Corporate Governance Score. In addition to the OECD principles, the work of many other codes and guidelines have also been consulted and synthesized into a set of criteria.

A *Corporate Governance Score* (CGS) is assigned to a company as a result of voting of the scoring committee. The CGS reflects Standard & Poor's opinion of the extent to which a company adopts and conforms to codes and guidelines of good practices of corporate governance overall. A scale of CGS-10 (highest) to CGS-1 (lowest) is used. A score of 0 will be awarded where a company is unable or unwilling to provide enough information for a meaningful analysis.

In addition, each of four components that contribute to the CGS receive individual scores of 10 (highest) to 1 (lowest). Standard & Poor's also analyses sub-categories of the four main components, to evaluate the corporate governance standards of individual companies. These four components, and the sub-categories are:

- a) *Ownership Structure & Influence*

Sub-categories:

- Transparency of ownership
- Concentration and influence of ownership

b) *Financial Stakeholder Rights and Relations*

Sub-categories:

➤ Voting and shareholder meeting procedures (including regularity, ease of access to, information provided, etc.).

➤ Ownership and Financial rights (including dividends, ability to exercise rights, registration and transferability of shares)

- Takeover defenses

c) *Financial Transparency and Information Disclosure*

Sub-categories:

➤ Quality and content of public disclosure.

➤ Timing of, and access to, public disclosure

➤ Independence and integrity of audit process

d) *Board Structure & Process*

Sub-categories:

➤ Board structure and composition.

➤ Role and effectiveness of board.

➤ Role and independence of outside directors.

➤ Director and executive compensation, evaluation and succession policies.

Each of these components contributes to the overall score. However, in the case of extremely poor financial transparency and information disclosure, a meaningful assessment of other governance factors may not be possible. So poor transparency by itself can either result in a low overall governance score or it can mean that a governance score is not possible.

#### 2.4. How company score and country governance classification will fit together

The *Country Governance Classification* reflect the degree to which the macro legal, regulatory, informational and market environments provide a supportive infrastructure for effective corporate governance.

A high Country Governance Classification (i.e. strong support) will not mean that an individual company will be highly scored itself. There is no “floor”: An individual company in

a positively assessed country can receive a low CGS if so warranted.

Likewise, because the analysis focuses on what a company does, rather than what is required by law or regulation and because the analysis benchmarks a company’s corporate governance standards to codes and guidelines of good corporate governance practices, there is no sovereign constraint. A low score for a country (i.e. weak support) will not necessarily mean that a company in that country will receive a low CGS. A well-governed company in a negatively assessed country may receive a high CGS.

The importance of the *Country Governance Classification* is that it indicates Standard & Poor’s opinion about the degree of protection that investors, and other financial stakeholders, would receive should a previously highly scored company’s corporate governance standards deteriorate.

### 3. The governance index (‘g’)

Three American professors<sup>1</sup> analyzing yearly the corporate governance in over then 1.500 large American companies, between 1990-2000, create “*The Governance Index*” (‘G’).

The index value is between 1-24, for every firm it is add one point for every provision that restricts shareholders rights (increase managerial power). Most of these provisions are directly related to management’s options to resist a hostile takeover.

This 24 provisions are:

- Antigreenmail
- Blank Check preferred stock
- Business Combination laws
- Bylaw and Charter amendment limitation
- Control-share Cash-out laws
- Classified Board
- Compensation Plans
- Director indemnification Contracts
- Control-share Acquisition laws
- Cumulative Voting
- Director’s Duties
- Fair-Price Requirements
- Golden parachutes
- Director Indemnification
- Limitation on director Liability

---

<sup>1</sup> Paul A. Gompers, Joy L. Ishii and Andrew Metrick



- Pension Parachutes
- Poison Pills
- Secret Ballot
- Executive Severance agreements
- Silver Parachutes
- Special Meeting requirements
- Supermajority requirements for approval of mergers
- Unequal Voting
- Limitation on action by Written Consent

Most of the provisions can be viewed in a similar way; in almost every case, these provisions give management some tool to resist different types of shareholder activism, be it calling special meetings, changing the firm's charter or bylaws, suing the directors, or just replacing them in one fell swoop.

In most cases, the existence of a provision indicates an active move by management and an attempt to restrict shareholder rights. There are two exceptions to this rule – “*secret ballots*” and “*cumulative voting*” – in which the provisions tend to come from shareholder pressure. A secret ballot, also called “confidential voting” by some firms, designates a third-party to count proxy votes and does not allow management to know how specific shareholders vote.

Cumulative voting allows shareholders to concentrate their directors' votes so that a large minority holder can ensure some board representation. Both of these provisions tend to be proposed by shareholders and opposed by management after they have been proposed.

In contrast, none of the other 22 provisions enjoy consistent shareholder support or management opposition; in fact, many of these provisions receive significant numbers of shareholder proposals for their repeal. Thus, the presence of “secret ballots” and “cumulative voting” to be increases in shareholder rights. For the Governance Index, it is add one point for all firms that do not have these provisions.

The Governance Index ( $G$ ) has five subindices for each of the five categories:

- a) tactics for delaying hostile bidders ('Delay')
- b) voting rights ('Voting')
- c) director/officer protection ('Protection')
- d) other takeover defenses ('Other')
- e) state laws ('State').

Every subindice has many provisions. In total are 28 provisions, but 24 are unique.

The Governance Index ( $G$ ) divide companies in three categories:

➤  $G \leq 5$  - the “Shareholder Portfolio” is comprised of the firms with the strongest shareholder rights (lowest management power)

➤  $6 < G < 13$

➤  $14 < G \leq 24$  - the “Management Portfolio” is comprised of the firms with the weakest shareholder rights (highest management power)

The conclusions of the study are very interesting:

➤ Corporate governance is strongly correlated with stock returns during the 1990s: an investment strategy that purchased shares in the firms with the lowest  $G$  (strongest shareholder rights), and sold shares of the firms with the highest  $G$  (weakest shareholder rights), earned abnormal returns of 8.5 percent per year.

➤ At the beginning of decade, there is a significant relationship between valuation and governance: each one-point increase in  $G$  is associated with a 2.4 percentage point lower value for Tobin's  $Q$ . By the end of the decade, this difference has increased significantly, with a one-point increase in  $G$  associated with an 8.9 percentage point lower value for Tobin's  $Q$ .

The results for both stock returns and firm value are economically large and are robust to controls for industry effects, sample composition changes, or sample subperiods. Taken together, this evidence indicates that stock market investors were surprised by the relative performance of high- $G$  and low- $G$  firms in the 1990s.

➤ An investment of \$1 in the (value-weighted) Management Portfolio on September 1, 1990 would have grown to \$3.39 by December 31, 1999. In contrast, a similar \$1 investment in the Shareholder Portfolio would have grown to \$7.07 over the same period. This is equivalent to annualized returns of 14.0 percent for the Management Portfolio and 23.3 percent for the Shareholder Portfolio, a difference of more than nine percent per year.

One possible explanation is that the performance differences are driven by differences in the riskiness or “style” of the two portfolios.

#### 4. Conclusions

*Corporate Governance Scores* allow the comparison of individual companies within a national context as well as comparisons of companies in different jurisdictions.

However a high score of *Country Governance Classification* will not mean that an individual company will be highly scored itself. A well-governed company in a negatively assessed country may receive a bad *Country Governance Classification*.

*The Governance Index ('G')* allow the comparison between individual American companies. It measure "the level" of corporate

governance in American companies and show relevant advantages of the companies with the strongest shareholder rights (lowest management power). It is not relevant for other countries.

#### 5. Bibliography

- [1]Standard and Poor's, *Corporate Governace Scores – Criteria, Methodology and Definitions*
- [2]Gompers, Paul A., Ishii, Joy L., Metrick Andrew , (2003), *Corporate Governance and Equity Prices*, Quarterly Journal of Economics 118(1)
- [3]European Corporate Governance Institute, [www.ecgi.de](http://www.ecgi.de)
- [4]OECD, (1999), *OECD Principles of Corporate Governance*, [www.oecd.org](http://www.oecd.org)

## Challenges in Education in Today's Society

SORICI Costin Octavian

„Ovidius” University of Constanta

costin.sorici@pms.ro

POCIOVALISTEANU Diana-Mihaela

“Constantin Brancusi” University of Targu-Jiu

### Abstract

*We must remember that intelligence is not enough. Intelligence plus character-that is the goal of true education. The broad education will, therefore, transmit to one not only the accumulated knowledge of the race but also the accumulated experience of social living.” Starting from these words of Martin Luther King the paper explores the challenges of nowadays education considering the constraints and shift in values and principles that globalization generates in today's society.*

**Key words:** education system, globalization, moral society

**JEL classification:** F01

### 1. Introduction

Recent investigations in the study of demographical trends at global level are currently making light on a very controversial aspect, although ignored by global institutions like UNO, UNDP, G20, and by the organizations with attributions in educational field (as UNESCO, Youth International Authorities and others). The so-called „demographic winter” phenomenon, which reveals the dramatic consequences of the modern life, marked by familial and moral decline, by miscarriage, vulgarization and homosexuality normalization, by the poisoning influence of the majority of mass-media and the “Hollywood culture”, are inoculating egocentrism, frivolity and irresponsibility. Considering this demographical trend offers a new dimension to the way in which abundance and resources of the world are distributed and also gives a new vision on elementary educational issues.

### 2. The obsolete model of actual education system

The globalization of education is reflected itself in the extension and unification of educational practices, used by all those public and private entities, involved as active social educators. Over time, the public education systems in developed or emerging countries, which promote formal education, are illustrating with consistency the practice of a classical education system. In the field of non-formal education there are used more innovating and diverse methods of education, but unfortunately few of these are oriented upon individual behaviour reshaping in the global context, and they are looking only to proliferate consumerist habits, by preparing youngsters for a successful professional career start. The presence of NGO's with international coverage and professional training companies has fixed the currently understood “development in education” in comfortable limits. This makes room for a reshape of educational fundamentals and, more obvious, for the ultimate purpose of learning.

Most people think that education should equip them with the proper exploitation instruments so that they can forever trample over the masses. Still other thinks that education should furnish them with noble ends rather than means to an end. The function of education, therefore, is to teach one to think intensively and to think critically. But education which stops with efficiency may prove as the greatest threaten to society. The most dangerous criminal may be the man gifted with reasons, but with no morality.

Socially speaking, the technological revolution, the broaden access to information and the modern lifestyle facilities have made possible the appearance of an irreversible

phenomenon in the conflict between generations. In our present times, the children, “sons of globalization” have access to multiple sources of information, with the internet being most of the time an instrument of self-education. The balance is leaning in the favour of the power of informed youth, who become “teachers” explaining the new world order to the eldest. This theory takes into consideration the acceleration of technology and the way of our lifestyle, but, beyond its observational character, it does not bring up the discussion on the relevance of educational systems, visible outmoded, which attempts to destroy the moral and statutory principles. The wisdom is transmitted from the old generation to the youth and not backward.

Therefore we are missing the questions regarding the way bodies responsible for educational issues should reconsider the basic fundamentals of this basic activity, which clearly has guided the evolution of our world so far. It isn't enough for organizations like UNESCO or UNDP to confront the absence of primary education and the discrimination regarding access to education in underdeveloped countries, to avoid resettling the educational needs inside an inappropriate system. It is necessary to deal with these aspects in proper time, because we consider education the key-element which can slow-down the process of planet and people self-destruction.

### **3. Proposals regarding reinventing educational fundamentals and systems**

The proposal regarding fundamental reshaping and reviewing the individual education, approached in all stages and cycles of life, starts with the assumption that “man has to be educated to act responsible towards the environment and civilization, and not to interfere in the harmony and balanced world development with its behaviour”. This observation, not exactly recent, triggered a chain of initiatives in the educational system in countries like France, Italy, Germany, including Romania, but we consider that implementing a subject like Civic Education in the gymnasium module is not enough, neither convincing.

We feel that the new fundamentals and principles of education, which must be known,

understood and applied by every teacher, through all the range of educational processes in the long life learning of individuals, and also in the non formal educational processes whereat people have access during existence are:

1. *Self-consciousness* - is essential because it allows every individual to find his role in society, to know his weak points and to develop them according to his unique talents genetically inherited. A person aware of his/herself can easily act in choosing the occupation or the career to practice that he or she will be able to direct his energies to and recognize the real problems that the world and society faces. Consciousness-based education, introduced in 1971 by Maharishi Mahesh Yogi is unique in its ability to effectively develop the total brain potential of every student.

2. *Stimulating creativity* – this special quality is reflected in the mental and social process of generating new ideas, concepts, associations and permits individual adaptation to unpredictable contexts and situations. There are simple techniques associated to lateral thinking that can promote this capacity for example: improvisation, fiction as imaginary product, (randomness improvisation, PS).

3. *Communication* – in the actual forms and methods used as learning practices, communication is not capitalized as being the supreme value, because mostly individual activity it's encouraged which promotes inappropriate values like egoism, indifference, self-interest. Without communicating problems and discussing difficult situations, there is no way to claim solving the issues in optimal parameters of time, quality and accuracy. The man cannot act in terms of social responsibility, as a “macro attitude”, which we consider as being shallowly approached, especially in the economic environment.

4. *Promoting a responsible role in society*- education must train one for quick, resolute and effective thinking. To think incisively and to think for one-self is very difficult. We are prone to let our mental life become invaded by legions of half truths, prejudices, propaganda. At this point, we often wonder whether or not education is fulfilling its purpose. A great majority of social educated people do not think logically and scientifically. Even the mass-media, the classroom, the platform or the pulpit

in many instances do not give us objective and unbiased truths, To save man from the morass of propaganda is, in our opinion, one of the chief aims of education. Education must enable one to sift and weight the evidence, to discern the true from the false, the real from the unreal, and the facts from the fiction.. This is the way in which one can develop and practice an active role in society.

5. *Receptiveness to change* – in order to be able to intervene in the actual course of the life circle, accepting and promoting the changes is considered a healthy habit, which stimulates the flexibility and the disruption of existing corporately stereotypes, which are leading humanity to destruction because of the ignorance or simply because of unknown problems that Terra is facing. From this perspective, the change tackling implies a real transformation at psychological level and of human behaviour, therefore to satisfy those priorities needed to be handled immediately. Here we refer to the necessity of re-conversion of world economy from a military economy to a civil one, immediate solutions for energetic and environmental problems as well as for the underdevelopment and poverty aspects propagated into the world.

6. *Global vision upon world* – the actual educational system, as a whole, is constituted by a sum of operations (method-evaluation-communication), whose final objective must reflect a pragmatic and global view of the world. At present, the youth is informed regarding global problems through sources like mass-media, not allowing the opportunity of a healthy analysis, not making possible a debate and a thoroughness facilitation that could lead to the understanding and building up personal opinions regarding aspects like underdevelopment, global economical relations, international monetary system, etc.

7. *The ability of solving problems* –solving problems is the easiest way to recreate conditions and actions in an artificial manner, experience which allows people and students to deal with in a constructive way and to develop solutions for different problems. Learning systems which are basically built like this are superior because it helps individual to recognise and adapt to specific economic, social, psychological, spiritual context and to detect real problems in any form, associating

optimal alternatives of decision. For example, simulating a complete economical context for a start-up company leads to the stimulation of the individual creativeness and decision-making abilities.

8. *Multidisciplinary teams* – to permit reshaping and the restructuring of the curricula in the needed form in order to develop these abilities and capacities, we are suggesting even some changes in the study of disciplines, considering the logical and contextual relations between them and providing an understanding of all existing corelationsat a certain point.

In recent years, there have been promoters that recognise the importance of remodelling and updating the learning systems and they have introduced some of his principles through various pedagogic and psychology methods and ideas which become guidelines in university educational systems from regions around the world. The recently pointed opposition between the open education model and the traditional closed education model is more and more obvious.

#### 4. Conclusions

To conclude, we would like to specify the way these ideas wre generated and which were their fundamentals. This actual study is not a result of a thorough research activity neither a genius idea. We are ourselves products of a classic, formal education system, but also had some benefits from the non-formal education methods by involving in different NGO's developing soft skills and hard skills both. We consider that these educational practices are not enough adapted to the global context that we are facing everyday and that specialised literature is expessing, bringing up to the light its pronounced effects of human existence on Terra. It is therefore absolutely necessary to support the propagation of open education in the world so that to improve the living standards of all individuals in the shortest time possible.

#### 5. References

- [1] Clay, Shirky, "Here comes everybody", Oxford University Press, 2000
- [2] King, Martin Luther, "The propose of education", Oxford University Press, 1975
- [3] King, Alexander and Schneider, Bertrand, "First global revolution. A survival strategy for humanity",

# Policy Priorities for Supporting Romanian Small And Medium Enterprises Internationalization

STANCULESCU Anca-Maria  
Academy of Economic Studies, Bucharest  
sam33ro@yahoo.com

## Abstract

*The article analyses the necessities and requirements of the Romanian small and medium enterprises in order to identify the main policy priorities for supporting their internationalization. Having considered the role and necessity of small and medium enterprises internationalization policies, the main policy directions are discussed. Since in the case of Romania, an important part of the problems associated to supporting small and medium enterprises development and internationalization is related to the lack of resources, a special focus is put on the policy priorities providing resources for internationalization.*

**Key words:** enterprises, internationalization, policy priorities

**JEL classification:** F2

## 1. Introduction

The interest in small and medium-sized internationalization primarily arises from the new, amplified role they have acquired at a national and international level, bringing them to the forefront of the economic development, due to the fundamental economic changes taking place at the beginning of the 21st century. The transition to a knowledge-based economy, with all its implications, provides opportunities and motivations for small and medium enterprises internationalization, in a global, regional and national context.

Supporting small and medium enterprises internationalization involves both the development of specific policies targeted in this effect and sector development policies, which are linked and enhance each other. Many of the issues associated with the

internationalization of Romanian small and medium enterprises are actually general problems of the sector, such as low productivity, lack of capacity, limited financial resources, low accessibility and implementing of the new information and communication technologies, etc.

## 2. Necessity and role of small and medium enterprises internationalization policies

The necessity for policy incentives for supporting small and medium enterprises internationalization primarily arises from their critical role for the stability and potential of any national economy, and since most of them face resources limitations, they need support to acquire the necessary capacities in order to develop internationally.

Currently, statistics show that in almost all the countries small and medium enterprises completely dominate in the economy, as they share over 99 percent of all firms, hold substantial shares and generate the largest part of the GDP, value added and employment in every country. We may thus argue that small and medium enterprises make a vital contribution to the economic and social development. In Romania, small and medium enterprises count for 99.5 percent of all the enterprises and generate about 60 percent of the total employment and 50 percent of the value added ([4], p. 3).

Small and medium enterprises have the highest dynamism in a market economy, which is evidenced by their number, evolution, turnover and employment volumes, significantly higher than those of large firms, and show high flexibility and adaptability to market requirements and changes, being

avored by their smaller size, faster decision making process and direct involvement in current operations. Thus, they provide the main component of an economic background favorable to a market economy, characterized by flexibility, innovativeness and dynamic. Small and medium enterprises are also the seeds for future large firms, particularly in the new, high technology based areas of economy.

Support programs for small and medium enterprises internationalization have been traditionally focused on promoting exports and have been usually developed independently of other policies. At an institutional level, they are developed by internationalization or export promotion agencies. We may assert that such programs are traditional for most of the countries in the world. The first export promotion agency - still in force - was created in 1919 in Finland. Over time, the number and importance of such programs have considerably grown, and now they can be found in almost every country. The efforts under such programs are justified by the impact achieved - for each \$ 1 of export promotion, it has been estimated a \$ 300 average increase in exports ([11], p. 1). But internationalization is not limited only to export. Cross-border cooperation, participation in profitable networks, technology transfers, subsidiaries abroad are strategic alternatives for internationalization that may be approached by small and medium enterprises, which often combine different approaches of the internationalization strategy that reinforce each other. Such promotion incentives for small and medium enterprises, however, are less common than export promotion incentives.

Supporting small and medium enterprises internationalization as a means of promoting exports contributes to the improvement of a country's commercial balance and balance of payments, which further results in an improvement of its international position.

Policy incentives for small and medium enterprises internationalization mainly grounded on the fact that due to the limited resources and expertise, small and medium enterprises require support to successfully compete in international markets. In the absence of any policy support, most small and medium enterprises do not proceed to internationalization. At the same time, small and medium enterprises can benefit

disproportionately from the positive effects generated by internationalization ([15], p. 237-253), in the sense that the internationalization of small and medium enterprises provides significant opportunities for economic growth and increased competitiveness, resulting in long-term sustainability. Considering the crucial role of small and medium enterprises for a country's economy, supporting internationalization thus determines the country's economic sustainability.

Policy incentives for internationalization aim to create a suitable environment and direct internationalization initiatives at a national but also regional and local levels. Institutional and political decentralization is widely practiced and recommended as local authorities and development agencies are very active in designing and delivering entrepreneurship programs, including export promotion and internationalization. Given their proximity to small and medium enterprises, regional and local authorities should be empowered by national governments to take the appropriate measures aimed at promoting growth and internationalization of small and medium enterprises. Specialized agencies for small and medium enterprises support and promotion also play an important role in their internationalization. Such agencies often provide valuable information, platforms for networking and facilitate the exchange of ideas and best practices ([14], p. 53).

### **3. Policy directions for small and medium enterprises internationalization**

One of Romania's main policy priorities, aimed not only to the facilitation of small and medium enterprises internationalization, but also to the development of the sector, is to implement the recommendations of the European Union, and in particular the framework established by the Small Business Act ([1]). In the context of the international financial crisis and the problems arising from this, the implementation of the Small Business Act has been given less importance in the European Union countries and Romania. However, the ten principles embodied in the Small Business Act have not lost their opportuneness; on the contrary, these, together with their associated measures are part of the

solutions that can effectively counter the financial crisis with its effects.

The transposition of the Small Business Act at a national level would first require the pass of a law to ensure the compulsory application of the "Think Small First" principle, which acknowledges the small and medium enterprises central role and directs the design and implementation of policies and measures on the small and medium enterprises. The development of a national action programme on the implementation of the Small Business Act is also needed, in partnership with the small and medium enterprises sector and the organizations representing small and medium enterprises. This programme should include measures for the implementation of the Small Business Act, including measures for cutting red tape and reducing administrative burden, support measures for bankruptcy - in order to give a "second chance", measures facilitating small and medium enterprises participation in public procurements. According to the European practice, it is recommended to name a representative for small and medium enterprises at a national level for the management of the implementation process of the Small Business Act and the specific European Union recommendations on small and medium enterprises.

The implementation of the Small Business Act principles provides a framework conducive to small and medium enterprises development, necessary for a better implementation of the specific measures to support internationalization. The European Union provides in this respect a number of recommendations ([2]) and good practices models ([3]) that can be taken into account in determining the appropriate policies, tailored to the Romanian small and medium enterprises.

Internationalization policies should be primarily aimed at creating the foundations for a long-term orientation and sustainability. In this respect, such policies should be rooted in the motivations and barriers specific to Romanian small and medium enterprises, by widening the motivations and, especially, reducing and eliminating the barriers. It is recommended that policies should be directed rather to the increase of the number of small and medium enterprises with international activities, than to the support of those

enterprises that already have international activities, respectively, all the small and medium enterprises should be targeted, as a better approach in the long term because internationalization acts as a primary determinant of further internationalization, and moreover, the earlier an enterprise internationalises the faster it seems to grow ([13], pp. 537-554).

The development of policies and programmes to support internationalization should begin at a national level. However, their implementation is essential to be achieved as "close" as possible to the small and medium enterprises, which involves coordination between national, regional and local levels. This would provide the policies flexibility and opportunity to accurately identify the actual needs and requirements of small and medium enterprises. Political and institutional decentralization is crucial for the internationalization policies proper implementation, in order to avoid redundancy, and also to facilitate the access of small and medium enterprises to support programs.

Export promotion is one of Romania's concerns, but we can not assert that Romanian small and medium enterprises benefit from specific, sustained measures. The main institutions involved in supporting Romanian firms' internationalization are the Foreign Trade Department – as part of the the Ministry of Economy, Commerce and Business Environment of Romania, and the Romanian Centre for Trade and Investment. Other more advanced forms of internationalization, are only tangentially addressed.

The main domains where small and medium enterprises can internationalize can be identified by taking into account the stages of internationalization and the possible benefits available to Romanian firms. Generally, these domains are reflected by the structure and volume of Romania's exports - as shown in Table 1, as export often is a first stage of internationalization. In the structure of exports, six sections of the Combined Nomenclature hold 74.2% of total exports, suggesting the domains in which Romanian small and medium enterprises could engage more, exceeding the initial phases of internationalization.



We may also assert that Romania holds competitive advantages rather for traditional sectors of activity, characterized by still low, but growing, costs. For example, the average monthly costs of labor remains low even by the standards of the Eastern Europe, but they have significantly increased in recent years. Their sustainability as domains for internationalization is therefore questionable. For the development of internationalization policies for Romanian small and medium

enterprises that are sustainable in the long term, it is necessary to increase their competitiveness, especially through innovation. Linking policies for competitiveness and growth with internationalization policies is a trend starting to appear fundamentally in developed countries, supported by the positive correlation between technology, innovation, knowledge and internationalization ([10], pp. 1-26).

Table 1. Romania's structure of exports, 2009

Section of the Combined Nomenclature (CN)		FOB Exports during 1.I-30.XI 2009				
		Value million lei-	Value -million euro-	Structure in % as against total exports	in % as against 1.I-31.XII 2008	
					For values expressed in lei	For values expressed in euro
XVI	Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers	32577,9	7680,0	26,4	109,9	95,3
XVII	Vehicles and associated transport equipment	20713,9	4884,2	16,8	136,1	118,0
XV	Base metals and articles of base metals	12397,9	2922,9	10,0	68,5	59,2
XI	Textiles and textiles articles	12342,3	2912,1	10,0	94,7	82,2
V	Mineral products	7568,4	1784,1	6,1	65,9	56,8
VII	Plastics, rubber and articles thereof	6037,4	1423,7	4,9	96,2	83,2

Source: National Institute of Statistics, "International Trade Statistics", no. 12, 2009.

#### **4. Policy priorities providing resources for small and medium enterprises internationalization**

One of the main reasons why small businesses do not take into account internationalization as a strategic option is the lack of information about the available opportunities and support measures. Increasing awareness through a coordinated, streamlined system, including centers and access points, connected to the European Union information system is a necessity in this respect. In Romania, a firm that would like to internationalize face significant difficulties solely related to the access to information on the formalities, requirements, procedures and support it may benefit, because the information sources are numerous and incomplete, outdated and unclear.

This requires the coordination of the institutions and information centers at a national level as a prerequisite for the internationalization policy for Romanian small and medium enterprises.

One of the most sensitive issues is that of financing small and medium enterprises internationalization. Availability and access to financial resources is a fundamental requirement for internationalization. The policies supporting small and medium enterprises internationalization should primarily ensure the financial expertise on the

existing mechanisms and the ways to access them, for both exports and more advanced forms of internationalization. Allocation of financial resources for small and medium enterprises internationalization is included among the measures providing the allocation of financial resources for the support and development of the sector, involving, for example, enhancing the capital of the National Credit Guarantee Fund for small and medium enterprises, by specifically targeting internationalization.

As a member of the European Union, Romania benefits from the access to structural funds among which many are specifically targeted to supporting small and medium enterprises internationalization, however, their

absorption rate remains very low. Increasing the access to structural funds would impose increasing the awareness in this regard, simplification and compression of the procedures for the allocation of structural funds, implementation of the recommendations of the European Union, increasing access to advisory services in area. A necessary, although not sufficient, measure for the Romanian small and medium enterprises to positively respond to initiatives for supporting internationalization, is to develop and strengthen the international orientation of the Romanian entrepreneurs. Entrepreneurial orientation exists and is regarded as high in Romania, although this is offset to some extent by the lack of knowledge in the area of entrepreneurship ([16], p. 28). Achieving the awareness concerning the international orientation of the decision makers in small and medium enterprises should precede the next phases of the policies supporting internationalization, which are the establishing and implementing of effective support measures. In this respect, greater attention is required concerning the entrepreneurial education, incorporating the international dimension, namely, international entrepreneurship.

The Romanian Government has introduced entrepreneurship education in the "National Priority for Human Resources Development, Promoting Employment and Social Inclusion and Strengthening Administrative Capacity", as part of the "National Development Plan 2007-2013" ([7], p. 294). In this document, it is acknowledged that education makes a significant contribution in fostering entrepreneurial skills and attitudes in the Romanian society. Generally, it can be argued that there is an impressive variety of initiatives and curricular and extra-curricular activities, providing a significant number of best practices for Romanian universities on entrepreneurship education. However, an integrated approach to higher education and a clear policy support from the Ministry of Education is required, in order to increase the role and value of entrepreneurship education, including international orientation.

As previously argued, linking policies for competitiveness and growth with internationalization policies requires providing access to technologies, knowledge, innovation

and know-how. In this respect, a significant issue and departure point should consider the fact that the technological intensity is relatively low among the Romanian industries; it is disputed, however, the growth of certain high technology sectors, particularly IT. IT and other areas characterized by high technological intensity are those that mostly allow - and require - rapid internationalization, of the "Born Global" type, as they are characterized by more intense competition and higher degree of globalization. These are areas that can be encouraged in a long-term orientation of the policies supporting Romanian small and medium enterprise internationalization.

Supporting small and medium enterprises internationalization, in order to achieve maximum efficiency, should include providing individualized support, by identifying the areas where support is needed and providing this support, according to the specific needs, capabilities and resources of each enterprise. Such support should focus on an individual assessment of small and medium enterprises which requires considering the variables that influence the internationalization process - available financial and human resources, enterprise size, stage of internationalization, industry, geographical location, target markets, etc. In this respect, the individualised support system may provide an approach that should be both holistic and individualized, allowing for the identification of the characteristics, skills, capabilities, activities that contribute to achieving performance on international markets. This measure requires complementarity with other support measures, such as increasing awareness, providing expertise, financial support, etc.

## 5. Conclusions

The identified policy priorities for supporting small and medium enterprises internationalization are aimed at implementing the recommendations of the European Union and creating the foundations for sustainability, in a long-term orientation, based on the motivations and barriers specific to Romanian small and medium enterprises, by widening motivations and, especially, reducing and eliminating barriers. Promoting exports and

foreign implantation should consider linking policies for growth and competitiveness with internationalization policies, by coordinating policies at national, regional and local levels. Promoting exports and foreign implantation should consider linking policies for growth and competitiveness with internationalization policies. Internationalization policies should provide availability and access to information, technological and financial resources, including increased access to structural funds, development of the international orientation of Romanian entrepreneurs and, for maximum efficiency, providing individualized support to small and medium enterprises.

## 6. References

- [1] European Commission, "*Think Small First - A Small Business Act for Europe*", COM (2008) 394 final, Brussels, 25 Jun., 2008.
- [2] European Commission, Directorate General Enterprise And Industry, "Supporting the internationalisation of Small and medium enterprises", Final Report of the Expert Group, Brussels, Belgium, 2007.
- [3] European Commission, Directorate General for Enterprise and Industry, "Supporting the internationalisation of Small and medium enterprises - Good practice selection", Office for Official Publications of the European Communities, Luxembourg, 2008.
- [4] EUROSTAT, "Enterprises by size class - overview of SMEs in the EU", Statistics in focus, no. 31, 2008.
- [5] Gagea A. M., Grigore L., Stănculescu A. M., Georgescu B., "The comparative advantage in Romania's intra-communitary commercial relations", in "Analele Universității din Oradea – Seria Științe Economice", TOM XVIII, vol. I, 2009, pp. 299-305.
- [6] Grimes A., Doole I., Kitchen P. J., "Profiling the capabilities of Small and medium enterprises to compete internationally", in *Journal of Small Business and Enterprise Development*, vol. 14, no. 1, 2007, pp. 64-80.
- [7] Guvernul României, "Planul Național de Dezvoltare 2007-2013", 2005.
- [8] Guvernul României, "Hotărârea nr. 1634 din 29 decembrie 2009 privind organizarea și funcționarea Ministerului Economiei, Comerțului și Mediului de Afaceri", in *Monitorul Oficial* no. 3, 4 ian. 2010.
- [9] Guvernul României, "Hotărârea nr. 1431 din 18 noiembrie 2009 privind înființarea, organizarea și funcționarea Centrului Român pentru Promovarea

Comerțului și Investițiilor Străine”, in Monitorul Oficial no. 860, 10 decembrie 2009.

[10] Hoekman B. M., Smarzynska Javorcik B. K., “Lessons from empirical research on international technology diffusion through trade and foreign direct investment”, in Hoekman B. M., Smarzynska Javorcik B. K. (ed.) Global integration and technology transfer, Palgrave Macmillan/World Bank, New York, 2006, pp. 1-26.

[11] Lederman D., Olarreaga M., Payton L., “Export Promotion Agencies: What Works and What Does Not”, International Trade Department, The World Bank Group, 30 Sept., 2006.

[12] National Institute of Statistics, “International Trade Statistics”, no. 12, 2009.

[13] Oviatt B. M., McDougall P. P., “Defining International Entrepreneurship and Modeling the

Speed of Internationalization”, in Entrepreneurship Theory & Practice, vol. 29, no. 5, 2005, pp. 537-554.

[14] Potter J., Proto A., “Promoting Entrepreneurship in South East Europe: policies and tools”, OECD Papers, vol. 6, no. 12, 2007.

[15] Requena-Silvente F., “The decision to enter and exit foreign markets: evidence from UK SMEs”, in Small Business Economics, vol. 25, no. 3, 2005, pp. 237-253.

[16] Spilling O. R., Korka M., Borlaug S. B., “Entrepreneurship education and the entrepreneurial function - some reflections on policy implications”, U-Know Project, FP6, 2008.

## Sustainability in the Hotel Industry

SZTRUTEN (LEFTER) Gina Gilet  
*Academy of Economic Studies, Bucharest and  
Romanian - American University, Bucharest  
lefter\_gina@yahoo.com*

### Abstract

The tourism industry has a dual relationship with the environment but has for many years claimed to be a “smokeless industry”. In fact, accommodation facilities interact with their environments during every stage of their life cycle, often negatively. Resorts are frequently developed in pristine and fragile ecosystems with little or no consideration for the local natural or cultural environment. Many of the services offered by these establishments require the consumption of substantial quantities of energy, water and non-durable products. The resource-use efficiency of the many end-users in such facilities is frequently low, and the resulting environmental impacts are of significant magnitude.

**Keywords:** tourism industry, environment, resource-use efficiency

**JEL classification:** D62

### 1. Introduction

The international awareness of the trade’s substantial negative impacts on the environment has been increasing in recent years. While the average visitor may not yet be vocalizing clear-cut requirements for more sustainable practices in the tourism sector, the increasing environmental awareness among travellers is gradually translating into a growing environmental demand. In response, hotel companies begin to consider environmental issues in their business practices.

The environmental concern starts to be a key challenging issue for organizations nowadays. In fact, there is a growing trend

towards “green” consumerism, which in turns affects companies’ strategy.

The hospitality industry is not considered as one of the biggest pollution emitters, neither the one consuming the biggest quantity of non-renewable resources, but it is particularly interesting because of its increasing economic importance and the higher environmental concern it is showing. The whole process by which the hotels define policies, strategies as well as develop environmental practices in order to reduce their negative impact on the natural environment is named as Environmental Management. Those hotels that have followed this process and strive to be more environmentally friendly through the efficient use of energy, water and materials while providing quality services are defined as “green hotels”.

“Green hotels” are also referred to as earth friendly inns, eco-friendly lodging, eco-lodges, eco-hotels, and eco-resorts. These lodging establishments feature innovative and imaginative programs for conserving natural resources, reducing waste, minimizing pollution, while maximizing sustainability.

Many of these facilities are designed and constructed with a concern for environmental quality. While other properties consist of recycled and/or renovated buildings with upgrades to conserve energy and water, minimize waste, incorporate natural landscaping, or utilize recovered building materials. Some properties also support local environmental efforts or groups and/or offer environmental education or excursions.

Certification is an important step in implementing the sustainable practices.

The certification of tourism operations to sustainability standards has emerged as an

important way for hotels, tour boats and other tourism operators to demonstrate that their practices help the environment and ensure the well-being of staff and local communities.

To assist tourism operations in meeting certification standards, some organizations have been created to validate the hotel's sustainable environment practices. For example, Best Management Practices (BMP) program is amongst the most performant ones, which provides tourism operations with dynamic workshops and seminars, training materials, technical assistance and diagnostic evaluations. BMP analyzes are aimed at identifying areas where an operation is not in compliance with the 'baseline criteria'.

The baseline criteria cover environmental aspects such as wastewater treatment and the protection of endangered wildlife species, social aspects such as worker safety and interactions with local communities, and economic aspects such as profitability and quality.

#### **Benefits of Being Certified:**

- State employees are recommended to stay at certified properties.

- Certified facilities can advertise.

- Facilities will be placed on Green Lodging list and recommended to other companies and trade organizations looking for environmentally conscience hotels and convention facilities.

- Facilities will be showcased during department presentations and functions.

Examples of changes made by hotels while implementing the BMPs include:

- o Teaching local schoolchildren and teachers composting techniques and purchasing the resulting compost;

- o Training local youths in hotel management and offering them jobs when they complete school;

- o Sponsoring a community fair that allows local businesses and artisans to sell their products and interact with visitors and hotel staff;

- o Creating a recycling program, with recycling containers distributed throughout hotel grounds and regular pick-up of recyclable items by a local business for resale;

- o Changing to a milk supplier that can recycle empty tetrapak packaging;

- o Converting from disposable batteries to rechargeable ones;

- o Converting from incandescent light bulbs to energy-efficient fluorescent ones;

- o Maximizing natural light by installing skylights in guest rooms and painting walls light colors;

- o Installing an anaerobic digester to convert hotel sewage and grey waters to electricity, which is then used to power clothes dryers;

- o Relocating the hotel's water tank to the top of a hill to eliminate the need for an electric pump;

- o Installing a water dosing system in the laundry room and water-measuring gauges at the entrances of different sections of lodge;

- o Encouraging guests to reuse towels, reducing the amount of water needed for laundry;

- o Converting from non-biodegradable, high-perfume soaps and detergents to biodegradable, non-scented ones.

- o Creating decorative books for guest rooms that provide guidance on appropriate behavior in natural areas, water conservation measures, rules about flora and fauna extraction, and other BMP-related information;

- o Installing labels around the hotel grounds describing the ecology of edible plants, recipes made from them, and information on related indigenous traditions;

- o Training staff not only on practical conservation measures but also on the ecological and social rationale behind them.

- o Installing measuring gauges at wells and other water sources to monitor water consumption levels;

- o Creating written policies, registers and documentation relating to all aspects of hotel management and organization.

Training and technical assistance on sustainable tourism BMPs can dramatically improve the level of hotel compliance with sustainability criteria. Whether or not hotels go on to pursue certification with a national-level program, the BMP program is having a positive impact on the way hoteliers and staff interact with guests, local communities and the environment.

	Principles:		Principles:
1	Socio-cultural Activities	11	Energy Use
2	Monitoring and Corrective Action	12	Quality
3	Solid Waste	13	Health and Safety
4	Respect for Local Cultures and Communities	14	Flora and Fauna
5	Environmental Education	15	Worker Training
6	Administration	16	Design and Construction
7	Water	17	Contamination
8	Contribution to Local Development	18	Laws and Regulations
9	Natural Areas	19	Advertising Materials
10	Policies and Planning	20	Suppliers

Hilton International is an example of a worldwide known company that has put Corporate Social Responsibility (CSR) and environmental sustainability high on their priority list. Hilton Worldwide is a group founded by Conrad Hilton, with a history of nearly 100 years (since 1919), considered the world leader in terms of hospitality, with headquarters in Beverly Hills, USA. It has more than 3,400 hotels under the umbrella of the 10 brands developed over 81 countries worldwide.

To ensure sustainable practices in countries where Hilton operates, are considered:

- The allocation of environmental tasks to each member;
- Focus on environmental commitments: efficiency energy, carbon emissions reduction, reduce water consumption, reduce quantities of waste products, programs on alternative energy use, sustainable management of buildings and other operations;
- Ensure that environmental initiatives and tactics addressed have a positive impact on Customer Experience;
- Continuous improvement of environmental performance;

- Ensure better collaboration with suppliers and business partners in improving their environmental performance;
- Promote the use of best environmental practices in place, in order to influence the use of land to be in harmony with nature;
- Supports environmental initiatives in local communities.

A comprehensive environmental programme has been developed and implemented chain-wide. It is based on five common stones: Environmental Policy, environmental education (elearning), environmental reporting (Hilton Environmental Reporting), a creation of sustainable facilities (Sustainable Hotel Siting, Design and Construction Guidelines), and internal communication (Hiway).

Most of these initiatives are based on a 10-year experience of environmental work at Scandic (Scandinavian based hotel brand, and a part of Hilton since 2001). Scandic has introduced the concept of a 97% recyclable hotel room (eco-room), and developed its own Environmental Construction Standard (SERECS), listing materials that may not be used in their facilities, and specifying acceptable alternatives. Currently more than 10,000 rooms in the Scandic stock are 97% recyclable, while a number of hotels have been built or refurbished according to the eco-hotel standard. Between 2003 and 2009, energy consumption in the Swedish Scandic branch was reduced by approximately 19% on a kWh/m<sup>2</sup> basis and 15% on a kWh/guest night basis (with 2003 as a reference year). In the same period, water consumption was reduced by approximately 6% on a liter/guest-night basis, and the amount of unsorted waste decreased by approximately 48% on a kg/guest-night basis (NB: only properly reporting hotels are included in the analysis). Furthermore, 77 out of 123 eligible hotels (62.6%) have been eco-labeled with the Nordic Swan Eco-label, the most demanding ISO Type I label for the tourism accommodation. The results of the environmental program at the Hilton level will be more clearly visible in a couple of years, but the right direction has already been established.

## 2. Conclusions

This experience shows that the hotel industry can be an important partner in introducing sustainability into the built environment, and that responsible practice makes a good business sense. Thus, in the present what motivated hotels to become green, as well as the steps they followed in turning into green, including the definition of goals, the implementation of practices and the potential barriers that make this process difficult to execute. To achieve a sustainable tourism, they need an integrated approach, partnerships with stakeholders.

A priority in the process of sustainable development held in every hospitality company is the component that includes the activities of planning, operational planning and tourism as an integral part of sustainable development strategy of the area, region or country.

## 3. Acknowledgements

This article is a result of the project „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by European

Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies.

## 4. References

- [1] Chon K., Maier Th., “Welcome to Hospitality...An Introduction”, Delmar Cengage Learning, 2010
- [2] Niemi G.J., McDonald M.E., Application of ecological indicators, Natural Resources Research Institute and Department of Biology, University of Minnesota, Duluth, Minnesota, 2008
- [3] Powers T., Barrows W., „Introduction to Management in the Hospitality Industry”, Eighth Edition, John Wiley & Sons Inc., New Jersey, 2006
- [4] Sztruten (Lefter) G.G., „Ecotourism management in accomodation structures”, European Integration – New Challenges for Romania’s Economy, Ediția a V-a, Oradea, 2009, pp.213-218
- [5] Tietenberg T., Lewis L., “Environmental Economics & Policy”, Sixth Edition, Pearson Education, SUA, 2010
- [6] [www.hiltonworldwide.com](http://www.hiltonworldwide.com)



## Aspects of Economic Crisis and Globalization

TALMACIU Iuliana

“Constantin Brancoveanu” University of Pitesti  
iuliana\_talmaciu@yahoo.com

### Abstract

*The origin of the U.S. financial crisis has its foundation in the fact that commercial banks and investment banks lent vast sums—trillions of dollars—for housing purchases and consumer loans to borrowers ill-equipped to repay. The easy lending pushed up housing prices around the U.S., which then ratcheted still higher when speculators bought houses on the expectation of yet further price increases. When the easy lending slowed and then stopped during 2006-2007, the housing prices peaked and began to fall. The housing boom began to unravel and now threatens an economy-wide bust.*

*The housing bubble started to burst in 2006, and the decline accelerated in 2007 and 2008. Housing prices stopped increasing in 2006, started to decrease in 2007, and have fallen about 25 percent from the peak so far. The decline in prices meant that homeowners could no longer refinance when their mortgage rates were reset, which caused delinquencies and defaults of mortgages to increase sharply, especially among subprime borrowers.*

**Key words:** economic crisis, globalisation, housing prices

**JEL classification:** R20

### 1. Introduction

It is becoming increasingly clear that the financial meltdown of 2008 and the subsequent economic contraction that continues to this day represent more than just another recessionary cycle. More importantly, they represent a structural change, a new phase, the phase of the dominance of "finance capital," as the late Austro-German political economist Rudolf Hilferding put it.[1]

The U.S. economy faces four cascading threats: First, the sharp decline in consumer spending on houses, autos and other durables, following the sharp decline in lending to households, will cause a recession as construction of new houses and production of consumer durables nosedive. Second, many homeowners will default on their mortgage payments and consumer loans, especially as house values fall below the mortgage values. Third, the banking sector will cut back sharply on its lending in line with the fall in its capital following the write-off of bad mortgage and consumer loans. Those capital losses will push still more financial institutions into bankruptcy or forced mergers with stronger banks. Fourth, the retrenchment of lending now threatens even the shortest-term loans, which banks and other institutions lend to each other for working capital. Interbank loans and other commercial paper are extremely hard to place.[2]

The global economic crisis, which first emerged as a financial crisis in one country, has now fully installed itself with no bottom yet in sight. The world economy is in a deep recession, and the danger of falling into a deflationary trap cannot be dismissed for many important countries.

Firefighting remains the order of the day, but the urgent search for means to prevent the global economy from falling over the precipice must not be at the expense of a sober analysis of the reasons for the crisis, even in the short term.

The article highlights three specific areas in which the global economy experienced systemic failure. The United Nation Report (2009) investigates three interrelated issues of importance to the developed and developing countries alike, and proposes measures to address the systemic failures they have entailed:[3]

- how the ideology of financial deregulation within and across nations allowed the build-up of pressures whose unwinding has damaged the credibility and functioning of the market-based models that have underpinned financial development throughout the world;

- how the growing role of large-scale financial investors on commodities futures markets has affected commodity price volatility and fed speculative bubbles;

- the role of widespread currency speculation in exacerbating global imbalances and fuelling the current crisis in the absence of a cooperative international system to manage exchange rate fluctuations to the benefit of all nations.

## 2. Effects of the crisis

From the first quarter of 2006 to the third quarter of 2008, the percentage of mortgages in foreclosure tripled, from 1 percent to 3 percent, and the percentage of mortgages in foreclosure or at least thirty days delinquent more than doubled, from 4.5 percent to 10 percent. These foreclosure and delinquency rates are the highest since the Great Depression; the previous peak for the delinquency rate was 6.8 percent in 1984 and 2002. And the worst is yet to come. The American dream of owning your own home is turning into an American nightmare for millions of families.

Early estimates of the total number of foreclosures that will result from this crisis in the years to come ranged from 3 million (Goldman Sachs, International Monetary Fund) to 8 million (Nuriel Roubini, a New York University economics professor whose forecasts carry some weight because he was one of the first to predict several years ago the bursting of the housing bubble and the current recession). So far, there have already been almost 3 million mortgage foreclosures. Another 1 million mortgages are ninety days delinquent (foreclosure notices usually go out after ninety days), and another 2 million were thirty days delinquent. Therefore, a total of about 6 million mortgages either have already been foreclosed, are in foreclosure, or are close to foreclosure. Six million mortgages are about 12 percent of all the mortgages in the United States. The situation could get a lot

worse in the months ahead, due to the worsening recession and lost jobs and income, unless the government adopts stronger policies to reduce foreclosures.

Defaults and foreclosures on mortgages mean losses for lenders. Estimates of losses on mortgages keep increasing, and many are now predicting losses of \$1 trillion or more.

In addition to losses on mortgages, there will also be losses on other types of loans, due to the weakness of the economy, in the months ahead: consumer loans (credit cards, etc.), commercial real estate, corporate junk bonds, and other types of loans (e.g. credit default swaps). The estimates of losses on these other types of loans range up to another trillion dollars. Therefore, total losses for the financial sector as a whole could be as high as \$2 trillion.

It is further estimated that banks will suffer about half of the total losses of the financial sector. The rest of the losses will be borne by non-bank financial institutions (hedge funds, pension funds, etc.). Therefore, dividing the total losses for the financial sector as a whole in the previous paragraph by two, the losses for the banking sector could be as high as \$1 trillion. The blow to the rest of the economy would happen because the rest of the economy is dependent on banks for loans—businesses for investment loans, and households for mortgages and consumer loans. Bank losses result in a reduction in bank capital, which in turn requires a reduction in bank lending (a credit crunch), in order to maintain acceptable loan to capital ratios. Assuming a loan to capital ratio of 10:1 (this conservative assumption was made in a recent study by Goldman Sachs), every \$100 billion loss and reduction of bank capital would normally result in a \$1 trillion reduction in bank lending and corresponding reductions in business investment and consumer spending. According to this rule of thumb, even the low estimate of bank losses of \$1 trillion would result in a reduction of bank lending of \$10 trillion! This would be a severe blow to the economy and would cause a severe recession.

Bank losses may be offset to some extent by “recapitalization,” by new capital being invested in banks from other sources. If bank capital can be at least partially restored, then the reduction in bank lending does not have to be so significant and traumatic. In addition to

the credit crunch, consumer spending will be further depressed in the months ahead due to the following factors: decreasing household wealth; the end of mortgage equity withdrawals (which were very significant in the recent boom); and declining jobs and incomes. All in all, it is shaping up to be a very severe recession.

### 3. Lessons of the crisis

Developing countries are paying a steep economic price for a crisis that originated at the centre of the world's financial system. They need to consider how they can protect themselves from external financial shocks. Moreover, most developing countries are rightly trying to build deeper and more (functionally) efficient financial systems, and this crisis should be seized as an opportunity to expose the hidden risks of financial development and how more sophisticated financial systems require more, and not less, regulation.

During 2008, the United States stock market lost about 35 per cent of its value. Compared with other industrial countries and with the largest emerging markets, it did relatively well. All large emerging markets had dollar returns which were well below those of the United States. Sovereign spreads tripled in the second half of 2008 and private capital flows to emerging economies collapsed by 80 per cent with respect to 2007. At the same time, interest rates on United States Treasuries are at historically low levels. There seems to be a flight to quality in the country at the centre of the crisis.[4]

#### ***- Financial development requires more and better regulation***

Developing countries tend to have financial systems that are less functionally efficient than those of the advanced economies. Given the importance of finance for investment in fixed capital and growth, several developing countries adopted ambitious structural reform programs aimed at modernizing and improving their own financial systems. However, there are serious doubts as to whether these pro-market policies were successful in their aim of increasing the social efficiency of their financial sectors.[5]

Developing countries are often characterized by a non-competitive financial system in which banks make good profits by paying low interest on deposits and charging high interest rates on loans, which they only extend to super-safe borrowers. Shareholders and bank managers are content with rents arising from limited competition, but the financial system is hardly conducive to investment in fixed capital and to economic development. Credit will be limited and unlikely to flow to potentially high-return investment projects in the productive sector. If the country decides to reform its financial system and if policymakers are well aware that the reform process should target functional efficiency, the task is not an easy one. Even if policymakers know that financial instruments that may have high social returns in a more developed country may not be appropriate for their less developed economy and try to target the reform process to the real needs of their country, financial regulators will soon start facing new problems. By reducing bank margins, the reform process leads to a whole new set of incentive problems.

The old system was inefficient but relatively easy to control. A more competitive environment alters the incentive structure of bank managers in two ways. First, as their compensation now depends on returns to investment, bank managers will face more upside risktaking.

Second, since bank managers know that they are evaluated against their peers, they have incentives to herd and take hidden tail risk. Detecting this behaviour, which has the potential for generating large systemic shocks, requires sophisticated regulators.

On the investment bank side, the loss of stable income from brokerage activities may provide incentives for increasing leverage and entering into activities that involve maturity transformation; in other words, for the creation of a shadow banking system. But, again, regulators may not be ready for this new structure of the financial system and still work under the assumption that only commercial banks have systemic importance.

This example shows that one perverse outcome of otherwise successful financial reforms is that, by reducing margins, they may induce bankers to take more risk than they are prepared to absorb or than regulators are able

to understand. This does not mean that developing countries should not try to improve the functional efficiency of their financial system. However, the process needs to be gradual and accompanied by a stronger and more comprehensive regulatory apparatus.

**- *There is no one-size-fits-all financial system***

Developing countries face a difficult trade-off regarding the design and regulation of their financial systems. On the one hand, access to finance is necessary for economic development. On the other hand, as seen above, a more sophisticated financial sector is also likely to lead to an increase in total risk. If the second effect dominates the first, financial development may lead to an increase of systemic risk. Until recently it was believed that good financial regulation could be a solution to this trade-off and most countries could build financial systems that are both sophisticated and stable. The current crisis suggests that this objective may not be within the reach of most developing countries, at least in the near future. In choosing where to position themselves in the continuum between financial sophistication and stability, developing countries should recognize that there is no model that is right for all countries or at all times. Each country needs to find the model, which is most appropriate for its current level of development, needs, and institutional capacity.

Countries with stronger regulatory and institutional capacity may want to adopt a more aggressive process of financial liberalization and embrace a more market-based financial system. Other countries may want to be more cautious and stick to traditional banking. Some countries may find that their regulatory capacities do not even allow the proper working of private banks and may decide to rely more on State-owned banks. If they decide to do so, they should not be discouraged by the claim that "State ownership tends to stunt financial sector development, thereby contributing to slower growth".[6] Many examples in developed economies have shown that the prejudice against State-owned banking is not justified and that "sophisticated" financial systems may badly fail. After all, the current crisis shows that once the chips are down and all bets are off, all banks are public.

The world economy has just been through a severe recession marked by financial turmoil, large-scale destruction of wealth, and declines in industrial production and global trade. According to the International Labor Organization, continued labor-market deterioration in 2009 may lead to an estimated increase in global unemployment of 39-61 million workers relative to 2007. By the end of this year, the worldwide ranks of the unemployed may range from 219 to 241 million - the highest number on record.

Meanwhile, global growth in real wages, which slowed dramatically in 2008, is expected to have dropped even further in 2009, despite signs of a possible economic recovery. In a sample of 53 countries for which data are available, median growth in real average wages had declined from 4.3% in 2007 to 1.4% in 2008. The World Bank warns that 89 million more people may be trapped in poverty in the wake of the crisis, adding to the 1.4 billion people estimated in 2005 to be living below the international poverty line of \$1.25 a day.

In this climate, globalization has come under heavy criticism, including from leaders of developing countries that could strongly benefit from it. President Yoweri Museveni, who is widely credited for integrating Uganda into world markets, has said that globalization is "the same old order with new means of control, new means of oppression, new means of marginalization" by rich countries seeking to secure access to developing country markets.[7]

Yet the alternative to global integration holds little attraction. Indeed, while closing an economy may insulate it from shocks, it can also result in stagnation and even severe homegrown crises. Current examples include Myanmar and North Korea; before their economic liberalization China, Vietnam, and India were in the same boat.

To ensure a durable exit from the crisis, and to build foundations for sustained and broad-based growth in a globalized world, developing countries in 2010 and beyond must draw the right lessons from history.

In the current crisis, China, India, and certain other emerging-market countries are coping fairly well. These countries all had strong external balance sheets and ample room for fiscal maneuver before the crisis, which

allowed them to apply countercyclical policies to combat external shocks.

They have also nurtured industries in line with their comparative advantage, which has helped them weather the storm. Indeed, comparative advantage - determined by the relative abundance of labor, natural resources, and capital endowments - is the foundation for competitiveness, which in turn underpins dynamic growth and strong fiscal and external positions.

By contrast, if a country attempts to defy its comparative advantage, such as by adopting an import-substitution strategy to pursue the development of capital-intensive or high-tech industries in a capital-scarce economy, the government may resort to distortional subsidies and protections that dampen economic performance. Without the ability to take timely countercyclical measures, such countries fare poorly when crises hit.

To pursue its comparative advantage and prosper in a globalized world, a country needs a price system that reflects the relative abundance of its factor endowments. Firms in such a context will have incentives to enter industries that can use their relatively abundant labor to replace relatively scarce capital, or vice versa, thereby reducing costs and enhancing competitiveness. Examples include the development of garments in Bangladesh, software outsourcing in India, and light manufacturing in China.

But such a relative price system is feasible only in a market economy. This is why China - which appears to be faring well in the crisis, meeting its 8% growth target in 2009 - became an economic powerhouse only after instituting market-oriented reforms in the 1980s. Indeed, all 13 economies with an average annual growth rate of 7% or more for 25 years or longer, identified in the Growth Commission Report led by Nobel laureate Michael Spence, are market economies.

Pursuing its comparative advantage strengthens a country's resilience to crisis and allows for the rapid accumulation of human and physical capital. Developing countries with such characteristics are able to turn factor endowments from relatively labor- or resource- abundant to relatively capital-abundant in the span of a generation.

In today's competitive global marketplace, countries need to upgrade and diversify their industries continuously according to their changing endowments. A pioneering firm's success or failure in upgrading and/or diversifying will influence whether other firms follow or not. Government compensation for such pioneering firms can speed the process.

Industrial progress also requires coordination of related investments among firms. In Ecuador, a country that is now a successful exporter of cut flowers, farmers would not grow flowers decades ago because there was no modern cooling facility near the airport, and private firms would not invest in such facilities without a supply of flowers for export.

In such chicken-and-egg situations, in which the market alone fails to overcome externalities and essential investments go lacking, the government can play a vital facilitating role. This may be one of the reasons why the Growth Commission Report also found that successful economies all have committed, credible, and capable governments.

#### **4. Possible solutions for the economic crisis**

Instead of wasting \$700 billion on a bailout of the guilty that does not address the problem, the money should be used to refinance the troubled mortgages, as was done during the Great Depression. If the mortgages were not defaulting, the income flows from the mortgage interest through to the holders of the mortgage-backed securities would be restored.[8] Thus, the solvency problem faced by the holders of these securities would be at an end.

- The financial markets must be carefully re-regulated, not over-regulated or wrongly regulated.

- The trade deficit is more difficult to reduce as the US has permitted itself to become dependent not merely on imports of foreign energy, but also on imports of foreign manufactured goods including advanced technology products. Steps can be taken to bring home the offshored production of US goods for US markets. This would substantially reduce the trade deficit and, thus,

restore credibility to the US dollar as world reserve currency. Follow-up measures would be required to insure that US imports do not greatly exceed exports.

- The issuance of credit cards must be brought back to prudent standards, with checks on credit history, employment, and income. Balances that grow over time must be seen as a problem against which reserves must be provided, instead of a source of rising interest income to the credit card companies.

- Fractional reserve banking must be reined in by higher reserve requirements, rising over time perhaps to 100 percent. If banks were true financial intermediaries, they would not have money creating power, and the proliferation of debt relative to wealth would be reduced.

The Great Depression lasted a decade because the authorities were unable to comprehend that the Federal Reserve had allowed the supply of money to shrink. The shrunken money supply could not employ the same number of workers at the same wages, and it could not purchase the same amount of goods and service at the same prices. Thus, prices and employment fell.

The world is now so far down the path of integration that turning back is no longer a viable option. We must internalize lessons from the past and focus on establishing well-functioning markets that enable developing countries fully to tap their economies' comparative advantage. As part of this process, a facilitating role for the state is desirable in developing and developed economies alike, although the appropriate role may be different depending on a country's stage of development.

Ultimately, in today's complex and interlinked world, even the most competitive economies need a helping hand as they climb the global ladder.

## 5. Bibliography

- [1]. Ismael Hossein-Zadeh – “A New Phase, Not Just Another Recession”, The Huffington Post, February 15, 2010, <http://www.globalpolicy.org/component/content/article/229-world-economic-crisis/48750-a-new-phase-not-just-another-recession-.html>
- [2]. Jeffrey D. Sachs – “How to Fix the U.S. Financial Crisis”, Scientific American Magazine, December 2008, <http://www.scientificamerican.com/article.cfm?id=fixing-financial-crisis>
- [3]. Report by the UNCTAD Secretariat Task Force on Systemic Issues and Economic Cooperation - “The Global Economic Crisis: Systemic Failures and Multilateral Remedies”, UNITED NATIONS, 2009, [http://www.unctad.org/en/docs/gds20091\\_en.pdf](http://www.unctad.org/en/docs/gds20091_en.pdf)
- [4]. Report by the UNCTAD – “The Global Economic Crisis: Systemic Failures and Multilateral Remedies”, UNITED NATIONS, 2009, [http://www.unctad.org/en/docs/gds20091\\_en.pdf](http://www.unctad.org/en/docs/gds20091_en.pdf)
- [5]. UNCTAD Report - “The Global Economic Crisis: Systemic Failures and Multilateral Remedies”, Chapter IV, UNITED NATIONS, 2009, [http://www.unctad.org/en/docs/gds20091\\_en.pdf](http://www.unctad.org/en/docs/gds20091_en.pdf)
- [6]. World Bank – “Finance for Growth: Policy Choices in a Volatile World”, 2001, [http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000094946\\_01052404084811](http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000094946_01052404084811)
- [7]. Ismael Hossein -Zadeh – “A New Phase, Not Just Another Recession”, The Huffington Post, February 15, 2010 <http://www.globalpolicy.org/component/content/article/229-world-economic-crisis/48750-a-new-phase-not-just-another-recession-.html>
- [8]. Paul Craig Roberts – “A Possible Solution to the Economic Crisis - What Is to be Done?” <http://www.globalresearch.ca/index.php?context=va&aid=10519>

## Advance Pricing Arrangements an Alternative to The Transfer Pricing File. New Developments in Romania

TRANDAFIR Adina  
RISTEA Luminita  
„Spiru Haret” University of Constanta  
atrandafir04@yahoo.com  
luminita.ristea@consultingr.ro

### Abstract

*The targeted objectives are to understand the necessity of implementation of the advance pricing arrangement (APA) by the Romanian national tax authority as a technical support in dealing with cross-border transactions between related parties.*

*The paper first identifies the concept of advance pricing arrangement ("APA") together with the adopted OECD framework and then presents the main aspects in respect of the implementation of APA in Romania as a procedure that may provide secure solution for both the taxpayers and tax administration relating to any transaction subject to transfer pricing.*

**Key words:** transfer pricing, advance pricing arrangement, double taxation, international transactions, cross-border transactions

**JEL classification:** L1

### 1. APA around the World

According to International transfer pricing – Advance pricing arrangements “the aim of the advance pricing arrangement (APA) program is to give businesses an opportunity to reach an agreement with the Tax Office on the future application of the arm’s length principle in their international dealings with related parties, thereby resolving any uncertainty around these dealings.”

We have analyzed and obtained information about 52 states all around the world in respect of the stage of implementation and application of APA .

We have observed that from all 52 states analyzed, 25 (Argentina, Austria, Azerbaijan,

Brazil, Chile, Cyprus, Denmark, Ecuador, Finland, Greece, India, Ireland, Kazakhstan, Luxembourg, Malaysia, New Zealand, Norway, Philippines, Portugal, Russia, South Africa, Sweden, Switzerland, Ukraine, Uruguay) have not specific regulation about APAs regime in their national laws.

These countries apply unilateral, bilateral or multilateral APAs usually only for the cross-border transactions. Japan introduced in 1986 transfer pricing taxation and in 1987 the Advance Pricing Arrangement (APA) being the first country in the world which implemented such procedures.

Following analyses, we have observed that 27 countries (representing 52% of the number of the countries included in our research panel) implemented regulations relating to the advance price agreements in accordance with OECD guidelines and a number of 38 countries (representing 73, 1% of the number of the countries included in our research panel) conclude APAs weather it is required or not, as follows: unilateral agreements (13, 51%), bilateral and multilateral agreements (7, 9%), mixed agreements represents (78, 95%).

At the European level the analysis of the 25 countries concludes that only 48% of the countries have included in the national laws regulations in respect of APA and but 54% of the rest of the countries may negotiate APA and this means that in total a percentage of 76% of the analyzed countries may conclude APA.

Throughout the American continent among the 11 countries analyzed, 6 of them have specific APA national regulations and the other 5 countries have not introduced new regulations in national legislation and cannot conclude any agreements. The three states of North America included APA in the domestic legislation and apply the mixed APA. From

the other eight states of South America 37.5% have implemented APA regulations in the domestic legislation and unilateral, bilateral and mixed arrangements may be signed. The other 62.5% of the countries do not have transfer pricing regulation and do not allow any conclusion of any advance pricing agreement.

Concerning the Asian continent, we have analyzed a number of 12 states. Eight of these have adopted normative acts on the price in advance. According to the available information, the only country that has signed unilateral agreements is China. Although 38.5% of the countries reviewed have not normative acts in the field and only 15% do not agree to any conclusion.

## 2. APAs – OECD Guidelines

The term APA refers to a procedural arrangement between a taxpayer or taxpayers and a tax administration intended to resolve potential transfer pricing disputes in advance. The APA differs from the classic ruling procedure, including verification of the factual assumptions on which the determination of legal consequences is based and continual monitoring of whether the factual assumptions remain valid throughout the course of the APA period.

More than that, an APA is defined in the first sentence of paragraph 4.124 of the Transfer Pricing Guidelines as “an arrangement that determines, in advance (emphasis added) of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time.” It is also stated in paragraph 4.132 that “The concept of APAs also may be useful in resolving issues raised under Article 7 of the OECD Model Tax Convention relating to allocation problems, permanent establishments, and branch operations.”

It is important to distinguish the different types of APAs: unilateral, bilateral or multilateral APAs. In the Transfer Pricing Guidelines (see paragraph 4.130) the arrangements solely between a taxpayer or taxpayers and a tax administration are referred

to as “unilateral APAs”. The Transfer Pricing Guidelines encourage bilateral APAs and recommend at paragraph 4.163 that “Wherever possible, an APA should be concluded on a bilateral or multilateral basis between competent authorities through the mutual agreement procedure of the relevant treaty.” A *bilateral APA* is based on a single mutual agreement between the competent authorities of two tax administrations under the relevant treaty. A *multilateral APA* is a term used to describe a situation where there is more than one bilateral mutual agreement.

It should be noted that, in the vast majority of cases a bilateral APA will be concluded under the mutual agreement procedure of a double tax convention.

However, in some cases where a bilateral APA has been sought and the treaty is not appropriate, or where a treaty is not applicable, the competent authorities of some countries may nevertheless conclude an arrangement using the executive power conferred on the heads of tax authorities.

Although, commonly an APA will cover cross-border transactions involving more than one taxpayer and legal enterprise, i.e. between members of a Multinational Enterprise (MNE) group, it is also possible for an APA to apply to only one taxpayer and legal enterprise.

### ***Objectives of the APA process are:***

- to facilitate principled, practical and co-operative negotiations, to resolve transfer pricing issues expeditiously and prospectively, to use the resources of the taxpayer and the tax administration more efficiently, and to provide a measure of predictability for the taxpayer.
- to be successful in the meaning that the process should be administered in a non-adversarial, efficient and practical fashion and requires the co-operation of all the participating parties.
- to eliminate the potential double taxation.
- to be conducted in a neutral manner, as regards the residence of the taxpayer, the jurisdiction in which the request for the APA was initiated, the audit or examination status of the taxpayer and the selection of taxpayers in general for audit or examination.

### ***Treaty issues***

The eligibility of a taxpayer to apply for a unilateral APA will be determined by the



specific domestic requirements of the relevant tax administration. MAP<sup>1</sup> APAs are governed by the mutual agreement procedure of the applicable double tax agreement, Article 25 of the OECD Model Tax Convention, and are administered at the discretion of the relevant tax administrations.

In some cases the taxpayer will only request a unilateral APA. The reasons for the taxpayer not requesting a MAP APA should be explored. Following the guidance given by the Transfer Pricing Guidelines at paragraph 4.163 that “wherever possible, an APA should be concluded on a bilateral or multilateral basis”, the tax authorities should encourage the taxpayer to request a MAP APA if the circumstances so warrant.

The negotiation of a MAP APA requires the consent of the relevant competent authorities. In some cases, the taxpayer will take the initiative by making simultaneous requests to the affected competent authorities. In other cases the taxpayer may file a request with one jurisdiction under the relevant domestic procedure and ask it to contact the other affected jurisdiction(s) to see if a MAP APA is possible. Consequently, as soon as is administratively practicable, the competent authority in that jurisdiction should notify the relevant tax treaty partner(s) to determine whether they want to participate.

However, Article 25 does not oblige the competent authorities to enter into MAP APAs at the request of the taxpayer. The willingness to enter into MAP APAs will depend on the particular policy of a country and how it interprets the Mutual Agreement Article of its bilateral treaties. Additionally, the taxpayer must qualify for the benefit of a particular treaty (e.g. by qualifying as a resident of one of the Contracting States) and must satisfy any other criteria contained in the Mutual Agreement Article.

When deciding whether a MAP APA is appropriate, a key consideration is the extent of the advantage to be gained by agreeing a method for avoiding the risk of double taxation in advance.

Although a MAP APA by its nature involves an agreement between tax administrations, the process needs

considerable involvement by the taxpayer or taxpayers in order to be successful. Consequently, the taxpayer should submit a detailed proposal for review by the relevant tax administration and be prepared to provide further information as requested by the tax administration.

### **3. The Romanian APAs regime**

In Romania, APAs entered into force recently since 2006. The legislative regulations is the Government Decision no. 529 of 30 May 2007 approving the procedure for issuing individual tax solution and the anticipated price in advance published in Official Gazette no. 395 of 12 June 2007.

The evolution of transfer pricing aspects in Romania shows increasingly interest of the local tax authorities for this topic. It is expected that in the near future transfer pricing is going to be one of the main areas of investigation in the tax inspections.

Given the requirement and the introduction of formal documentation in case of transactions with affiliated persons, multinational companies are advised to pay close attention to the price that developing these transactions and the risk of possible disputes with the tax.

Since 2006, taxpayers may take the initiative to address the tax authorities to clarify in advance the tax treatment of transactions with affiliated persons. In this regard any taxpayer who carries out transactions with affiliated persons may request an APAs.

According to The Romanian Procedural Tax Code, the APA is defined as administrative act issued by the National Agency for Fiscal Administration to address a request from the taxpayer relating to the determination of the terms and conditions to be determined, for a period fixed prices transfer, if the transactions between affiliated persons. APA takes the form of a unilateral act issued by the tax and not an act that involves bilateral and direct taxpayer. However, taxpayers who disagree with the content of the APA may notify tax authorities issued within 15 days from the date of communication. In this case, the agreement will not produce any legal effect.

---

<sup>1</sup> MAP, refers to the bilateral or multilateral APAs

The issuing procedure has been regulated by a specific procedure that includes the issuing and monitoring the agreement being a four-phases process.

*Phase I - Preliminary Discussion*

Prior to submission of the issue of an agreement, taxpayers may request the National Agency for Fiscal Administration a preliminary discussion to assess the feasibility of an issue price in advance.

*Phase II - Submission of application for issue*

Documentation to be submitted for issuance of an advance price includes elements covered by the country-specific documentation of the Code of Conduct on transfer pricing documentation for those affiliated in the European Union. By request, the applicant shall propose the content of the price in advance. The documents available to the tax authorities should be written in Romanian. If documents are available in another language, the taxpayer must ensure translation by a certified translator.

Lodging is conditioned to pay a charge for issuing / amending the amount varying depending on the category of taxpayer and annual transaction value. In the case of large taxpayers and transactions whose value exceeds the consolidated annual 4 million euro charge for issuing the agreement is 20,000 euro and the rate of change is 15,000 euros. In the case of other taxpayers, the tariff issue is 10,000 euro and the rate of change is of 6000 euro. In the category of major contributors fall taxpayers whose annual turnover exceeds 70 million lei, and banking companies, insurance companies, financial investment companies, etc.

*Phase III - the issue of APA*

At this stage the National Tax Administration is issuing the APA. Contents agreement should make reference to the date of issuance, the date on which produces legal effects, details of affiliated persons and transactions made with the methodology for determining the price of transfer, assumptions critical period to be covered by the agreement, etc. The taxpayer's request, the validity of the price in advance can be extended. Also, the agreement may be extended to cover other transactions with related parties or may be revised to take account of circumstances

which were not foreseeable or were inaccurate forecasted at the time of the agreement.

*Phase IV - Submission of annual report*

Any taxpayer who is the beneficiary of an APA, must submit an annual report on how to implement the terms and conditions in the reporting year. This report is to be submitted by the deadline stipulated by law for filing the annual financial situations. Not filing of this report lead to the cancellation agreement.

In Romania, the taxpayers are offered the opportunity to apply for any type of agreement the price in advance: unilateral, bilateral and multilateral.

Bilateral and multilateral agreements can be issued only for transactions with affiliated person's resident tax states with which Romania has concluded agreements to avoid double taxation, on the basis of the article "The amicable."

Term agreements for the issue price in advance are unilateral 12 months and 18 months for the bilateral and multilateral. These time limits are suspended for the tax authorities require additional information.

APA produces legal effects only for the future, beginning with the fiscal year following that in which the transaction was concluded with affiliated persons. By exception, the APA can be applied in the fiscal year in which application, if it is expressly mentioned in the agreement and if the application was filed prior to concluding the transaction. The APA is issued for a period of up to five years. Exceptions may make contracts in the long term, such as royalty contracts.

In the near future it is expected an increasing number of taxpayers who conducted transactions with affiliated persons have the possibility to get the APA. In Romania are expected most applicants to be represented by contributors developing transactions with affiliated persons of significant value, taxpayers who face the issues of unclear legislation on transfer pricing or taxpayers whose policy of transfer prices was influenced by the restructuring business model.

In a first stage, given the novelty of the concept and procedure of issuing the price in advance, it is expected that the issuance of agreements to be a unilateral process easier and faster to situations in which involved and

the tax authorities of other states. However, as the tax will accumulate experience, taxpayers will benefit fully from the many advantages of bilateral and multilateral agreements which are undoubtedly an effective tool to avoid double taxation.

#### 4. Conclusions

On the basis of the main aspects presented in our study it can be stated that any concluded APA offers the taxpayer an operation in the field of transfer pricing free from risks. The transfer pricing documentation, which constitute the basis of the APA application should be prepared by the companies and submitted to the Tax Authority in order to

avoid possible future risks during a fiscal audit. APA may be very useful for most of the national and international company groups, especially for the main activity as well as the intercompany transaction with high value, being an alternative of the transfer prices file documentation prepared usually by the consultants engaged by these companies. In other words, every negotiated and signed APA may give to each company an insurance policy in the relationship with the Tax Authority.

#### 5. References

- [1] Communication by the Ministry of Finance of Czech Republic (2008) *in respect of s. 38nc of Act no. 586/1992 Coll., on income taxes – Binding consideration over the transfer pricing policy used in related party transaction*
- [2] Guo Shui Fa (2004), no.118
- [3] Le Bulletin Officiel des Impôts No. 4 A-8-99 (1999)
- [4] Le Bulletin Officiel des Impôts No. 4 A-11-05 (2005)
- [5] Y Reich, 'US Federal Income Taxation of US Branches of Foreign Banks' (1994) 2 Florida Tax Review 67
- [6]\*\*Law no. 166/2006, Romanian Official Gazette no. 436 / 2006
- [7]\*\*Government Decision no.529/30 May 2007, Romanian Official Gazette no. 395 / 12 June 2007
- [8]\*\*<http://202.108.90.130/n6669073/index.html>
- [9]\*\* [www.ato.gov.au](http://www.ato.gov.au)
- [10]\*\* [www.fin.gc.ca](http://www.fin.gc.ca)
- [11]\*\* [www.iras.gov.sg](http://www.iras.gov.sg)
- [12]\*\* [www.mexlaw.com](http://www.mexlaw.com)
- [13]\*\* [www.nta.go.jp](http://www.nta.go.jp)
- [14]\*\* [www.nts.go.kr](http://www.nts.go.kr)

## Strategies and Techniques in Business Negotiating and Selling: Case Studies

ZAMFIR Cristina-Mihaela  
"Ovidius" University of Constanta  
cristina\_m\_zamfir@yahoo.com

### Abstract

*This paper is the result of my research into the applications of useful strategies and techniques in real business situations. I analyzed the way in which various aspects of particular techniques have been adapted to meet the needs and representations (map) of the world of different categories of business people, salespeople, negotiators, or customers. In applying the techniques to elicit performance in customer service communication, I observed both verbal and non-verbal elements of successful business communicators in a specific context. In this respect, I interviewed two groups of banking specialists, and the results were extremely valuable both from the business perspective and the linguistic one.*

*The project was undertaken in the summer of 2009 when I participated in many business encounters and recorded the strategies, values, language and interactive skills in developing rapport with the target clients in conversation. The capability to communicate, understand / identify the clients' needs and offer consultancy was rendered by certain combinations of strategies, language patterns, values, beliefs and physiology.*

*In this paper, I shall describe two of the situations that I consider to be relevant, i.e. the negotiating and selling of a banking service, on the one hand, and the defusing technique, on the other hand, as well as their linguistic approach.*

**Key words:** negotiation, manager, strategy, technique

**JEL classification:** M21

### 1. Introduction

In the market place of today's business environment, strong linguistic skills are required for professional performance. Business activities centre around strategies and techniques which help managers take responsibility for their communication and control over the process and results.

I have encountered situations in which managers applied specific techniques in order to bring about a change in their companies and introduce constructive ways to problem solving situations. I have analyzed two business situations, approached business linguistic structures, and dedicated an important part to the type of language used nowadays in negotiating and selling.

In order to clear up such aspects, Romanian banking clerks were interviewed at Piraeus Bank. I have insisted on the paraphrase listening techniques, which involve repeating the other person's words and phrases to deepen rapport and keep information flowing.

#### Dialogue 1: Negotiating a credit line

##### STEP 1: WELCOMING THE CLIENT

Client: Good afternoon.

Manager: Good afternoon, Mr. Petrescu. Welcome back – it's good to see you again.

Client: So am I to see you.

Manager: Have a seat. How are you?

Client: Fine, thanks. I need some information about some various issues.

Manager: At our last talk, you got the card from us. I hope it has been useful to you, hasn't it?

Client: Yes, it has. Last week I came back from a conference and I booked in Germany at a hotel every....

Manager: I am glad to hear that.

Client: I managed everything by means of the card. It was really fine. And fast

reimbursement! I liked it very much! Thank you very much for your recommendation.

#### STEP 2: IDENTIFYING THE CLIENT'S NEEDS

Manager: Thank you. What can I do for you?

Client: I would like a credit line. I want to purchase some building technology machines, some equipment, and I would be interested in getting a financing.

Manager: How much does the equipment cost, roughly?

Client: Around EUR 25,000.

#### STEP 3: OFFERING CONSULTANCY

Manager: Let's see the possible options. One of them is leasing. Have you ever turned to it?

Client: I have turned to leasing once, but I would like these machines to be mine. Perhaps I could let them further on.

Manager: Good! If I am right, you need to buy them, then to...

Client: Yes, that's right.

Manager: ... to be able to sublet them. In this case, I can recommend you the investment loan. On what period would you prefer the financing?

Client: I think three years would be fine.

Manager: Yes... Can you pay an advance? The investment loan usually includes your own source.

Client: I could pay around 20-25%.

Manager: Do you have your financial statements on you? First, we should make a calculation of financial indicators.

Client: Fine. I have prepared the company's financial statements for the last year.

#### STEP 4: CLOSING / FOLLOW UP + CROSS SELL

Manager: I promise I will be handling your file and send you a financing offer by mail on Friday the latest. Is your e-mail address still valid? Is it the same?

Client: Yes, it is.

Manager: Have you heard of our bank's new product - "on line banking"?

Client: No... not really.

Manager: This product may offer you the possibility to consult your balance at any moment, updated. But I will find it a good opportunity then to tell you a little bit more about the product.

Client: Fine, thanks. Now I am really in a hurry. That will be fine.

Manager: Then, let's talk on the phone. I will call you on Friday, as soon as I have prepared the offer.

Client: Thank you very much.

Manager: It has been a real pleasure to see you again, Mr. Petrescu. Have a nice day!

#### Analysis and comments

Negotiating a credit line

STEP 1: Welcoming the client

From the very beginning, the area manager gives an enthusiastic welcome to the customer by talking to him in a positive and respectful way: "Good afternoon, Mr. Petrescu. Welcome back – it's good to see you again. Have a seat. How are you?" These polite formulas suggest that the interlocutors know each other very well, and their business relationship has been lasting for some time. Besides, the manager keeps an optimistic tone and uses the **partnership language** addressing the client by his name – Mr. Petrescu.

In the warm-up discussion, the manager remembers their previous business encounter – "At our last talk, you got the card" and by asking the **open question** "I hope it has been useful to you, hasn't it?", she wants to check if the client was content with her recommendation. The client's affirmative answer contains a lot of **appreciative expressions** – "Yes, it has been very good", **repetitions** – "I liked it very much, thank you very much...", **explanations** (arguments) – "last week I came back from a conference and I booked in Germany at a hotel everything by means of the card,...And fast reimbursement!". As a matter of fact, it is the customer who starts using what is known in selling as the technique of showing that you appreciate something out of what someone has said or done. People like to receive honest compliments. In this conversation, the message that the client sends when he appreciates what the manager has done at a particular time is that, for him, the manager is a competent and important person: "...thank you very much for your recommendation" similar in meaning with "You helped me very much recommending the appropriate card". The manager seems very pleased by the

compliment and is ready to help her client on a future application for a credit.

#### STEP 2: Identifying the client's needs

The second step, i.e. identifying the client's needs, concentrates on another technique, that of asking those types of questions which would allow for a complete understanding of the client's financial needs.

Another technique used by the manager is that of **asking the right question** that would guide her towards identifying the customer's needs. Linguistically, the manager uses the open question – “What can I do for you now?” placing herself at her client's disposal. This question gently brings the discussion on the wanted track and towards a productive direction.

Once the intention has been identified, the manager addresses a closed question in order to ask for precise information: “How much does the equipment cost, roughly?” The client currently needs to negotiate a new credit line that would allow him to purchase some machines for constructions.

#### STEP 3: Offering consultancy

In order to provide consultancy, the manager uses the **technique of informing** the client of the various alternatives that the bank can offer, wanting to identify, together with the customer, that specific product which seems to correspond best to the needs of the customer. The manager uses the partnership language, makes suggestions and concentrates on what is possible or could be a solution: “Let's see the possible options” **signalling** a first possibility – “One of them is leasing”. The good thing that she does is that, immediately after presenting the option, she wants to check if her suggestion is also shared by the client: “Have you ever turned to it?” His client's hesitation taking into account his reasons – “I would like these machines to be mine. Perhaps I could let them further on” – makes her come with a second suggestion, i.e. the investment loan. The manager uses **confirmation type expressions** like “Good, if I am right, you need to buy them, then to be able to sublet them” which give her the certainty that she understood exactly what the client said. In negotiating terms, the language structures that she uses are known as **backtracking** or **summarizing**, when the manager repeats the

words or key phrases that the client has just used. The manager's short review will make the client understand that she listened to what he said. This **checking understanding strategy** offers the manager a clearer picture and allows her to propose a second option: “In this case, I can recommend you the investment loan”. Technically, the manager suggests a productive approach, offering reasons and presenting the steps that are necessary to be taken: “Can you pay an advance? The investment loan usually includes your own source”. In this way the manager is answering the client's unsaid why?: Why should I pay an advance? Although there is not a subordinate conjunction (because or since in this case), the relationship between the manager's question and answer is a causal one. What she means to say is You should pay an advance **because** the investment loan usually involves your own source. In negotiating and selling, this technique is very important and necessary, especially when a manager has to ask many questions or ask for confidential information.

#### STEP 4: Closing / Follow up + Cross sell

In the follow-up discussion, the manager proves that she is confident in what she says – “I promise...” and guarantees that she will personally deal with his file. In selling, clients are impressed when the service providers consider their problem as being their own. Ensuring the client that he will receive a quality service and special attention, the manager wins the client's trust and, implicitly, his fidelity. In the dialogue, this technique is rendered by a phrase containing a future simple, a future continuous and a deadline: “I promise I will be handling your file and send you a financing offer by mail on Friday the latest”.

At the end of the conversation, the manager makes use of the cross sell technique. By means of the **'hook' question** “Have you heard of our bank's new product – ‘on line banking’?” her intention is to promote a new banking service for those clients who might be interested. ‘Hook’ phrases are very useful as a selling strategy to attract and determine the customer to also buy a new product, other than the one he has originally agreed on.

‘Hook’ questions usually start with the verb *hear* in the present perfect simple and the verb *know* in the past tense simple. Examples of

this type could be: Did you know that you can benefit from the most convenient life insurance? Did you know that you can check the balance of your account through the Internet? Have you heard of our credit promotions? and so on.

The manager's business vocabulary includes:

- nouns: leasing (when a company pays to use equipment rather than buying it),

balance (the difference between the total amounts of money coming into and going out of an account in a particular period of time).

- noun phrases: financial statements (a statement showing the financial state of a business, at the end of a particular period of time, including its balance sheet, profit and loss account, and other necessary information.

financial indicators (one showing the state of a company's finances or of a financial market).

online banking (a service provided by banks that allows people to pay money from one account to another, pay bills etc over the Internet).

- verbs: sublet (to rent property that you rent from its owner to another person).

- collocations: procure a card (obtain a card that is needed for a particular task).

make a calculation (use numbers in order to find out an amount, price, or value).

The client's business vocabulary includes:

- nouns: reimbursement (paying back the money that someone have spent because of their work).

- noun phrases: credit line (an arrangement with a bank for a loan or a number of loans).

- verbs: let (to allow someone to use machinery or equipment in return for rent).

- verb phrases (collocations): get a financing (get money for an investment), turn to leasing (to start to use leasing as a new method of financing).

## Dialogue 2: Defusing Technique

Client: Good afternoon.

Manager: Good afternoon.

Client: I have got a problem. There is no more money left in my account.

Manager: Have a seat, please.

Client: I don't know what's going on.

Manager: Tell me what it is about to help you.

Client: Today, when I checked the account balance, some money was missing.

Manager: When did you check the balance last?

Client: I checked it yesterday and the money was there. Now I haven't got the same amount.

Manager: If I get it right, you tried to make a cash withdrawal and the funds were insufficient.

Client: Yes, they were.

Manager: What's your name, please? Let me check.

Client: My name is Petrescu Virgilius.

[The manager checks her client's account on the computer]

Manager: Yes, it stands like this: The fee for the renewal of your card was charged yesterday. RON 15 represents the amount that was reimbursed on the card, it is probably the same amount...

Client: What do you mean? What fee?

Manager: There is an annual card renewal. This is the tax we charge for your card.

Client: I think I remember...

Manager: You were let to know that when you got your card.

Client: Oh, I forgot that. I am sorry, I didn't know this was the issue... I thought some money had been stolen.

Manager: Anyway, we'll always be here to help you clear up things.

Client: Thank you. Good bye!

Manager: Good bye!

## Analysis and comments

### Defusing Technique

The dialogue is based on the use of the **defusing technique**, i.e. improving a difficult situation by making people less angry and by dealing with the causes of a problem. The manager considers two aspects: on the one hand, defusing the situation, and, on the other hand, defusing tension and anger on the part of her interlocutor. The first thing that the manager does is to invite the customer to seat down "Have a seat, please" because he seems very worried. The client expresses a strong feeling by describing the unfortunate situation that he has just gone through: "I don't know what's going on", complains on a vigorous and sceptical tone "Today, when I checked the account balance, some money was missing" and demands some explanation. The manager shows that she understands him and that she is

interested in his situation – “Tell me what it is about to help you”. This is a good strategy on the part of the manager who sympathizes with her client’s problem and is willing to provide a solution. She uses the **open question technique** – “When did you check the balance last?” and then summarizes the client’s words. In this way, she uses the **technique of checking understanding** by means of a conditional clause – “If I get it right, you tried to make a cash withdrawal and the funds were insufficient”. The manager checks, presents the new facts – “Yes, it stands like this: The fee for the renewal of your card was charged yesterday. 15 RON represents the amount that was reimbursed on the card, it is probably the same amount...”, although the client still seems confused and worried by asking curtly “What do you mean? What fee?” The manager eventually offers him the motivation for the missing amount of money, motivation which is perfectly justified and of which the client should have been aware. She remembers him that each year the bank charges for any card renewal – “There is an annual card renewal. This is the tax we charge for your card”. This is the point where the manager starts leading, by using a positive, kind tone – “You were let to know that when you got your card”. Consequently, the client behaves in a less angry way by taking the blame on him, starting to smile and even apologizing – “I think I remember... Oh, I forgot that. I am sorry, I didn’t know this was the issue...” Towards the end of the conversation, the manager uses a technique which is very important in establishing cordial business relationships, i.e. assuring the client of her total availability and the fact that she is doing her best to help him by using the phrase – “Anyway, we’ll always be here to help you clear up things”.

## 2. Conclusions

The analysis of the basic strategies and techniques used in negotiating and selling brought me closer to understanding how they can help identify and define present states and desired states of various types and levels.

My research was to embark upon an analytical study of the techniques specific to communication, in general, and to business contexts, in particular.

One of the major aims of my research was to demonstrate that many of the techniques and strategies were derived from observing the patterns of excellence in experts from the professional fields of negotiating and selling, and their linguistic expression.

Dealing with all the aspects of such strategies from the linguistics point of view seemed extremely challenging to me. The more flexibility business people have in language, the easier it is to generate results.

The linguistic expressions of pacing and leading strategies, as well as checking on the understating of the other person’s map are considered a powerful tool to strengthen peoples’ ability to assist others in finding new perspectives.

## 3. References

- [1] Bandler, R. and J. La Valle, *Persuasion Engineering. Sales and Business, Language and Behaviour*, Capitola, CA: Meta Publications, 2001.
- [2] Bazerman, M.H. and R.J. Lewicki, *Negotiation in organizations*, Beverly Hills, CA: Sage, 1983.
- [3] Cooper, L., *Business NLP for Dummies*, England: John Wiley & Sons, Ltd., 2008.
- [4] Frențiu, L., *Strategii de comunicare în interacțiunea verbală*, Timisoara: Mirton, 2000.
- [4] Garratt, T., *The Effective Delivery of Training Using NLP: A Handbook of Tools, Techniques and Practical Exercises*, London: Kogan Page Ltd., 1997.
- [5] Heavrin, C. and M. Carrell, *Negotiating Essentials*, New Jersey: Pearson Education, 2008.
- [6] Popescu, D., *Eficiența comunicării în afaceri.*, București: Editura Luceafărul, 2003.
- [7] Venter, D., “Framing – An Important Negotiation Tool”, *The Negotiator Magazine*, 2004, [www.negotiatormagazine.com/article224\\_1.html](http://www.negotiatormagazine.com/article224_1.html).
- [8] Zamfir, C. M., ‘Language Patterns and NLP Techniques in Business Interactions’, in E. Croitoru and F. Popescu (eds.), *Translation Studies: Retrospective and Prospective Views*, vol.II. Galați: Galați University Press, 2008, pp.230-239.



## **SECTION ONE**

# **INTERNATIONAL AFFAIRS AND EUROPEAN INTEGRATION**

## **SUBSECTION**

### **European Integration**

## Conceptual Approach Concerning the Main Components of Central Banks Independency

APETRI Anișoara Niculina,  
CIBOTARIU Irina Ștefana,  
MIHALCIUC Camelia Cătălina  
„Stefan cel Mare” University of Suceava  
[anisoarad@seap.usv.ro](mailto:anisoarad@seap.usv.ro),  
[irinac@seap.usv.ro](mailto:irinac@seap.usv.ro),  
[cameliam@seap.usv.ro](mailto:cameliam@seap.usv.ro)

### Abstract

*Concerns specific to central bank independency, both on scientific and practical levels, have highly occurred in the ninth decade of the last century, thanks to the existence of some global and regional factors: adopting the objective related to steadiness of prices, liberalization of capitals movements, decreasing of SMEs, etc. Nowadays, the polemics are mainly guided by taking into account the independency level, which the monetary authority should have upon government; though, the dependence towards companies, banks or other financial institutions should not be neglected either. This paper approaches aspects related to central bank independency, both economical and political, as well as the legal components influence of central bank towards the current monetary-financial economy.*

**Key words:** Economic and monetary union, Central Bank, independency

**JEL classification:** F15

### 1. Introduction

The specialty literature has outlined in the last 10-15 years the tendency of increasing the level of independency on central banks; such tendency has proven to be stronger in countries of transition, where wide processes of bank reform were carried out in generally, and of central banks in particular, by replacing the mono-banking system with that organized on two levels: the central bank and commercial bank levels. A very decisive reason for this reform in the situation of countries in transition has been represented by

the strategic objective of them, so as to integrate within EU structures, and respectively of increasing the independency of central banks in the view of integrating within ESCB (European System of Central Banks). In this way, the general tendency in order to increase the independency of central banks (ICB) can be thus justified:

1. **Firstly**, the growth of ICB is aimed to become a general objective, since the central bank that is mainly responsible of maintaining the steadiness of prices should be provided with legal rights so as to accomplish it; though, empirical studies, such as Cukierman (1992) calculations regarding the bank's independence degree, suggest that a negative correlation exists between ICB and performances within inflation field, at least for the developed countries. Approaching the economic reasons of ICB growth may be found to studies of Maliszewski (2000) or Radzyner and Riesinger (1997).

2. **Secondly**, the decisive reason so as to increase the level of ICB in Europe relied on the creation of EMU (Economic and Monetary Union), which assumed wide changes to EU member countries firstly, and to countries aiming to the statute of EU member secondly; the aim consisted in accomplishing the criteria as concerns the legislative convergence foreseen by the Treaty and Statute of ESCB (European System of Central Banks), before reaching the last stage of EMU, meaning the adopting of Euro.

According to Bruni thoughts (2005), the central bank independency seems to be inexistent, and such concept meets all the conditions of a myth: “starting with a fiction story, passing to half-true and reaching up to the popular faith, which forms the values and attitude of people”. Notwithstanding, the author admits that all institutional agreements

under independency current can be useful within offering an efficient monetary policy. So as to understand this multidimensional concept, authors as Grilli, Masciandaro and Tabellini (1991) distinguished two components of central bank independency: the political independency and the economical independency. The authors affirmed this concept, considering that political independency is determined by factors including the election of the Governor and members of the Administration Council of the central bank, and also the election of procuracy duration and explicit mentioning within bank's statute of prices steadiness as primordial objective.

As regards the economic independency, the authors affirmed that the higher independency is, the more the central bank will own the control of volume and conditions to offering credits to executive. The economic independency also depends as far as the central bank might choose and uses the instruments of monetary policy; a particular importance is given by the freedom of choosing the rates of interest on re-financing and the prudential activity of central bank.

Other authors, such as Loungani and Sheets (1997), distinguished three types of independency: independency on selecting the objectives, economic independency and political independency. According to these authors, the independency on selecting the objectives is defined as particular drawing up the objective within statute of central bank, aiming towards the steadiness of prices as main objective of it: the economic independency defined in the same terms as Grilli, Masciandaro and Tabellini, and the political independency, which includes a variety of elements, such as naming and revoking the management of central bank, the duration of procuracy and the level at which the executive participated on drawing up the decisions specific to central bank. Cukierman (1992), and respectively Cukierman, Webb and Neyapti (1992) proposed a methodology on estimating the level of independency by a complex form, taking into account criteria, as: the term and conditions of appointing/revoking the management of central bank, the objectives of central bank, defined in accordance to its statute, the legal ability on autonomous conceiving of monetary policy measures and

the legal limits on aiming the financing by the central bank of the budgetary deficit.

The procedures of estimating the independency of central bank, proposed by these authors, do not include the way of building a series of important issues, such as: the effects on strengthening its abilities on stipulation and prudential supervising. By increasing the ability of prudential stipulation, specific to bank sector, the central bank is allowed to exercise activities of prudential supervising, so as to control a series of information; relying on this information, its decisions on conceiving and implementing the monetary policy, and subsequently on owning an increased operational independency will be more adequate taken. One might notice that mentions as regards the nature of monetary system are not stipulated, where the central bank plays the essential part. In this way, if the mechanisms of such system are relying upon specific rules of a monetary council, the following are assumed: rate of exchange, covering the primary currency issuance, by owning foreign payment means interdiction of monetary financing on budgetary deficit, and also of exerting the function of loaner, as last measure of the economy; therefore, the central bank will be instantaneously isolated toward the pressures of practicing a free and easy monetary policy, incompatible to the fundamental objective of maintaining the internal and external value of the currency. In the same time, the explicit existence within statute of central bank is not taken into consideration, as regards its independency. Referrals to external support, on which a central bank can benefit, are not taken into account, so as to maintain its political and operational autonomy; for instance, such autonomy might be accomplished by the participation of central bank to the international economical-financial bodies. In the opinion of Dima (2004), the concept of independency specific to central banks, proved four major dimensions:

- operational independency – reflecting the legal an effective capacity of central bank, on being able to define by itself the objectives of monetary policy, as well its ability on selecting the instruments used so as to reach final, intermediary and operational objectives, without interferences coming from other authorities of the state:

- financial independency – signifying the ability of central bank on establishing and using, in accordance to the own objectives, its financial resources;

- economic independency – represented by the level at which the central bank is liable to participate at financing the budgetary deficit, as well as the means of carrying out such participation;

- political independency – reflecting the measure by which the legislative frame, that stipulates the functioning of monetary authority, will also allow it to face the pressures of executive and of other authorities of the state.

Cerna (2002) affirmed that “independency of central bank is justified, since it impedes the bad influence of politicians on forum that has to elaborate and apply the monetary policy”. Notwithstanding, besides the conceptual and empirical difficulties that defining and measuring the independency of monetary authority face with, two major critical reasons exist for such solution. Firstly, the independency can only be apparent, but hiding a strong secret dependency, meaning a situation where the influence of politicians is as real as possible, but a bit discrete. Secondly, the independency of central bank involves the bureaucratic managing of currency offer, accomplished by the managers and employees of central bank, which might not be better as comparing to political management.

According to Blinder (1999), the central bank independency signifies two aspects:

- firstly, the central bank owns the freedom of deciding the way of accomplishing its objectives;

- secondly, its decisions are hardly to be influenced by the government or any other body.

Blinder affirmed that central bank independency is provided with a high autonomy, in deciding the way of reaching its objectives, but does not assume the fact that it can establish by itself the objectives.

Concerning the relationship between central bank and government, the specialty literature has emphasized reasoning in favor of independency, meaning:

- arguments based upon public election: in accordance to this point of view, the monetary authorities are exposed to a strong pressure from government, especially when the

economy is in decline, and the executive prefers a fiscal policy free and easy;

- arguments based upon the so-called Sargent/Wallace (1977). In the opinion of these authors, a distinction between fiscal authorities and monetary authorities has to be taken into account; the basic arguments relies on the fact that central bank is independent, can oppose resistance to financing the budgetary deficit by currency creation. Instead, when the fiscal policy is dominant, the monetary policy cannot influence the government decision on covering the budgetary deficit;

- arguments based upon issue of non-steadiness of monetary policy. Authors as Kydland and Prescott, Calvo, Barro and Gordon argued that when decision is adopted for future time, these are proved to be optimal only at the beginning of the period.

According to the analysis of central bank independency, three main reasons so as to establish it are illustrated:

- the independency of central bank is theoretically justified by the reason of politicians constraining, which oblige the central banks to accomplish non-justifiable rates of the inflation. Starting with studies of Kydland/Prescott (1977), these under-optimal rates of the inflation were discussed firstly due to the credibility of monetary policy, caused by non-steadiness of monetary policy. As result, the political independency of central bank is necessary so as to avoid electrical or partisan cycles within monetary policy, which together with the previous results of the elections, might determine high levels on output, considered under-optimal, and by this will contribute to a high under-optimal rate of the inflation.

- many empirical studies, as (Eijffinger/De Haan, 1996), affirmed that in industrialized countries, the level of independency of central bank is inversely correlated to the level of inflation, and as concerns the relationship between the independency of central bank and the increasing of inflation, there is no systematic relationship. As concerns the developing countries (existing in contrast to the developed countries), one might see that legal independency of central bank is not relevant for the current level of central bank independency. The negative correlation between central bank independency and

inflation will be though supported and confirmed, if indexes as the rate of replacing the governor, depending on political vulnerability coefficient of the governor, are used so as to quantify the level of central bank independency;

- the Bundesbank model, which is seen as extremely independent central bank.

## **2. The main components of legal independency to central banks**

Forwards, the legal aspects of the central bank independency will be analyzed, by means of four criteria that derive from amendments of Treaty of Maastricht, classification presented for the first time by Bank of Japan (1995) and subsequently modifies by Bruni (1995). The aspects are the following:

1. the main statute objective;
2. the independency on drawing up the monetary policy;
3. the forbiddance of credits offering to public sector;
4. the statute of governor.

With a view of examining some supplementary elements of these legal aspects on central banks independency, certain modifications of this classification were carried out, as follows (Radzyner/Riesinger, 1997): the second criterion is extended, so as to include the drawing up and implementation of monetary policy, including the choosing the instruments and issues in correlation to it. Moreover, the third aspect is extended to financial independency term and includes two issues: the limits of offering loans to the government and the budgetary independency of the central bank. Within fourth criterion, the personal independency will examine the part and statute of central bank officials, meaning: the “institutional” independency, the “personal” independency, the “functional” independency and the “financial” independency. As regards the “independent” statute of the central bank, related to central bank laws (the statutory independency), one might consider as not being a necessary condition so as to reach a high level on legal independency of central bank, as not being included within this classification system.

1. The independency of main statutory objectives of the central bank

Within specialty literature, a general consensus exists, according to which the

independent central banks aim to have a single objective as concerns the monetary policy, meaning the steadiness of prices (Cukierman, 1992). A reason for which a single objective of the monetary policy is preferred relies on the transparency and credibility necessity of the monetary policy. Having a certain number of multiple macroeconomic objectives, which often might face mutual conflicts, the public perceives the risk that can be offered by changing the objectives, fact that might endanger the credibility of monetary policy. Nevertheless, having a single objective on monetary policy will not signify the ignoring of other macroeconomic objectives, but should have explicitly defined a main objective.

The steadiness of prices is unanimously accepted as being a main desirable objective, in detriment of economical development or of full employments, since it can be influenced by the central bank, through a complex transmitting mechanism, meaning: the using of monetary instruments. The distinction between the internal and external purchasing power of the national currency is sometimes included within the drawing up of monetary policy objectives, which might be a source of conflicts within the monetary policy management, depending upon choosing the rates of changeability.

2. The independency on drawing up and implementing the monetary policy

Within specialty literature, the fact according to which an efficient management of monetary policy should be coordinated by economic politics supervised by government was unanimously approved, but the legal stipulations for the mechanisms of cooperation in this aim might be different from one country to another. In this way, the drawing up of monetary policy will be firstly aimed; only after that, the way on its implementation. Within an environment with reduced budgetary deficits, or even with budgetary overplus, an especial importance is represented by the fact that central bank owns the right of issuing securities, so as to prevent any dependency towards the issuing policy of the government.

Nevertheless, on carrying into effect, the choosing of instruments is somehow limited to certain factors. Firstly, and especially to transition countries, the lack of well developed financial markets has directed to using the direct credits control, at least at the beginning

of transformation process, before the fractioning of monetary and of applying the instruments of monetary policy. Secondly, the choosing of rate of exchange regime, that signifies a decision that should have been taken in most cases in agreement to the government, had a significant impact over the independency level in using the monetary policy instruments (Bade/Parkin, 1988); adopting a fixed regime of exchange rate (with a small or even non-existent fluctuation rate as related to parity) will remove the possibility that a central bank can use the rate of exchange as an instrument of monetary policy. Depending upon how precisely the constraints of “creating” the credit are specified, the instrumental independency can be more or less under such commitment.

### **3. The financial independency of central bank**

The term of financial independency aims the following aspects:

- the budgetary independency of central bank; in other words, the issue refers of the central bank disposes of necessary financial means, so as to accomplish the tasks independently towards the governmental bodies;
- forbiddance of offering credits to the public sector.

As regards the budgetary independency of the central bank, it became essential that bank should determine autonomously the outgoings and its incomings, without being necessary to be previously approved by a governmental body. One might emphasize that central bank should not be financial dependent upon the state budget; the financial dependency might bring the political bodies in the position of exerting the influence over the monetary policy decisions. Another important pattern of the financial independency consists in the way of using and allocating the profits, fact that might establish a topic of decisions related to central bank managements, and which can be described according to bank laws, or can be even the subject of government decisions or of government institutions.

Another issue is represented by covering the potential losses of the central bank, more precisely the stipulation on bank laws of automat covering of central bank losses, by the

state budget; this is seen generally as a more strength guarantee of central bank independency (Cotarelli, 1993). Approach as concerns the transfer of central bank profits to state budget and concomitantly to covering some potential loss from state budget, might be interpreted as being opposite to the following situation affirmed: the profit or losses of central banks are due to some factors with reduced influence over the efficient management of the central bank, seen as “an enterprise”, and these factors are due to some other causes, determined by strategies of monetary policy, such as: the level of interest rate. That is the reason for which central bank performances can be evaluated upon basis of accomplishing the monetary policy objectives, and not upon basis of profit or losses quantification.

The position adopted by IME (European Monetary Institute) as regards the budgetary independency of central banks is the following: an ex ante type influence of some parties, over the budgets and/or of distributing the profit of central bank, which might endanger its independency, if there are no clauses of protection stipulated within law, ensuring the successful accomplishment of central banks obligations (The European Monetary Institute, 1996).

A crucial aspect on financial independency of central bank is conferred by restricting the credits offered by central bank to government: the central bank does not have to be “impeded” on accomplishing the procuracy of steadiness, by the necessity of meeting the financial requirements of the government under the form of extending the direct loans (or easier, by monetary issuance), so as to cover the state deficit. In this way, there is a general consensus on forbidding the credits offered by central bank directly to the government, both under secured form and also under a non-secured form (purchasing government securities directly from the primordial market, facilities or overdraft credit). Credits offered by the central bank indirectly, by purchasing public securities by the central bank on the secondary market, will be allowed by law in the frame of some West-European central banks (Cotarelli, 1993; Leone, 1991).

Notwithstanding, these laws include protection stipulations, which limit this type of transaction, to operations where the monetary

policy carries the out, so as to reach its objectives.

The main explanation so as to absolutely forbid the direct credits offered by central bank to government consists in a necessity that central bank should own a decisive control of monetary mass; in this way, any influence of government over the increasing of monetary mass will be excluded.

#### **4. The independency of central bank officials**

This is one of the most important aspects on legal independency of the central bank. It represents the personal independency, which assumes the fact that officials of central bank are in the position of accomplishing the legal obligations.

An especial importance is represented by the role, the statute and the competence of decision bodies to central banks, including: procedures of function appointing and dismissal, the duration of procuracy, the training requirements and professional competitiveness, as well as cases of incompatibility towards function. It was unanimously accepted the fact, according to which the limitation of political influence, within procedures of appointing the central bank officials, will lead towards increasing the level of personal independency of central bank officials, working within management bodies of the central banks. In this way, the; legislation in different countries offers different procedures: either the state's President or government owns the right of appointing a candidate, or this decision has to be taken by the Parliament, including the involvement within decision processes and of parties in opposition.

Moreover, the reasons on which dismissal of central bank officials rely on have to be transparent, to be applied in extraordinary circumstances and to be explicitly stipulate by law. A related problem, as concerns this aspect, aims the possibility of appointing reconfirmation of the central bank officials, situation seen at the general way as not being positive to independency (Neuman, 1991). In this way, the legislative procuracy of central bank officials has to be higher than the elections cycle, where for most of countries it lasts for a period of time longer than four or

five years. Moreover, some specialists affirmed that bank laws have to include requirements as concerns the professional competitiveness, specific to central bank officials. The clauses of incompatibility for top managers of the central bank are necessary so as to prevent the occurrence of some interest conflicts. These general requirements, which are related to the role and statute of central bank officials, are found within the creation of various models on measuring legal independency of the central bank.(Cukierman, 1992; Grilli et al., 1991).

#### **5. Conclusions**

One might emphasize that most of world countries have carried out reforms concerning the central banks, especially European Union countries. The main basic reason of these reforms consisted in the fact according to which the independency of Central Bank signifies a mechanism in reaching a low level of inflation and also in reaching the steadiness of prices. This paper also analyzes the main components related to independency of banks, which cooperate in the view of accomplishing this idea.

#### **6. References**

- [1]Bruni, F., (1995), "Central Bank Independence in the European Union", Bocconi University, Milano;
- [2]Cerna, S., (2002), "Banca centrală – credibilitate și independență", Editura Sedona, Timișoara;
- [3]Cibotariu, I., (2009) "Economie monetară și financiară", Editura Sedcom Libris, Iași, Romania, pp.256-268;
- [4] Cukierman, A., (1992), „Central Bank Strategy, Credibility and Independence – Theory and Evidence”, The MIT Press, Cambridge, MA;
- [5] Cukierman, A., Webb, S., Neyapty, B., (1992), „Measuring the Independence of Central Banks and Its Effect on Policy Outcomes”, The World Bank Economic Review, no.6, September;
- [6] Cukierman, A; Kalaitzidakis, P.; Summers, L; Webb S., (1993), „Central Bank Independence, Growth, Investment and Real Rates”, Carnegie-Rochester Conference Series on Public Policy, 39, Autumn , pp. 95-145;
- [8] Dima, B., (2004), "Elemente de teorie și politică monetară", Editura Mirton, Timișoara;
- [9] Eijffinger S., De Haan J., (1996), „The Political Economy of Central Bank Independence”, Special Papers in International Economics No. 19, Princeton;

[10] Grilli, V.; Masciandaro D.; Tabellini G., (1991), „Political and Monetary Institutions and Public Finance Policies in the Industrial Countries”, Vol. 13, p. 341-392;

[11] Kydland, F.; Prescott, E., (1997), „Rules Rather than Discretion: The Inconsistency of

Optimal Plans”, *Journal of Political Economy*, Vol.85, pp. 473-490;

[12] Neuman M., von Hagen J., (2002), „Does Inflation Targeting Matter?”, *Federal Reserve Bank of St. Louis Review* No. 84



## The Challenges Facing Single Euro Payments Area Adoption in the Light of the Financial Crisis

AVADANEI Andreea

“Alexandru Ioan Cuza” University of Iasi, The Doctoral School of Economics,  
andreea\_avadanei@yahoo.com

### Abstract

*The scope of this article is to point out how the present financial crisis is affecting the European payments landscape and the Single Euro Payments Area implementation. The current unpredictable and very challenging market situation has not fundamentally changed the fact that payment services need to continue modernization in order to become more flexible, agile and adapt in order to comply with its important purpose in society. The study is structured on chapters that present the manner in which the credit crisis is changing the payments landscape both for corporate bodies and banks, the possibilities of making a business case for SEPA and the Payments Services Directive in the current economic climate, and the status of Single Euro Payments Area today.*

*SEPA is needed to ensure the new modern payment platform that can enable Europe to move beyond basic services, increase payments efficiency, embrace innovation and integrate further services in the trade process.*

*Despite the significant challenges and hurdles that still exist-including, of course, the unsettling impact of general market events over the last years - the foundations nevertheless continue to be put into place for an unprecedented joint initiative between the payment industry, the regulators and the user community with a view to realizing the significant benefits on offer to all stakeholders by taking the SEPA project to its national conclusion. In fact, it could even be argued - contrary perhaps to most commentators' instinctive reaction - that the turbulent market conditions could conceivably have the effect of accentuating rather than reducing the business case imperative and momentum to achieving full SEPA migration in the near term.*

**Key words:** Single Euro Payments Area, credit crunch, corporate bodies, cash management, financial turmoil.

**JEL classification:** F15

### 1. Introduction

The dream of full European harmonization is fast becoming a reality. Increasingly, movement of labor and goods is benefiting from the foundation laid nearly half century ago with the creation of the European Economic Community, cemented through the Maastricht treaty in 1999, and further enhanced with milestone events such as the introduction of euro note and coin in 2002.

Further collaboration on economic, environmental and social improvement continues to build on the advances made to date. The Single Euro Payment Area (SEPA) plays an integral role in this development, bringing with it both fundamental changes to the underlying infrastructure of the banking industry and practical improvements in the day-to-day trading activities of the European Community's corporate bodies and citizens.

In its premises, Single Euro Payments Area is an initiative of the aiming at harmonizing the system of cashless payments in the extended Euro zone, creating a coordinated environment of rules, standards and procedures, working as a single domestic payments market in which citizens and economics actors are able to make payments as easily and inexpensively as in their home countries.

This is a demanding objective for 31 mature economies, many of them with proud histories of how patterns and cultures have evolved over centuries and decades. This is not an easy task to overcome and it needs the right balance of change process management in order to insure that important value in existing services is not diminished in the new harmonized European services. Change must move towards

something better in order to justify the burdens and possible pain points of the process.

SEPA came into being because the banking industry refused to modernize its payment systems and instruments and work towards standardization. Self-regulation does not apply to a sector where states have no choice but to step in with public money to avoid knock-on effects.

2008 was a challenging year for the project: it brought the first successful, visible deliverables of SEPA to the market with the introduction of the Credit Transfer and Card Framework. However, much remains to be done to achieve the full objects, and progress needs to continue.

Moving into 2009, there was a major change happening that wasn't expected at the time the vision of SEPA was outlined. Even within the past few months, the banking industry has further consolidated and changed, we are now starting to see the true impact of the financial turmoil on the real economy throughout Europe, with no one remaining unaffected.

The early 1990s was the last time that several European countries experienced serious financial crisis [1]. The Nordic region banks were left with no option but to move away from paper-based and manual solution towards electronic and more value-creating services for their customers. And if the scope previously was primarily to solve the problems on a country and community level-basing solutions on country proprietary regulations, standards and networks-one outcome of the financial crises was the new era and evolution of e-payment services for the benefit of all parties.

Why has Europe been so badly affected? First, Collateralized debt obligations (CDOs) were traded worldwide and financial institutions all over the world, including many in Europe, became exposed to them and to other instruments whose value directly or indirectly fell as a result of the sub-prime loan defaults in the United States. Second, although there has been very little sub-prime lending in Europe, some members states have also seen significant downturns in their own housing markets. Third, given that financial markets are global and financial institutions trade with each other worldwide, EU financial institutions are directly affected when US institutions get into trouble. Sentiment also plays an important part-the extreme crisis of confidence in the US financial markets in recent weeks immediately spreads elsewhere-as is always the case in such

circumstances. Fourth, all this has coincided with other global shocks, particularly soaring oil and commodity prices, resulting in rising inflation and with inflation and with exchange rate volatility. Those factors too have led to an economic downturn everywhere and have also had a negative affect on stock markets and therefore on the amount of capital available to banks to resist the current pressure.

In 2010, no country is isolated. Trade and business deals flow across all physical state borders, emphasizing the need for widely accessible and secure ways of effecting payments. The current crisis can also create a strong momentum to lift the market to the next level of modernization and dematerialization, but this time not merely with a single country dimension. Now it is time to take the European step.

## **2. SEPA and the changing payments landscape**

But what does SEPA really mean for businesses as a corporate? This initiative will be a key accelerator in reducing the number of accounts you need to hold through the use of in-house banks and pan-European accounts, as well as ensure interoperability through open formats and connectivity. In particular, SEPA offers multinationals the opportunity to centralize payment and collection initiation by establishing shared service centers or payment factories, as well as reduce the number of bank relationships as consolidation of the banking industry creates truly pan-European banks.

The pan-European payments landscape is evolving rapidly with the introduction of this project. Couple this with the ongoing impact of the credit crisis, whose effects spread to the wider economy, corporate bodies face numerous challenges and place a premium on efficient cash and liquidity management, especially where they manage a variety of euro denominated accounts in different member states.

The present financial turmoil has clearly shown the importance of liquidity and cash management and the superiority of retail deposits as a source of bank financing. In addition, the focus on driving further working capital efficiencies has never been as important.

There are plenty of opportunities for improvement, though, and corporate bodies should look to take advantage of the tools and techniques that are available today.

For corporations, SEPA can provide advantages to sell cash and liquidity management services; for consumers, it can help attract retail deposits. Moreover, payments are a profitable business in its own right-providing a regular, reliable source of income with average annual volume growth of 8-9% [2]. The way to survive in today's climate is to be pro-active and more quickly. Due to the credit crunch, all corporations need to „go back to basics” in terms of pan-European liquidity management [3].

Despite the crisis, payments remain an attractive business and one where a bank will wish to maintain its competitive edge. To capitalize on these investments, it is crucial that SEPA migration is kept on time and on track-the redundant costs of running duplicate payments systems must be avoided. Therefore although it seems like a new market model, it's actually a return to the old model that has not been seen in recent years of big acquisitions, an increased focus on investment banking products and international growth [4]. Predominantly, banks make money on their core businesses; it has been the peripheral activities where they have experienced the biggest losses, such as in assets generated from the investment banking model of originate and distribute. Today, 'back to basics' has become the banks' rallying call to combat the credit crisis. Previously, banks were expected to grow their bottom line faster than the gross domestic product (GDP), which obviously meant that they were taking far more risks and looking at more complex products, both of which have come undone in the current dip.

While SCT volumes grew steadily and in line with expectations throughout 2008, the sharply worsening financial and economic environment from September 2008 directed everyone's attention to the more pressing concerns of effectively managing liquidity and mitigating risks, including concentration risk. SEPA rapidly become a non-immediate item on companies' to-do list. The project was a top three issue before the crisis escalated in September and October 2008 [5]. That's no longer the case and the reasons for the change are straightforward: corporate bodies simply have more immediate objectives to worry out-such as improving working capital and have less resource available for strategic projects.

The credit crunch has put emphasis on re-using existing liquidity, unlocking balances in accounts and improving working capital so that receivables are received more quickly and payment cycles extended. In such an environment, moving to the new SEPA structure is not on the top of the agenda.

Historically, liquidity management has been about cash concentration and return on capital. Now it's about cash concentration and return of capital-the parameters of what constitutes success have changed. The upshot of the credit crisis is that physical cash concentration is unlikely to disappear in the next five years-if, indeed the large corporations are looking for ways to enhance the liquidity management benefits they gain from other currencies that they work with using structures such as cross currency national pooling or cross-border cash optimization.

Those companies that now operate in a more decentralized, multi-banking environment will ultimately be facing a more costly approach to SEPA and centralization as a result of having to re-engineer processes and invest in technology. Companies that have already invested in centralized liquidity management and shared services centre (SSC) environments may find it quicker and more cost-effective to further realize the benefits of SEPA and the PSD framework going forward.

In the past year, as the banking sector has come under pressure from the financial and economic crisis, one notable trend among companies of all sizes has been an increasing desire to diversify risk. In the current economic development, multinationals and other large corporations are even more likely to spread their liquidity and transactions services across multiple banks. Nevertheless, there are still opportunities to consolidate banking activity.

The challenging market has led to a renewed focus on working capital optimization, shortening the conversion time on accounts receivables and reducing capital costs. Streamlining their account structure-even across multiple banks, is still an effective way for companies to tackle these issues, and SEPA represents a further catalyst for corporate bodies to take advantage of the benefits of centralization.

During the financial crisis, banks' retail payments business has proven to be a solid and stable source of revenue. At the same time, the retail payments are also a costly part of banks' operations.

In the light of the present financial turmoil, the market analysis has led to the following:

- a central management structure is needed—there is a necessity for strong central structure for managing and governing the SEPA and the PSD migration. In August 2009, SEPA Credit Transfer achieved the market share of only 4.5% of the overall community's credit transfer volume [6]. If the sluggish trend continues and SEPA Direct Debit migration follows the same pattern, the perceived SEPA benefits won't be achieved over 6-10 years;

- there is a necessity for the review of the investments and cost aspects of SEPA and PSD migration due to changed economic conditions. These factors, and especially the decline in IT spend, negatively affect SEPA solutions and systems;

- changes in capital markets—the role, origin and cost of capital have significantly changed the allocation of investment and distribution of benefits for SEPA and PSD business case. According to Morgan Stanley, the cost of equity for banks has risen to about 12.5%, while future returns at the end of the crisis may be no higher than 13%;

- banks are currently re-evaluating all their projects and budgets which leads to longer timelines and less functionality for most projects including SEPA;

- corporate bodies and public sector organizations are primarily looking towards direct cost-cutting measures and, rightfully so or not, SEPA seems to have dropped on the priority list;

- national governments are supporting “their” banks with national budget, so logically they are asking for returns that are beneficial to the national interest. For example, the French governments offered loans to Peugeot and Renault in exchange for guarantees that the car makers will not cut jobs or close plants in France; yet also in the Netherlands protectionist measures have been taken especially with regards to SEPA. In the deal for increased government support ING has (among other things) committed to continue support of Dutch domestic debit card scheme PIN, against its original intention. At least these protectionist tendencies will lead to a slowdown in adopting any international initiative among which also SEPA.

### **3. The new business case for SEPA and the Payment Services Directive**

The deterioration in the European and world economy and decline in financial services market can endanger the timeline and level of investment in SEPA and PSD. The business case both SEPA and PSD must be reviewed because it evolved under the changing economic conditions. The regulatory changes from SEPA and PSD present banks with many new compliance requirements, but also offer a series of opportunities, including the chance to: re-assess business models and consolidate payments infrastructure; rationalize legal entity structure if they operate on a pan-European basis; design and tailor new products to enable the capture of new markets; create efficiency savings by applying the standards in the PSD to operations outside of Europe.

Following the postulates of the game theory (Nash equilibrium-prisoner's dilemma) a combination of choices and implementation strategies on the supply side and the implementation/investment choices on the demand side would create a series of economic outcomes for the project. As parts of possible outcomes are the following: adherence to the provisions of PSD, meeting estimated benefits; implementing within the European Commission' timeframe; staying on the level of original planned investment; reaching the required levels of penetration within all stakeholder groups; staying on the level of original planned investment.

Given the current economic conditions and the precarious financial situation some banks have found themselves in, is now really the best time to be forcing banks to invest in SEPA? Having earned money off the *status quo* for some time, banks are finding hard to come to terms with the new world of payments that the PSD beckons it. And the credit crunch is only likely to widen the gap between customers' expectations and banks' ability to deliver new payment services and products.

The Institute of International Finance (IIF) calculated the damaging consequences of the credit crunch: up to June 2008, banks internationally made 476 billion USD (373 bn EUR or 294 bn GBP) in credit write downs and also raised 354 bn USD (278 bn EUR or 234 bn GBP) in capital [7]. By the end of September 2008, the re-capitalization figures further increased to 554 bn USD (435.2 bn EUR or 342 bn GBP) with 338 bn USD for the US, 55 bn

for the UK and 96.1bn EUR for European banks. Morgan Stanley predicted that Europe's banks might need an additional 83bn EUR (105bn USD) capital injection.

Although participation of individual payment services providers is very important for the successful implementation of SEPA (31 national payment systems), the cooperation and coherent actions of 29 national communities, which are subject to PSD, is also important [8]. Therefore the current systemic crises in general, and failure of the whole national economies such as Iceland (not subject to the PSD) and Hungary in particular, are major negative factors and impediments to the successful implementation of these initiatives and legislation.

In more general terms, the business case for SEPA will also become much more compelling when significant competition and consolidation in the infrastructure space will kick in. This would allow multi-county banks to centralize around the pan-European Automated Clearing House and remove the need to be connected to every local ACH. ACH consolidation is needed in order to develop efficiencies for banks as well as customers.

#### **4. Single Euro Payments Area at a crossroads**

Today, SEPA is "lost in conversation", because a more important conversation is happening-the one about survival. Some banks have done a little to make the changes needed for SEPA implementation, but most haven't done enough. Despite the financial buffeting that is happening, it is extremely important that a clear and constant focus is kept on SEPA and its benefits.

The credit crisis has undoubtedly changed the banking landscape forever; it has also called into doubt the vision of a Single Euro Payments Area. As SEPA migration in some countries looks like it may be lapsing due to economic conditions, we can outline four main areas that need to be addressed to help the project regain some momentum:

- the European Payments Council must bring together all stakeholders in order to move SEPA to the next critical stage;
- an end date must be set for the retirement of the legacy payments instruments;
- it must be found a way so that the basic SEPA product can be enhanced without creating market fragmentation;

- banks need to collaborate with each other more if SEPA is to be a success.

SEPA is at a crossroads. The current financial current financial market turmoil and related economic decline constitute a less than ideal background for a project that has a far strong policy that business case dimension. But a demonstration now by policy makers and regulators that "better regulation" is more than a motto could still allow European society to reap the benefits of this project in medium term.

2009 has been an ambivalent year in terms of SEPA progress. On the positive side, a crucial milestone has been achieved with the launch of SEPA Direct Debit (SDD) scheme on 2 November. Despite the impact of the financial crisis and internal debates on the SDD business model, the European Payments Council and banks maintained their commitment to the project. Bringing this new scheme to life represents a shift in gear which can provide a new momentum to the SEPA project as a whole. On the more negative side, the actual SEPA Credit Transfer (SCT) take-up is lagging behind expectations. According to the Eurosystem's euro area indicator, in august 2009 only 4.5% of all credit transfers in the euro area were processed in the SCF format. This figure is not satisfactory in light of the fact that SCT was launched in January 2008. High-volume payment users such as public administrations-even if strongly committed to SEPA-are slow in migrating to SEPA.

Without doubt, the financial turmoil and economic crisis have played an important role in this respect. Both providers and users of payments services have carefully scrutinized their investments and focused on critical business operations.

Despite the financial crisis, cashless payments increased, on a global basis, to 250 billion transactions per year in 2008. Of this growth, card payments were the strongest driver. In the European Union, card payments reached a total of over 29 billion transactions in 2008, also growing at a rate of 9% [9]. This shows the immense potential of this means of payment to generate revenue for the financial industry through growth, even at a time when interchange fees are under pressure. SEPA offers tremendous opportunities for further harmonization of the use of cards, making them an even more attractive instrument. But, the harmonization of card standards, more

competition in the European card market can bring additional benefits to consumers.

Therefore, the Eurosystem remains convinced that an additional European card scheme is needed. Three initiatives are under way: PAYFAIR, EAPS and Monnet.

## 5. Conclusion

Despite the financial crisis, efforts to implement the Single Euro Payments Area remain undimmed. The risk of a mini-SEPA (where legacy national instruments continue to operate after the new ones introduction), remains real unless stakeholders get certainty on key issues: an end-date for full migration to SEPA; evidence that SEPA solutions can provide tangible improvements in operational performance and clarity on standards to be used for SEPA payments so participants can prioritize IT investments and SEPA – implementation plans. In response, European regulators are increasingly supportive to the need to encourage quicker implementation by setting a common and date.

However, the financial crisis has also shown the vital importance of a stable and properly functioning payment system to the wider economy. The payments business roughly accounts for one third of the operational costs of the banks. By overcoming current fragmentation in the payment market, banks can realize significant operational cost savings. This therefore strongly emphasizes the need for

further integration of EU retail payments market through SEPA.

## 6. References

- [1] Gnevko, S., “Carpe Diem: the Business Case for SEPA and the PSD during an Economic Slowdown”, Germany, 2009, pp. 3-5, from [www.vocalink.com](http://www.vocalink.com)
- [2] Lund, B., “The Status of SEPA in 2009”, Norway, 2009, p. 2, from [www.ebaportal.eu](http://www.ebaportal.eu)
- [3] Brissaud, O., “Credit Crunch-Impact on corporates”, Belgium, 2008, pp. 5-8, from [www.gtnews.com](http://www.gtnews.com)
- [4] Shepard, S., “The Impact of the Credit Crisis on SEPA Implementation”, United Kingdom, 2009, pp. 5-7 from [www.ingcommercialbank.com](http://www.ingcommercialbank.com)
- [5] \*\*\*The Royal Bank of Scotland, “The 2009 guide to SEPA: Staying focused”, Euromoney Research Guides, United Kingdom, 2009, pp. 23-30, from <http://www.rbs.cz>
- [6] \*\*\*European Commission, “Second Annual Progress Report on the State of SEPA Migration”, Brussels, 2009, pp. 28-36, from [http://ec.europa.eu/internal\\_market](http://ec.europa.eu/internal_market)
- [7] Macknight, J., “SEPA-Lost in transposition?”, United Kingdom, 2009, pp. 8-10, from [www.vocalink.com](http://www.vocalink.com)
- [8] \*\*\*European Commission, “Transposition of PSD”, Brussels, 2009, pp.10-23, from [http://ec.europa.eu/internal\\_market](http://ec.europa.eu/internal_market)
- [9] \*\*\*Deloitte, “SEPA readiness survey. Where do we stand?”, Rotterdam, 2009, pp. 17-25, from <http://www.europeanpaymentscouncil.eu>

## The Banking Products and Services: the Globalisation Challenges

AVRAM Costin Daniel  
AVRAM Veronel  
AVRAM Marioara  
*University of Craiova, Romania*  
*avramcostindaniel@yahoo.com*  
*veronelavram@yahoo.com*  
*marioaraavram@yahoo.com*

### Abstract

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

**Key words:** globalisation, banking products, banking services

**JEL classification:** F36

In the context of Romanian banks integration into the European Banking System, as well as the participation on the European unique market, some operational changes must be fulfilled which can favour the development

and the diversity of the modern banking products and services at the level of the European standards. Moreover, even in The Medium Term Development Strategy of the Banking System elaborated based on the National Strategy of Medium Term Economic Development of Romania, one of the objectives was the diversification and the increase of the quality of the financial and banking services (mainly aiming at the integration of the banking services into the ones supplied by the operators on the financial market and, also, at the creation of the conditions for the development of some products and services in accordance with the market requests and for the implementation of modern products and services like the hybrid instruments of finance, the derived financial instruments, the e-banking services). Thus, the leasing is more and more practised, the factoring, the lump sums, the mortgage credit, e-banking etc. and the manual payments will be reduced in economy.

These operational changes which are performed through the accumulation of technical and computerised means allow the acceleration of the settlements.

The operational changes represent a necessity for the banks of Romania because, together with the integration, they will enter the competition, for funds, with the banking companies of the developed states of the EU, which are very powerful and have very much experience within the market economic structures. The structure of the banking products and services offered on the Romanian market For the continuous adaptation to the market changes, the banks need a perspective vision translated into medium and long term well defined objectives, in spite of the inflation phenomenon persistence that seems to have become chronic in an economy characterised

by the trend of under-usage of the production factors and a slight increase of the GDP.

A viable marketing strategy must aim at the consolidation of the position on the market, at the modernisation of the banking products and services offered to the clients and at the consolidation of the trust capital, especially from the part of the population (that acts affectively, emotionally, under the pressure of the mass media looking for the sensational, not the rational, pragmatic, attributed to a learned, informed, cultivated public. It is true that the banks do not educate very much, especially among the young people, in order to create a banking culture, in order to develop the skills of working with the modern payment methods (electronic), but also with the diverse saving instruments. In the developed countries the banks have sets of programs which are dedicated to the pupils and the students who, as adults, have the necessary knowledge and skills to be a lifetime clients and not only occasional clients of the banking system.

The modest level of the incomes and the negative saving that is recorded by a significant segment of the population should not be an impediment in the way of the client formation.

The banking globalisation represents the stage in which the banking services have a world spreading area, becoming universal.

The universal banking services mean the harmonisation of the banking regulations, correlated with the lifting of the barriers in the way of the open competition on all the markets, the increase of the currencies number which is used by those markets and the implementation of offices abroad. We can appreciate that, by taking into account the current conditions of evolution, the banks, both the ones in the Western Europe as well as the ones in the Central and Eastern Europe, will have to face new challenges, to which only part of them will be able to adapt, the ones that have the ability to exploit the new opportunities of the global financial world. The banks have to take into account the features of the financial market that is more united and intensely competitive, that the financial products tend to be more and more homogeneous, and the innovations easier to copy; and the infrastructure (the computer networks or the electronic terminals, the POS networks or ATMs) becomes more sophisticated and more costly. Last but not least, the national regulations tend to become

uniform and to subscribe to international standardised structures, and the solutions for the crises are inspired from the previous experience.

This makes the market be more and more uniform offering equal opportunities to all the participants, but also levelling the incomes and the profit at the same time. The banks of the future will evolve in the sense of the banking focusing, which has a different degree from country to country (banking holdings, consortia and banking unions) and finds its expression through the increase of the capitals volumes and especially of the resources volumes, offering banks the increase of the financial power, an increased innovation ability, wide channels for the products-services, the widening of the incomes sources, the reduction of the costs regarding the maintenance of the markets and the entrance on the new markets nowadays, when the competition has become global. Another evolution aims at the specialisation according to the targeted market segment and, also, the progress of the computer science will lead to the operational integration at the world level. Another aspect of the "new order" in the banking world is the tendency to globalise the banking operations, the result of the strong confrontation between the banks and the non-banking institutions or even non-financial ones which perform banking operations.

This means that besides the collection, the storage and the loans offer operations, the banks should take over other operations as well, thus altering the attribute of traditional commercial bank, correlating the commercial activity with the investment one, and on the other hand, performing insurance, portfolio and management operations and other financial innovations, characteristic of our times.

The banks will have to bear important financial efforts in order to cope with the technological and informational evolutions, to take an interest in the promotion of new banking services and products, to show more attention to the predictions (anticipations) in order to convert any new direction of the diverse environment in which they operate into a development opportunity. Without a doubt, we find ourselves in the middle of a transformation period in which the revolutionary changes in the fields of technology and telecommunications cause major changes in the way all the organisations



and especially the banks and the financial institutions enrol their activities.

During this decentralising, electronic technology and digital era, a larger number of companies will acknowledge the importance of placing at the disposal of people of the information necessary for the enrolment of the banking activity, but these companies will not necessarily be banks, but they can be information companies, retailers of a certain type, free time activity companies or technological companies.

The tendency is concrete at the moment through the increased number of non-banking entities which enter the banking market. Thus, the competition from the non-traditional banks part, the revolutionary evolutions in the field of technology and the increased requests of the clients work together to transform the traditional banking sector. The banks that want to survive and prosper in this new and provocative world must radically and rapidly change. The model of the future retail banking activity is clearly shaped and must not be underestimated: "The virtual bank", as it has been named, is defined as a model in full development of the banking activity, in which more companies are involved to create banking products and services and which the clients can access through more distribution channels. The term "virtual" involves the independence from physical localisation or, in extreme cases, from the banking activity without subsidiaries. The technology is the key-element of this evolution, allowing the electronic performance of the communications and of the financial transactions between client and bank, without the necessity of the client's physical presence in the bank subsidiary.

The current tendency is to increase the number of electronic banks, in parallel with the diversification of the proposed on-line services. If the majority of the large banks count on such a service, the competitive pressure and the marketing tactics aim at the lateral diversification, "Unicredit" and "ING Bank" are already present on the market with virtual services targeted towards the different categories of users. The globalisation process accentuates very many processes in the money transfer industry as well.

The economic power spheres are changing. So are the financial flows trajectories. For instance, the markets that 30 years ago formed the "dais" of the money transfer activity of

"Western Union" are now found on the tenth place or even lower.

While economies we have not expected to record spectacular ascensions, they have taken over the leading positions. Also, structural market changes take place. The countries that several years ago were simply receivers have become origin regions of the endorsers. The majority of the banks focus their attention on the top consumers, neglecting a large number of consumers that lie at the basis of the social pyramid.

The global economy offers favourable perspectives for the banking sector, but it also means a continuous challenge for the banking companies.

Based on the intensification of the international financial flows, a supplementary request for specialised banking services has occurred. If the clients' needs are in a continuous change, new and non-traditional competitors appear, the perspectives of the new distribution channels development open.

The distribution channels management represents one of the main tasks of the banking institutions in the context of the activity globalisation. The development of the banking informatics has lead to the fundamental changes in the distribution system of the banking services, through the creation of new channels which appeal to the telephone connections or to the electronic connections. In the future the banks will plan a spectacular increase of the distribution channels, including the automatic bank desks, the banking kiosks, the debit cards, the telephone services centres, the electronic banking services via "smart cards" and the bank at home, the internet bank. In spite of this development of the alternative channels, we consider that the subsidiary is still the main distribution channel of the banking products and services and it will continue to play an important role for many banks. Its role will change through the focus on the personalised banking services, leaving the clients enrolling more routine transactions through the electronic distribution channels.

Many clients still prefer the relations with the subsidiary, considering that this present distinct advantages than the telephone services or the "impersonal" electronic services. The role of the subsidiary, as the main distribution channel, the design and the organisation have been transformed completely.

Thus, through the space increase placed at the disposal of the clients, the conditions for obtaining the information referring to the banking products, having as effect the increase of chances of sale of the products and services, fact that leads to the growth of the market segment and of the profitability.

The constructive solutions of the banks space are changing, reflecting the attitude changes in the client services and have as purpose the increase of the productivity and of the efficiency in offering the financial services.

However the constructive solution must ensure the good enrolment of the main functions of the banking activity. Also, attention has been paid to the planning of the subsidiaries space, and the efficient categorising has evolved in the future.

The continuation of the rationalisation is inevitable because the structure of the optimal network changes permanently, due to the technological progress and to the delivery and distribution systems in full evolution, the dynamism of the subsidiary as a distribution channel is going to accentuate. The larger institutions, however, have acknowledged that

it is neither efficient from the point of view of the costs, nor necessary to offer the uniform levels of services throughout the entire subsidiary network.

The appearance of the processing and information centres has created many possibilities to reduce the dimension of a subsidiary. As a variant to the process of automation, together with the development of technology, the tendency is towards the extension of some automatic subsidiaries like the "banking kiosk", where there could be easily offered services like: automatic exchange atms, telephone connections and interactive video screens.

The presence of the foreign banking companies is not at all neglected in the change of the organisational culture, and these, through subsidiaries or joint companies or through taking over the majority package within some Romanian banks have decisively contributed to the market dynamic and to raising the standards of the bank commerce, fact revealed by the banking products and services structure presented in Table 1.

*Table 1*  
*The structure of the banking products and services offered on the Romanian market*

<b>Banking products and services</b>	<b>The foreign banks agencies in Romania and the local banks have merged with foreign banks</b>	<b>Commercial banks in Romania</b>
1. Current accounts and connected products	Yes	Yes
2. Bank cards - debit cards - funding cards - ATM cards - credit cards - electronic transfer of funds	Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes
3. Home-banking activity: - through the telephone - through the terminal - through the INTERNET	Yes Yes Yes	Yes No No
4. Transfer of Money through: - cash - cheque - drafts - electronic system of cashing - direct debit	Yes Yes Yes Yes Yes	Yes Yes Yes Yes No
5. Inter-banking compensating systems	Yes	Yes
6. Loan systems for natural persons like: - mortgages - personal loans - loans for housing construction - family budget accounts - loans for issuing shares	Yes Yes Yea No	Yes Yes Yes No



configuration of the traditional banks. More and more services will become automatic, the clients will prefer to perform themselves the operations through the internet or the telephone, thus the new bank will become more of a business centre. The current traditional bank will transform into a technical work centre, a sort of a bank without physical clients.

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

## References

- [1] AGLIETTA, M., Ordre monétaire et Banque Centrale, în „Analyse économique des conventions”, PVF Paris, 1980
- [2] AVRAM, V., AVRAM, C. D., Marketing financiar bancar, Editura „Universitaria”, Craiova, 2007
- [3] BĂICOIANU, C., Istoria politicii noastre monetare și a Băncii Naționale 1880-1914, vol. II, partea I.
- [4] BUCCIARELLI, M., Tendenze nel management bancario, Editura “Sarin”, Roma, 1988.
- [5] COHEN, E., Analyse financière, Editure „D’Organisation”, Paris 1995.
- [6] DE VRIES, M. K., Leadership – Arta și măiestria de a conduce Ediția a II-a, Editura “Codecs”, București, 2007.
- [7] GIDDENS, A., A treia cale. Renașterea social-democrației, Editura „Polirom”, Iași, 2001.
- [8] HELFERT, A. E., Tehnici de analiză financiară, Ediția a-XI-a, Editura “BMT Publishing House”, București, 2006.

## Aspects Concerning the Access to the Structural Funds in Romania

BOB Constantin  
SASEANU Andreea  
BANACU Cristian

*The Bucharest Academy of Economic Science*  
*constantin.bob60@yahoo.com*  
*saseanu@yahoo.com*  
*Cristian.banacu@gmail.com*

### Abstract

*Structural funds are financial instruments through which the European Union acts in order to eliminate the economic and social disparity between regions, with the purpose of realizing economic and social cohesion. As well as the pre-adhesion funds (SAPARD, PHARE, ISPA), structural funds are a form of nonrefundable financing operational also in Romania since 2007. The responsibility for their management falls entirely into the hands of the Romanian authorities, unlike the pre-adhesion funds in the case of which the European Commission played an important role. Structural funds operate on the principle of reimbursement, that is, the final beneficiaries operate the suppliers' payments from their own funds, and later, on the basis of the paid invoices and payment orders which prove the payment execution, it is solicited to reimburse the expenses. The financing is realized on the principle of programming that involves diagnosing the current situation, formulating a multiannual integrated and coherent strategy and defining tangible objectives to be attained.*

**Key words:** structural funds, Romania, economic and social cohesion

**JEL classification:** E61, F42

### 1. Introduction

Structural funds (SF) are post-adhesion funds allocated by the European Union in order to reduce the economic disparities between the European countries and the recently adhered countries. These funds are a continuation of pre-adhesion funds, which in our country have been executed through programs like PHARE, ISPA, SAPARD. The nonrefundable financial

assistance within the Economic and Social Cohesion Policy was granted to Romania through Structural and Cohesion funds within the objectives of "Convergence" and "European territorial Cooperation".

The total sum of Structural and Cohesion funds allocated to Romania for the period 2007-2013 is of 19,668 billion Euro, from which 12.661 billion will be allocated through structural funds within the "Convergence" objective, 6.552 billion Euro are allocated through the Cohesion Fund, and 0.455 billion will be allocated to the "European territorial Cooperation" objective.

The aim of the Structural funds is to support the EU Countries, especially the new members to growth and cohesion with the other countries for the benefit of their citizens.

The three main areas of interest are:

- Cohesion/Solidarity
  - Single market creates winners and users
  - Healthier neighbours are good for all
- Support for acquis
  - Environment and other rules impose costs
- All sides win
  - Less corruption and inefficiency means more benefit for producers and consumers

as they were mentioned by David Sweet from Directorate General for Regional Policy, EU, in his presentation of SF.

## 2. Strategic objectives of SF in Romania

The strategic objectives are settled by each country together with the European Union according with the local situation and perspectives. The National Strategic Reference Framework for Romania (NSRF), the EU funding will be invested in reducing the economic and social development disparities between Romania and the other EU Member States, by generating 15-20% additional GDP growth by 2015.

There are stipulated five thematic priorities to achieve this objective:

- a) **Development of basic infrastructure in line with European standards** – improving the infrastructure of roads, rail, water/waste water, electricity, is a prerequisite for launching economic growth and improving social cohesion. Without proper transport infrastructure the customer access to the products and it conducts to agglomeration of the producers in the areas with high accessibility and as a consequence power habitats are condemned to un-development. The other facilities (water, electricity etc.) cover pressing needs of the companies. Accessibility costs are important issues in the decision process.
- b) **Increasing the long-term competitiveness of the Romanian economy** – global markets, free movement of capitals and labor, increase the competition among the companies. That is why Romanian companies are not competitive anymore on the base of low labor costs. They should identify advanced mechanism to keep their competitive advantage. The Structural Funds offers to the companies and their management a better access to commercial exploitation of research results, sustains the innovation within company and full participation in the knowledge-based economy.
- c) **Development and more efficient use of Romania's human capital** – Romania was a good labor market characterized by skilled workers and low costs. This allowed investors to relocate production facilities and maintain a relatively low unemployment. The new coordinated of the labor market shows that is needed improvements in education at basic skills especially handicrafts, vocational training, lifelong learning etc. New profile of modern employee is designed at this time.

The SF comes to support the transformation of the labor into a force of economic development.

- d) **Building an effective administrative capacity** – role of the administration in the social-economic development, even indirect, is fundamental. The “good governance” concept highlights the importance of an administration supple, flexible and performance. To achieve the wider goals of modernization of Romanian administration is requested a substantial effort that could be obtained by SF support.
- e) **Promoting balanced territorial development (territorial priority)** – the market economy and the less intervention of the state in the economic development creates growing disparities between the regions. The European Union concern is to create balanced coordinates for all citizens. The programs for territorial priority are available to offer support in the less developed region in order to increase the potential and the attractiveness for further investors or development projects.

## 3. Main areas of SF

For the period 2007-2013 there are financial instruments known as Structural funds, respectively:

- **The European Regional Development Fund (ERDF)**, which supports the sustainable economic development by mobilizing local capacities and the diversification of the economic structures in domains, such as: research and technologic development, innovation and entrepreneurship, informational society, small and medium enterprises (SMEs), environment protection, tourism, energy;
- **The Social European Fund (SEF)**, which contributes to enhancing adaptability of the workforce and companies, increasing the access on the workplace market, preventing unemployment, extending active life and increasing the degree of women's and immigrants' participation on the work market, supporting social inclusion of disabled people and fighting against discrimination;
- **The Cohesion Fund (CF)**, which finances: projects in the domain of environment protection and trans-European transportation network, projects in the domain of sustainable development, as well as other projects that aim at the improvement of air and road traffic management, modernizing urban transportation,

developing and modernizing multimodal transport. The Cohesion Fund helps the member states with a gross domestic product (GDP) per capita of less than 90% from the community average to reduce the differences between the levels of economic and social development and to stabilize the economies. It supports actions within the “Convergence” objective and it is under the incidence of the same programming, management and control rules, as in the case of SEF and ERDF. For the period 2007-2013, the Cohesion Fund is addressed to the following countries: Bulgaria, Cyprus, Estonia, Greece, Latvia, Lithuania, Malta, Poland, Portugal, Czech Republic, Romania, Slovakia, Slovenia and Hungary.

The total sum of the structural and cohesion funds allocated to Romania is of 19.668 billion euro, from which 12.661 billion euro represent structural funds within the “Convergence” objective, 6.552 billion euro are allocated from the cohesion fund, and 0.455 billion euro are allocated to the “European territorial Cooperation” objective.

#### **4. Romanian absorption of SF**

Last year, Romania has received European funds amounting to 2.666 billion euro, respectively 2.5% from the community budget and has contributed, at the same time, with 1.217 billion euro, ratio that places Romania on the tenth place from the European Union member states, with respect to financial aids received.

Among all the EU member states, Romania has received the largest amount of money from pre-adhesion funds, respectively 744.8 million euro, as opposed to Bulgaria, which has only received 201.4 million euro, while allocations from cohesion funds amounts to 648.5 million euro.

According to the “White papers of the SMEs in Romania 2009”, more than half the entrepreneurs of small and medium enterprises (55.15%) do not intend to access European funds through Structural Programs and 27.48% are in the information stage. On the other hand, 10.10% of the more decided managers have contacted a consultancy firm, 3.64% are in the project elaboration stage, 2.37% have managed to submit the project and only 1.27% received the approval for the submitted application, as shown in the White papers of the SMEs.

In what regards the intention to access European money, the proportion is higher in the

case of SMEs with a seniority of more than 15 years (51.19%), companies from the Central Region (69.49%), medium companies (67.72%), joint-stock companies (59.18%) or others which activate in the industry (57.45%).

#### **5. Access mechanism of SF**

The small interest for accessing European funds is determined by the low level of information with respect to the regulations introduced at the same time as Romania’s adhesion in the European Union. Therefore, only 14.55% from the SME managers have declared that they hold sufficient information concerning the technical documentation necessary for the elaboration of the project and 68.56% of them declared that they have an average level of information about the structural programs.

Structural funds can be accessed on the principle of reimbursing the expenses operated by the eligible beneficiaries. They should pre-finance the projects, from public or private funds, following that the settlements of expenses be done after their verification in the proportion established for every operational program. The level of the grant supported from European funds varies between 30-85% of the eligible expenses of the project.

National co-financing is ensured from the state budget, local budgets or from the customer’s private contribution, depending on the program.

The customary form of structural funds financing is the direct nonrefundable grant (state aid). However, the financial support can also be granted through other types of financial instruments (guarantees, risk capital, and participation at the capital).

In the case of each operation, depending on the project, the maximum value of the grant originating from public resources (the maximum dimension of nonrefundable financing), is established according to the community regulations. The grant value is calculated as a percentage of the total eligible expenses.

In the case of aids for companies, the caps vary depending on the regulations related to state aid, dimension of the company, and in certain cases, the project location. The organisms that manage the program (Management Authority – MA and/or Intermediary Organism - IO) can establish values of the grants which are smaller than the

maxim level admitted by the applicable regulations.

The petitioner must cover the difference between public financing and the cost of the project through their resources or attracted thus co-financing the project. Projects are selected through *calls for proposals* addressed to potential beneficiaries.

It is important to remember that, in the cases in which the projects' beneficiaries are the public authorities or when more than 50% of the project's value of an economic operator is co-financed from the public resources and the projects implementation requires the acquisition of services, goods and works, the national regulations concerning public acquisitions will have to be applied.

In the case in which projects are approved, after the beneficiary's agreement and within a determined period of time, a contract is signed between the beneficiary and IO/MA called Financing Contract.

The approval of the project does not presuppose a simple installment in the entrepreneur's account for him to truly keep his promises. In the majority of cases, the approved funds will reach the addressee in a fragmented manner and only in the moment in which he demonstrates, step by step, that the project is implemented exactly within the conditions accepted by the examining commission.

Therefore, the beneficiary must keep systematic and precise account records related to the execution of the contract. For every project there has to be kept a separate inventory, with all the incomes and expenses during the contract's term of validity.

The beneficiary is obliged to accept the inspections, on the basis of documents or at their headquarter, executed by the Contracting Authority, European Commission, the European Court of Auditors or other authorized organisms, on the way in which nonrefundable financing was used, in conformity with the laws in force during the entire period of validity of the contract.

In this purpose, the beneficiary commits to grant to staff from the Contracting Authority, European Commission, European Court of Auditors or other persons assigned by these institutions, the right to access the locations and spaces where the project is being implemented, including to access the systems and all the documents, computer files regarding the technical and financial management of the project. All of these should be regarded as a

chance in perfecting their own company's management, with the purpose of aligning to the European standards and norms in all domains, from economy, health, culture and infrastructure. In this sense, the use of financial assistance instruments is an excellent means of learning the effectiveness of the activity and a challenge for the ones who are always looking for new forms of action.

## 6. Assistance schemes

From the perspective of including an investor into the financial assistance programs, there are three methods of working with the European Commission, specified as follows:

- participating to the so-called "calls for proposals" in which each candidate presents the project proposal towards an exactly stated direction in one of the program lines launched by the European Union. The documentation necessary for the elaboration of the project permanently accompanies launching the call for proposal, the candidate having to strictly respect the rules specified. Each candidate must take into account the need to frame the project's theme within the general objectives stipulated in the call for proposals.

- participating at the tenders organized by the winners of some projects in the framework of the anterior stage, this stage being called "calls for tender". Through this calling, companies and/or natural persons are invited to participate at tenders organized with the purpose of acquiring goods/works/services for attaining the objectives inscribed in a project, which has already obtained financing. This type of tenders is internal or international and is available to any participant who meets the conditions strictly defined in the "terms of references".

- participating at the "call for expression of interest" on a theme specified at the moment when the call is launched. The specificity of this call is that the natural/legal person interested in the exposed subjects, they present the availability of participating at different stages of project realization, being included into an active data base that is active during a period of three years.

## 7. Conclusions

Once the financing obtained and project implementation ensured in the requested period by the reference terms, the company has all chances of becoming a competitor on the



external market that plans and manages its activities according to the rules accepted in the European Community.

Therefore, it is safe to say that, the main advantage of using financial assistance funds is that accessing these funds constitutes indirectly a support in running the business according to the rules common of the European space. Consequently, at any moment, the company's products can be placed on any market, offered on any market, excluding the fear of not being accepted and not dealing well with the competition. Regarded from this angle, financial assistance funds represent a facility with respect to the perspective development of the company, not only a means of realizing an investment at a certain point. The investor who benefited from the external funds can continue to lead their business by the same rigors that they had to take into consideration in the moment of project elaboration, that is:

- Using a time-frame of 5 years for economic projections;
- Using an annual cash-flow with monthly distribution and monitoring its realization;
- Permanently realizing the market researches for launching new products
- Constantly adapting the market strategy to the modifications and defiances it permanently provokes.

Additionally, by benefiting the advantage of the high level management, the investor who has obtained European funds can also access activities related to the financing lines, by participating at the international tenders for acquiring goods, services or products within some projects already in course.

The guaranty of eligibility is constituted by the fact that its offer includes products/services, which have already been acknowledged as being obtained in conformity with the community standards. Regarded in this manner, the company's leap in quality is incontestable: from a simple consumer of funds, the business could become a partner in the development of many other projects and/or a posterior supplier for businesses in a wider geographic area.

## 8. References

- [1] Bișa C.(coord.), *Elaborarea studiilor de fezabilitate și a planurilor de afaceri*, BMT Publishing House, București, 2005
- [2] Oxelheim L., Ghauri Pervez N., *European Union and the race for foreign direct investment in Europe*, Amsterdam, The Netherlands; Boston, MA:Elsevier, 2004
- [3] [www.infoeuropa.ro](http://www.infoeuropa.ro)
- [4] [www.funds-structurale.ro](http://www.funds-structurale.ro)
- [5] [www.mfinante.ro](http://www.mfinante.ro)
- [6] [www.newschannel.ro](http://www.newschannel.ro)
- [7] [http://ec.europa.eu/regional\\_policy/atlas2007/fiche/ro\\_en.pdf](http://ec.europa.eu/regional_policy/atlas2007/fiche/ro_en.pdf)

## Considerations Regarding Social Protection and its Implications on the Romanian Economic and Social Conditions, in the EU Context

BRATU Constantin

*Petroleum and Gas University of Ploiesti,*

[bratu\\_constantin2008@yahoo.com](mailto:bratu_constantin2008@yahoo.com)

### Abstract

*Considering social security as an autonomous and distinct phenomenon, as a constant and growing concern of the authorities to protect people affected by certain risks, simultaneously and without any reservation, we must accept the existence of a social security law. Social security research in the European context is a necessary step for the national policy of social security, but also to identify and implement the necessary measures to fulfill the requirements of accession to "the European system." Nowadays, is clear that social security is a factor of progress and also a measure of social progress, of society's evolution and of social policy.*

**Key words:** social security, social security measures, European economic area.

**JEL classification:** F15

### 1. Introduction

Social insurance relationships were defined as those social relations in which old age material insurance, illness or injury of persons who are subjects to a legal job, their family members or other persons under the law [1]. Indeed, the legal rules laid down by the state which govern the relations of social security, make the law branch known worldwide as the social security law.

Social security operates on the principle of sharing risks. Each insurant makes a contribution to a unit of insurance, if the prescribed conditions for awarding benefits are fulfilled, he will receive the stipulated compensation.

Social assistance is financed on the principle of national solidarity, and from the amounts allocated various assistance and allowances are paid, as well as benefits in kind.

Social security is one of the most important branches of law, through its major implications on the security and protection of citizens against poverty, their marginalization and the risks that may arise throughout life, through major implications on human welfare, on society in general and not least with very important implications on the national economy itself. Everyone, in one form or another, are affected by the norms of social security law, thus the regulations in this area must first consider the general interest of society and secondly the interest, extremely varied, of every individual. [2]

Social security, in this definition, means preventing and resolving situations of disaster that may affect the individual as a member of society that is unable to avoid them in a first phase of risk, although it may solve, and to a certain extent, prevent turning them into disaster.

Social security is a mechanism interposed between an ever present potential risk situation and a potentially disaster situation that can be redress able and maybe avoidable, gathering resources to ensure the mechanism. From this perspective, social security is defined, by reference to some risks, to a mechanism which is established for its protection and to an award or redistribution of resources that have the same purpose. [2]

Social risks are those risks inherent in social life. These social risks arise from common events that affect the economic situation of individuals by reducing spending or by increasing revenues.

### 2. Concepts regarding the evolution of the idea of social security

Although the term first appeared in the U.S. law since 1935, previously mentioned, introducing the concept has been prepared by various procedures of insurance against social risks and, in particular, by Bismarck German

law. It was considered that the state's defensive mission was not only to protect the existing rights, but also to promote, through appropriate institutions and using available community resources, the welfare of all its members, especially those in need.

The American law regarding social security from 1935, Roosevelt's work, was an effort "to globally confront the problem of society's need to find a set of coordinated solutions" [2].

Under the 1938 New Zealand system it appears for the first time the idea to eliminate the state of origin. The benefit was no longer subjected to origin, but was open to anyone.

The famous Beveridge Report of 1942 [3] support the active fight against poverty. Social security cover the whole population and not just the working class. The author of this report insisted also on the question of risk prevention. As for the definition of social security, the report states: " Social security means guaranteeing a given income."

In the 60s it became clear that, after World War II, it had developed two types of social security systems. First, through Beveridge approach, in which the social security system was developed in response to traditional poverty law. Even if the system was based on the type of social insurance schemes, the emphasis was on the minimum income's protection for the entire population.

On the other hand, Bismarck's approach was referring to social security systems based on mutual aid and social security for different population groups. The emphasis was on a clear definition of the categories of population, for which scheme benefits accordingly to earnings were elaborated. [4]

During the same period it begins to show trends of convergence of the two approaches. This, however, is attenuated, reaching even to stop and manifest the contrary during the crisis in the 70s – 80s. The desire to consider social security as a tool to suppress the generalized poverty culminates in the international instruments on human rights.

In some countries, this is defined in legislation, in other states though, the doctrine is required to clarify the concept. The traditional definitions of social security begin with listing the social risks and continues with a description of programs and schemes covered. Subsequent attempts to define the concept no longer focus on the list of risks to be covered, but tries to establish that social

security is a set of policy instruments to meet a certain goal. [4]

In the I.L.O. report "In the 21st century: The development of social security" social security is described as a response to the acute need for safety in its widest meaning, rather than as a conglomerate of mechanisms to guarantee this safety, while other authors opt for this objective "of ensuring safety".

More recently, authors like Sinfield or Berghman addresses in a much broader concept the idea of social security, defining it as either "full protection against the loss of resources" or as "total protection against damage / casualties.

I believe, however, that none of the definitions cover the concept. One can understand that it is about the full coverage of risks, or social security does not only consider the risks (the discussion should thus start from the issues of terminology). It's not just about the risks, the loss, but also about the support granted in events that, although happy, result in reducing the worker's income, possibly falling below a certain guaranteed level of life.

### **3. Theoretical attempts to analyze the concept of social security**

In general, specialized works on social security or social security law regard one or more similar social security systems or different international legal instruments on social security. Therefore, I will try here a progressive overview on social security theorization, following the emergence and evolution of the concept internationally, the increasing complexity and importance of social security from one historical stage to another.

I will also make a comparative presentation on the evolution of social security discussing various approaches, nuances or connotations that were associated with this concept in different countries or by different authors. I will add up to the theoretical classification of the general concept of social security, the particular issues of migrant workers

Because between the free movement of workers and social security is a direct relation, social protection of migrant workers is an important part of European social security. Internationally, the concept of social security is facing a variety of interpretations, depending on the historical context or the specific conditions of each society. Therefore, I will consider the comparison of various approaches and how they were reflected in national

systems or various relevant international instruments in this field. I regard such an approach to capture the essence of the concept of social security, believing that such an analysis should lead to the identification of proximate genus and specific differences. This is because there is no precise definition of social security in the international law, universally accepted, resulting that most authors have their own vision on the content of the concept of social security.

#### **4. An european approach on social security**

The European Union still faces an unresolved problem: is it possible to make an integrated economic area without internal borders while maintaining, within this economic area, different systems of social protection?

An alternative approach to eliminate all obstacles that hinder freedom of movement is difficult to conceive. For this reason it appealed to social security systems, to influence national legislation in this area, so as to eliminate the migrants' social security problems. International coordination of different social security national systems is limited, therefore, by legal instruments, without which coordination would not be possible.

Within the European Community, the legal framework of the coordination was done by The regulation 1408/71 on applying the social security schemes of employees, independent workers and their families moving within the Community. This is a legal instrument applicable in itself that is valid without being ratified by national parliaments. Coordination rules have been defined as rules of international law aimed at adjusting social security national schemes according to one another (and according to other international regulations), in order to regulate transnational issues, targeting social protection of migrant workers, their family members and other similar groups of people [5].

This definition refers not only to adjust the national regulations on social security, but also to adapt to international regulations. Coordination should aim, in fact, also the coordination of international treaties because, for example, in addition to European Union coordination rules, and the European Interim Agreements of the Council of Europe, but also the International Labor Organization

conventions or the bilateral agreements may include coordination rules applicable to the same persons.

Community provisions on social security do not replace the various social security schemes with the common European one, precisely because they have their own characteristics, which would not allow such an approximation. Thus, the enlargement of the Community provisions on the coordination aims at an adaptation of legislation and not at a harmonization, with compliance with the national systems characteristics, avoiding loss of social security rights of migrant workers moving within the European Union as a primary aim.

In other words, each state can individually determine, internally, the benefits granted in accordance with the national law, their calculation manner and the contributions to be paid, with the condition to respect the right of free movement of persons.

The issues regarding the principles and the procedures for implementing the coordination of social security systems will be analyzed in chapter III.

In conclusion, there are sufficient reasons to make a research on social security in the European context.

#### **5. Regulations provided by the European Code of Social Security**

The Council of Europe has adopted numerous documents, among which we mention by way of example: the Revised European Social Charter (1996), the European Code of Social Security (1964), the European Convention on Social Security (1973).

The Regulation no. 883/2004/CE applies to: general and special social security regimes, contributory and non-contributory, arrangements relating to the obligations of the employer or shipowner, special cash benefits, which are non-contributory which simultaneously have the features of social benefits.

The European Code of Social Security is almost identical to the International Labor Organization Convention no. 102/1957, but the ratification conditions are more rigorous. The most important document in the European Union in the analyzed area is considered the Community Charter of Fundamental Rights of Workers. According to article 10, every

employee of the Community is entitled to adequate social protection and social security benefits to a sufficient extent.

Thus, essentially, the Code repeats the provisions of the Convention no. 102/1952, with very small changes, requiring the states, however, to meet the standards set out in six parts of the Code, to ratify (as opposed to three parties for the Convention no. 102/1952).

The Code's objective is to gradually expand the national legislation on social security to all active population, including self-employed and, ultimately, the entire population, economically active or not.

Thus, it is determined, for each service, the minimum share of the population to be covered against the respective social risk.

After the development of the European Code of Social Security, the minimum standards improvement process continued, and thus the need to make an Additional Protocol in 1964 and even a revised Code in 1990.

Troubleshooting related to social protection of migrant workers was thus a constant priority of the Council of Europe.

In the category of international instruments on social security, in addition to international agreements (bilateral or multilateral) and the multilateral conventions, supranational law instruments are included, created by supranational systems.

These instruments are mandatory to the member states of the respective organizations, ratification no longer being needed.

These instruments are legally superior to national legislation in this area. In Europe there is only one such supranational organization - the European Union.

Within the European Union, the need to develop social security has been imposed since its creation.

## **6. Social protection and its implications on Romanian economic and social conditions**

In Romania Monitoring Report 2006, published in May, the European Commission does not clarify regarding the preparedness in applying the Community rules of coordination. Currently, even if the social protection system in Romania is not among the most attractive ones in Europe regarding the benefits, the basis of a modern system are established. The benefits cover all social risks, although they

will have to be diversified and improved, with the country's economic development.

The analysis of Romanian social security regulations shows that Romanian legislation is largely in line with the Community rules, Romania is prepared, from the legislative point of view, for the implementation of Community coordinating regulations. The fundamental principles of Community coordination of the social security systems are included in the national legislation. There are, however, required some adjustments or additions aiming the technical aspects, so that no difficulties arise in the implementation of Community coordinating rules or irregular situations. Thus, the way how the fees are paid by the foreign employers to the workers from Romania or for Romanian workers posted abroad will be clarified.

It is also necessary a legal provision to establish the taking into account of foreign revenue for granting of social security benefits. Also the aspects related to export issues in the case of pension benefits administered by special arrangements, as well as considering the periods of unemployment in the Member States to calculate the period of social security contribution must be clarified. Some adjustments of legislation, and also institutional adjustments, are needed regarding the state allowance for children.

Coordinated efforts are desirable to regulate these deficiencies in legislation, so that Romania may be able to apply the EU rules on coordination, with minimum negative effects.

In the 2005 Comprehensive Monitoring Report for Romania, the European Commission stated: "The administrative capacity in the field of social security systems' coordination should be developed and strengthened in the future, in particular, the training of personnel in this field must be ensured". Thus some clarification on the functions and on the way the organization and functioning of departments or institutions involved in social security systems function, to avoid duplication, or discontinuities in their work, is still needed.

It also recommended the development of institutional cooperation to ensure greater coherence and efficiency of the measures established in this field, at nationally level. For example, an inter-institutional agreement could be concluded between the NEA and NHPOSIR to provide synchronized information or proper advice to the insurants, avoiding interruption of payment of benefits.

Also a realistic assessment of the resources required for implementation in Romania of EU coordination rules is needed. A study should be made on the appropriate material basis, the necessary human resources, both quantitatively and in terms of optimal specialization and administrative costs.

The staff's training in the institutions involved will also have to be continued. In this regard, a database to which the personnel involved should have access must be created, which should include relevant Community rules on social security systems coordination, as well as solutions, or interpretations of the ECJ in several cases.

In this regard, a comprehensive study should be conducted on the additional costs of implementing EU regulations, based on statistical data and characteristics of migration flows from Romania. A useful measure would be collecting social security contributions in one fund its management being done by a single system, which would reduce administrative costs and facilitate taxpayer obligations.

A negative aspect which could lead to undesirable effects is the lack of statistical data and the mismatch of relevant information in the field. A computerized database on the insured in Romania is also essential, enabling rapid verification, analysis or predictions on various aspects of coordination. This database should contain complete information about insured and to allow regulated access to each institution involved.

Romania's priorities today is not only is not only in the reform, but also the intensification of Romanian public information process. In this respect, we need a comprehensive information campaign about the rules of coordination, the social security rights of migrant Romanian workers and the organizational coordination of social security systems in Romania.

Improving the administrative framework in the coordination field requires urgent measures that must be implemented before applying the EU regulations for coordination. Mismanagement may be more harmful than inadequate legislation. If the necessary resources, material, financial or human, will not be allocated, organized and properly prepared, serious problems for both beneficiaries and institutions involved or the overall economy may result.

## 7. Conclusions

The European Union membership has been a challenge for Romania, in terms of assuming the obligations imposed by the integration process. It requires transposition into national law of the entire *acquis communautaire*, as well as developing the administrative and institutional capacity to implement the legislation adopted.

The process of harmonizing the national legislation with EU regulations and the development of the administrative capacity is a key objective, which was recovered in the accession strategy of any candidate state and, at the same time, a legal obligation arising from the European Association Agreement Romania - European Union.

The social field has gained a special importance in the Community law. Currently, EU policies aim primarily to the orientation and needs of its citizens, wishing to build a social Europe and achieve a European social model. Therefore, in the legislative harmonization process, Romania will have to follow the same principles and objectives as the European Union, so that now it should be in a position as close to the Community.

The European integration process intersects with the internal reform process. In Romania, the efforts to meet the criteria required by the European Union express the real interest for harmonization with the EU strategy in social policy.

The issue of the European harmonization is no longer a matter of foreign policy, but rather a debate and accountability of domestic policy.

Currently Romania has established the main lines and means of action for the development of the social system, improving quality of life for all citizens

Since 2001, Romania has significantly accelerated the process of harmonizing the national legislation with the EU, making significant progress towards preparing for EU accession. In the social field, notably social security field, significant progress in legislative and institutional level has been made, but the efforts to improve the framework in this area will be continued, for Romania to be able to fulfill the obligations of Member State of the European Union.

The European Commission noted in the 2005 Comprehensive Monitoring Report for Romania that "Romania generally meets the

commitments and requirements arising from accession negotiations in the fields (...) of coordination of social security systems and expects to be able to implement the acquis at the time of accession. However administrative capacity should be further developed”.

Social security is one of the key aspects of contemporary social policy, with major influence over life and economic development. In time, there have been numerous attempts to define the concept of social security. In some countries it is defined in legislation, in other states though the doctrine is required to clarify the concept.

Not even the international law does provide a definition of social security. The instruments of international and supranational law concerns only the scope and only as an exception they

provide a definition of the content of social security. These definitions do not exclude one another, but complement each other, varying in complexity depending on the realities of time and social developments. The diversity of opinion regarding interpretation of the concept of social security has no negative consequences. The differences should be considered when comparing social security systems and their components recognition.

## 8. References

- [1] Ghimpu S., I. T. Ștefănescu, Ș. Beligrădeanu, Ghe. Mohanu, *Dreptul muncii*, tratat, vol. III, Editura științifică și enciclopedică, București, 1982, p. 269
- [2] Gâlcă C., *The concept of social security*, in “The review of labor law and social security law”, nr.1/2008, p. 12.
- [3] Beverage W., *Report on Social Insurance and Aliens Services*, 1942, p.9
- [4] Berghman J., *Basic concepts on social security in Europe*, Institute for Social Right of the Katholieke Universiteit Leuven, European Master in Social Security 2002-2003, p.53.
- [5] Pennings, F., *Introduction to European Social Security Law*, third edition, in the series Studies in Employment and Social Policy, Kluwer Law International, Haga, 2001, p.12.

## Features and Management Team Project

BREZOI Alina

ENACHE Roxana

*Petroleum and Gas University of Ploiesti*

*alina\_brezoi@yahoo.com*

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

### Abstract

*For a project, whatever its characteristics, to be effective should be based on a team. Although designed as a team, especially team projects implemented and monitored easily become reality.*

*Regarding the management team should be good first identifying problems that arise during the project, to be able to choose whether they can be solved by one person or group.*

*Manager must be a personality complex because in addition to knowledge, abilities, skills, abilities and skills, the manager should develop and attitudes, values and desirable behaviors in the team.*

**Key words:** project team, manager, leadership, company

**JEL classification:** O22

### 1. The project team manager

In the project management team has an important role - the characteristics, selection, composition and its management. Project team members will be selected depending on the tasks required by the project, and their number will depend on the size and complexity of the project. In addition to specialized skills, it is important that they have skills for teamwork, good communication to be created.

Each member needs to know which tasks and to assume responsibility. Questions that members should know the answers are:

- What is expected of me?
- That is my role on the team?
- What level of authority? But the responsibility?
- Who will make the assessment? Who are my colleagues?
- What I would use to participate in this project?
- To achieve objectives which are directly responsible?

- Given that I have never done this work, as I will do?

### 2. The composition and leadership of project teams

The composition and leadership of project teams is the key for successful completion of a project. They are part of the duties of project manager.

A project team consists of members who have different personalities, knowledge, skills and qualities. The role of project manager is to assess the project before staff chooses to build a team to be advantage of the qualities of each member. The training team should be aware of the activities to be carried, the knowledge and skills to undertake that activity, risks involved, possible persons who might be involved in the project. Often, selecting team members begins with informal discussions on the possible availability and desire for involvement in the project. It also proved that the basic core of the team must contain only 2 to 4 persons, for better coordination of all members of the team.

To construct an effective team, should be considered the following suggestions:

- Search for people with experience in project management.
- Encourage the learning of the less initiated in project management from those with more experience.
- Search for people able.
- Note the achievements until the present members.
- Give all necessary information to those who are part of the team to know which is true now and where we want to reach, which are the resources we have and risks involved.
- Designated responsibilities and allow the freedom of each State to define its working methods to achieve objectives.
- Avoid leaving unresolved the problems that arise.



- Seek to find ways to popularize the individual merits.
- Teamwork incentive to lead to a common vision.
- Do not drive the project through emotional states.
- Define clearly what not to do the project. Steps that teams through to its transformation into an effective are:
  - Confrontation - may be conflicts because of different visions of the purpose and working methods chosen
  - Normalization - the members start to take a common vision
  - Achievement - the team starts to become effective transformation - may redefine the team common goal, communication between team members is high, and the responsibilities of each member are understood and accepted.

Conditions for forming an effective team cover 4 basic elements:

- Sense of purpose: shared vision of purpose and objectives
- Choosing the right people for the tasks to be performed
- Resources: technology, working methods clear, effective meetings, documentation, time management, conflict management.

The own characteristics: the good communication, the flexibility, the motivation.

The project team and its characteristics To succeed in our projects should keep in mind that exists when a team has the following characteristics: size (approximately 16-20 members), there is a common purpose, state structures (it is clearly stated position, rank, prestige each member) the structure of role (explicit models of behavior are expected of each member), lead (there is a formal authority, objectives and expectations are raised group, qualities and powers are real), cohesion (each member has the ability, acting as an entity, resistance the forces of rupture), communication, motivation, interests, group norms, nature of the task and environment where you have group activity, homogeneity, heterogeneity.

As a team to be effective should have the features:

- number of members is too small (not more than 3-4), but not too large (not more than 20);
- has the potential of skills and roles (technical, interpersonal, cognitive, affective, negotiation, legislation, language, etc.);
- designed for clear and consistent;

- has clear responsibilities shared between team members (tasks and roles appropriate skills, interests and desires);
- progress is measured continuously;
- there are resources were allocated;
- There is enough time to know the members and understanding cultural differences, values, religious, political, etc.
- there is support from superiors;
- established set of rules for joint activities;
- communication is intense, conflicts are resolved constructively, openly;
- individual and team success is recognized and celebrated;
- product group is consistent with the goals;
- Consistently reflect team work style and factors influencing it.

Creating an effective team is encouraged by: the fact that its members are known as people, as professionals, know you have special skills, personal and institutional reasons, be given a team name, it define the main concepts and targets are established criteria and methods of assessment, working with individuals and institutions motivated and open to define clear roles and responsibilities, to determine how to resolve the conflict, there is a shared perception of common ownership of the project, set ground rules for team work to reflect on achievements and progress, use an appropriate communication system, using various methods of work, to recognize and pool the individual skills, to encourage participation of all members, is celebrating the key points achieved, sufficient time is dedicated to social events, is prevents isolation (due to political orientation, religion, age, economic circumstances, competence, language abilities, etc..) team is guided and led empathic.

### 3. Project manager

Project management is often the responsibility of a project manager. This should ensure the project within the parameters established, to meet contractual conditions set by the customer or project needs. The project manager must have leadership qualities, to understand the project in its entirety, from beginning to end, to lead, organize, coordinate and control resources and teams.

The project manager must have strong interpersonal communication skills, be familiar with the activities of each section or department, and must have general knowledge about the technology used, unless the project is research and

development (R & D, or R & D - Research & Development).

The project manager should not be directly involved in technical activities, as such would cease to be manager, but will become a mere technician.

The project coordinator is the person responsible for the conduct of the project, the objectives, quality requirements and project deadlines. For his personality, qualifications and ability to coordinate effectively the team members will depend in large part the success of a project. Sometimes, it is the same as the design project.

It should plan the project, organize it, coordinate it and to control. It is the moderator's position and motivation of the team and should ensure, in addition, effective communication between all members. Management style in which it will choose will depend on its characteristics and social processes that occur within the project team.

Skills needed for a good project coordinator are therefore:

- Specialized skills (in basic project management, multidisciplinary, knowledge of general management).
- Methodological skills (organizational skills, focus on goal - strategic thinking, experience in project-based, teaching skills).
- Social skills (capacity management, motivation, delegation of powers).
- Communication skills (communication and negotiation skills, safety in expression, conflict resolution).
- Powers of personality (self, creativity, desire for change, resistance to stress, initiative and responsibility, adaptability, discipline, risk management, integrity, positive attitude towards people: I'm ok, you are ok, a concept seen in transactional analysis, leadership).

They should not necessarily be native, they can be acquired. Choosing a project director will be made by its selection of the possible, by producing qualities demanded so that the risks to which it is exposed to minimal project.

Because the project team members are experts in their fields, they may be superior in this respect the project coordinator, which may generate conflict, but to be managed effectively for successful development of the project.

The project manager shall have the following resources:

- Money
- Staff
- Equipment

- Materials
- Technology
- Information.

In connection with the appropriate leadership style of project work, it varies depending on the situation, the stage reached by the project, the problems to be solved or the people who are part of the project team. A project manager performance is measured primarily according to the objectives, so the style will be chosen for the project tasks. However, it is preferable to a cooperative style authoritarian one when working in a project.

A self-assessment of attitudes towards a team project manager can be based on correlations between X and Y theories of McGregor, in terms of employee attitudes toward work.

Driving style features

1. Authoritarian project manager decides everything.
2. Patriarchal manager decides everything, but before making decisions, trying to persuade members.
3. Advisory Manager decides, but will consult with members before taking decisions.
4. Cooperative team is informed that its point of view before deciding.
5. Participatory team makes proposals and project manager chooses the best option.
6. Democratic decision after team settled within decision, the manager is the coordinator.

Creating an environment for effective collaboration between project members depends also the project manager. It should intervene especially when fails to achieve the desired results (deliverables), when conflicts arise. Otherwise, should the project team can be self-regulating and possible especially when the following conditions are met:

- Specialized skills with the tasks of project members
- Degree of identification with the project is large
- There are good reasons to members
- Are well defined tasks and responsibilities of each member?
- Degree of freedom granted by the project manager is great
- No destructive competition between members.

Responsibilities of project manager are:

- a) The beginning of the project:
  - Defining the scope and objectives
  - Preparing the project plan
  - Personnel Selection

- b) During the project:
- Identify and resolve problems arising
  - Monitoring activities
  - Making decisions
  - Market research
  - Communication with other participants in the project
  - Conducting analysis of budget, time and resources
  - Possible involvement in other projects
- c) The end of the project:
- Final review of budget and actual situation
  - Record of lessons learned during the project
  - Placing team members in new projects.

#### 4. Intuitive manager (modern leader)

With the companies evolved, undergoing changes in the internal organizational structure, relations between employees, computerization and completeness, it must increasingly forming a manager other (no sound), intuitive manager. This intuition fails to harmonize with its rationalism, to have a broader vision, a pragmatic faster growth and therefore increased efficiency.

Intuitive manager concentrates on the purpose and objectives, and the inner attitude, the quality of relationships with other members. Management style and his choice that is participatory, seeking to highlight the qualities of each member and creating a common overall vision necessary for success of a project. It will cause around his desire to progress, knowing the same time to control the conduct of activities.

Manager intuitive qualities are therefore:

- Intuitive perception of the future, risks, emphasizing an attitude open to members, adopting a whole.
- Creativity: fostering creativity members, their innovative ideas.
- Action: involvement, team coordination.
- Vision: constant anticipation of obstacles, strategic vision.
- Training: their skills, learning other members of his experiences
- Communication: listening ability, motivation, promoting a climate of trust.
- Rigor: the specific methods and structures, tracking the results.

Each project participants need to know well the tasks to be achieved and the project to achieve its objectives, the consensus in the results (quality, quantity, effectiveness), the methods and techniques, and deadlines to be completed project.

#### 5. Reference

- [1] Chivu, R., Elemente generale de managementul educației, Editura Meronia, București, 2008.
- [2] Kretz L., If you manage project managers, International Institute for Learning, Inc., 1996.
- [3] Kretz L., Project Management & Leadership Concepts, International Institute for Learning, Inc., 1996.
- [4] Newton, R., Project Management-Step by Step: The proven, practical guide to running a succesful project, every time, Pearson Education Limited, 2007.
- [5] \* \* \* Project Cycle Management (Manual, Handbook). European Commission. Europe Aid Cooperation Office, Brussels, 2002.

## Demographic Imbalances and the Current Concepts of Social Security

CARP Ana Anton  
Academy of Economic Studies of Bucharest  
karp\_ana@yahoo.com

### Abstract

*Today, European countries constitute a single voice, repeating the reminder about the aging population phenomenon and the population's "pyramid reverse".*

*To "relieve the state" of its unique responsibility in providing social security to its citizens, the theory of "security in diversity" has developed, which supports the multi-pillar system at the expense of the redistributive system's benefits.*

*The theory of „security in diversity” added up by the convergence theory of redistributive system types hides however another aspect: security can be cross-side, which is initiated with the advent of European Directives on social security.*

*If social security can be undertaken individually, then the other European concept, social cohesion is poor in practical application.*

*The purpose of this paper is to assess the demographic phenomena that generate the general imbalance of accumulation-distribution in the Social Security System.*

*For workers moving within the European Union the question of portability of pension rights arises.*

*I shall focus my analysis on the pension field, which implies specifically tackling problems in the context of European integration.*

**Key words:** labour market, social security, unified rights, cross-border security

**JEL classification:** F24

### 1. Introduction

Labour market liberalization in the European Union has made revision of the Lisbon strategy.

The European Commission has proposed removing obstacles to mobility of workers to ensure them with the free movement and also with the portability of pension rights. Portability of pension rights is guaranteed by Regulation 1408/71.

The implementation of this Regulation is layed down in the Council Regulation no. 574/72/CEE. After the adherence, the member countries have the obligation to include the means of implementing and applying of these ones into their own social security systems, to designate the competent authority, the liaison organs and the institutions responsible for applying the regulations.

After Romania and Bulgaria adhered to, the Regulatory Framework has been completed with the Council Regulation no. 1791/2006. Regulation 1408/71 has been continuously modified to take account of national legislative changes and Community rules' evolution also resulted from decisions of the Court of Justice.

Community coordination rules have become bulky and must be replaced and simplified.

One of the fundamental principles of the new Regulation (RE no.883/2004 on social security systems' coordination) is the general principle of equal treatment for workers who are not resident in the member State where they work, including cross-border workers.

Contribution periods completed in another Member State should be taken into account by applying the principle of periods' aggregation.

The aggregation of periods has the purpose of retaining the advantages received or about to be acquired by employed persons or self-insured persons, their supported persons and descendants.

To avoid duplication of applicable national provisions, it is necessary that the person moving within the Community to obey the social security scheme of a single Member State.

## 2. The current concepts of Social Security

### a) Security in diversity

Social security can be assumed by each person through his savings made during working life and also by adhering to an insurance system based on social solidarity. This adherence to „compulsory insurance” [3] scheme is generally followed by each individual, except those who do not employ for a minimum period required by the pension system.

According Georges de Menil and Eytan Sheshinsky, the "return to Europe" [8] of postcommunist countries (Romania, Poland, Hungary) will also consist of a pensions system reform, given the deepening demographic phenomenon of population aging and the PAYGO system deficit.

They argued that the theory of multi-pillar system will be a "security in diversity" in terms of income replacement by pension. How to implement reforms and the chosen path, the type of model chosen depend on the political factor in each country. Hence the authors' fear that although the developed scenarios conclude achieving a surplus in Pillar I, the risk was that the parameters set (the benefits) and the contributions' formula to be altered by politicians.

Today is put again in an acute form the „problem of pensions system's reform” [2], this time the internal reform of the redistributive system is motivated by adverse demography .

Following the trend of European Union countries, in Romania too the Multi-Pillar system was founded, future relieving the redistributive system, respectively the First Pillar of pensions.

The fundamental principle underlying the Multi-Pillar system is to diversify funding sources.

State involves in regulating the Multi-Pillar system and encouraging contributors' attraction by tax advantages offered to employers, through which contributions are collected.

### b) Cross-border security

Promoting the multi-pillar system has a positive cross-border effect in the financial market development and capital market, in attracting investments in countries that implement these systems, but also a positive effect in terms of social security of the pension rights by increasing determined benefits and by

portability rights as owners of individual accounts.

For economic growth and jobs' creation, a genuine internal market for financial services has been formed, that allow the financial institutions to operate in other Member States to ensure a high level of consumer's protection in financial services.

The cross-border pension systems refers to the permission guaranteed by a member state to enterprises located in their territories to sponsor institutions for occupational pensions provision authorized in other Member States.

The extent that "social security systems are under increasing pressure and in the future will increasingly focus on occupational pensions as a complementary system; this system should therefore be developed"[11], without questioning the importance of pension systems in social security.

In the core of the objective of strengthening the European social model lies "social protection reliable, sustainable and effective, ensuring a decent standard of living in old age." No.2003/41/CE Directive is a first step towards establishing an internal market for occupational pension schemes, organized at European level.

National regulations are different in terms of employees' participation in independent activities to self occupational pension schemes.

The implementation of the directive had a deadline date of September 23, 2005. The only allowed delay was Article 17 application relating to pension schemes on cross-border basis.

The date by which the postponement of Articles 17 and 20's application has been permitted is September 23, 2010.

### c) The portability of pension rights

The portability of pension rights involves the calculation of pension rights and the transfer of amounts due by the person receiving the transfer, regardless of the place of residence chosen by the beneficiary.

The portability problem arises, however, different depending on the pension scheme in which the potential beneficiary has realized the eligibility period.

If the insurance periods have been carried out in Pillar I, the granting of benefits is regulated by Regulation nr.408/71.

It requires the coordination of establishing rights under the rules: „the aggregation of insurance periods”[3], the aggregation when the insurance periods overlap, conversion rules, the

application of pro-rata temporis principle, the revalorization and recalculation of benefits for the implementation of national strategies of recalculation due to inflation or increased cost of living. The revalorization is directly applicable to Community pensions.

In 2009, Konstantina Kalogeropoulou argued the existence of "obstacles to portability of supplementary pension rights"[9].

These obstacles arise when the insured person has contributed to a supplementary pension fund (occupational) and has not achieved the requirements of the pension scheme until the time when applying for the benefits transfer.

### 3. The demographic decline and human potential's assessment

Economy and social climate have changed. With these, demographic changes have occurred. Increasing life expectancy has increased the period of inactivity and the duration of dependence.

Fertility rate changes also have an impact on financing the social security system.

One other change is in the population age structure and in the ratio of population older than 65 years to younger generations.

The combination of increasing life expectancy and lowering fertility rate leads to a decrease in the dependency rate doubled for persons over 65 years.

This ratio (persons aged over 65 to active population) was 1 to 4, and in 2050 it will be about 1 to 2.

While the population pyramid has reversed, the social security contributions should be borne by fewer people. Therefore it becomes impossible to finance the redistributive system. Pestieau considered that is hard to predict up to where the convergence will go, but on the long run, there will be differences in living standards between different countries. He supported the idea that there can be no pure systems, neither "a full convergence cannot be realistically expected" [10].

To evaluate the potential of the Romanian population, I have used methods of statistical analysis. In the table "Romania - the country with the largest deficit of the total population in 1999-2009, forecasts for 2010", the evolution in absolute and relative values is mirrored (index with fixed base, reference year 1999).

For relevant analysis, I included in this table the situation of deficit populations' countries, like Romania.

*Fig. 1 Romania - the country with the largest deficit of the total population in 1999-2009, forecasts for 2010*

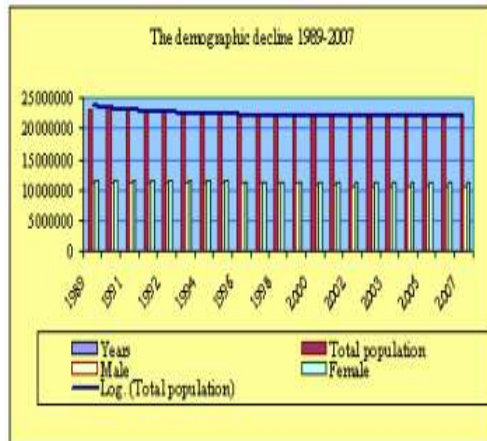
Romania- the country with largest deficit of total population in 1999-2009, forecasts for 2010					
Tara	1999	2009	(2009-1999)	I.(2009/1999)%	2010
Bulgaria	8,230,371	7,606,551	-623,820	92.42	7,576,751 (f)
Latvia	2,399,248	2,261,294	-137,954	94.25	2,248,961 (f)
Lithuania	3,536,401	3,349,872	-186,529	94.73	3,329,227 (f)
Romania	22,468,595	21,468,616	-999,979	95.60	21,466,174 (f)
Estonia	1,379,237	1,340,415	-38,822	97.19	1,340,274 (f)
Hungary	10,253,416	10,030,975	-222,441	97.83	10,013,628 (f)
Croatia	4,527,459	4,435,056	-92,403	97.96	:
Poland	38,666,983	38,135,876	-531,107	98.63	38,163,895 (f)
Germany (incl.ex-GDR from 1991)	82,037,011	82,002,356	-34,655	99.96	81,757,595 (f)

Over the past 10 years, Romania has the largest deficit in terms of total population. It is situated among recently integrated into European Union countries, which also recorded large deficits in the population.

At the opposite pole lies the Nordic countries and Central Europe. Italy, Spain, Portugal, Great Britain, Cyprus, countries receiving migrants [4], recorded positive developments (Spain 115.14%, Italy 105.51%, Portugal 104.71%, United Kingdom 105.21%, Cyprus 116.70%).

The demographic decline is recorded in Romania since 1990. In 1989, the total population was 23,151,564 people in Romania. In 1990, the country recorded the largest population (23,206,720 people), as from 1991 (23,185,084 people) a decreasing trend will continuously occur.

Fig. 2 The demographic decline 1989-2007,



Source: INSSE - Romania

The years 1990-1991 mark from a demographic point of view the structural imbalance between women and men that during 1981-1989 was maintained at a constant level of 50.66% women, compared to 49.34% males. In 2007, the share of women was 51.26% of the total population.

The appreciation of population decline is attributed to several causes of which we mention low fertility rate (1.35 children / woman) and net migration.

Fig.3 Romania – total fertility rate (number of children/woman)

Romania- total fertility rate (number of children per woman)

Countries	1997	2006	2007	2008
E U 27		1.53 (ei)		
Slovakia	1.43	1.24	1.25	1.32
Romania	1.32	1.32	1.3	1.35
Hungary	1.37	1.34	1.32	1.35
Portugal	1.47	1.36	1.33	1.37
Germany		1.33	1.37	1.38
Poland	1.51	1.27	1.31	1.39
Malta	1.98	1.39	1.37	1.44
Lithuania	1.47	1.31	1.35	1.47
Italy	1.21	1.35	1.37	

Source: Eurostat

Regarding the net migration rate indicator per 1000 people, I find out that the indicator peaked Romania (-26,705) in 2001, just like Bulgaria.

The observed values can be explained in relation to changes in the European Economic Area, and what is relevant is the dependency relationship between net “migration rate indicator” [7] and population deficit indicator, which determines the need for a thoroughly examination of this indicator as a possible variable for the “social insurances model” [5] ,

much more relevant than the fertility rate or natural increase of population

Fig.4 Crude rate of net migration plus adjustment per 1000 persons

Crude rate of net migration plus adjustment per 1000 persons

Countries	1998	2000	2001	2002	2004	2006	2007	2008	2009 (f)
E U 27									
Bulgaria			-26.705				-0.182	-0.115	-0.123
Czech Republic			-4.207						
Germany								-0.652	-0.681
Estonia	-4.732								
Latvia	-2.386	-2.319	-2.191	-0.784	-0.467	-1.071	-0.282	-1.122	-2.058
Lithuania	-6.233	-5.802	-0.735	-0.569	-2.798	-1.431	-1.553	-2.298	-4.627
Netherlands							-1.585	-0.055	
Poland		-10.660	-0.438	-0.469	-0.246	-0.947	-0.537	-0.390	-0.404
Romania			-25.201	-0.072	-0.466	-0.300			-0.116
Slovenia	-2.728								
Slovakia									-4.138
Croatia	-0.907	-11.720							
F.Y.R.M.	-1.001	-1.244	-1.254	-12.208	-0.056	-0.259		-0.255	
Iceland									-11.238

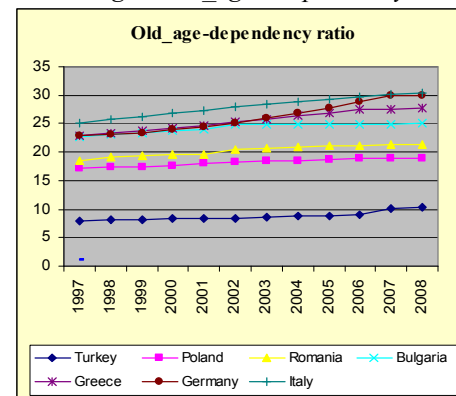
Source: Eurostat

Romania's human potential at the end of 2007 was as follows: of the total population of 21,537,563 people, 15.27% lay in the category 0-14 years, which was in absolute value 3,288,439 people (children); the working groups of people were 15,049,402 persons, which represented 69.88% of the total population; the number of people aged over 65 was 3,199,722, which represented 14.86%.

I appreciate that the human potential of Romania is satisfactory, average, because the indicator was 21.3% in 2007 and 2008, while the value recorded in the EU27 countries was 25.2%.

What I remark is the weakening over time of this indicator, which rose from 18.6% in 1998 to 21.3% in 2007 and exceeded 20.4% in 2002

Fig. 5 Old\_age - dependency ratio



Source: Eurostat

If forecasts confirm Eurostat, 2037, the year of the first generation in Romania that should enjoy the benefits of Pillar II, will find Romania in a deep "demographic" crisis, the dependency

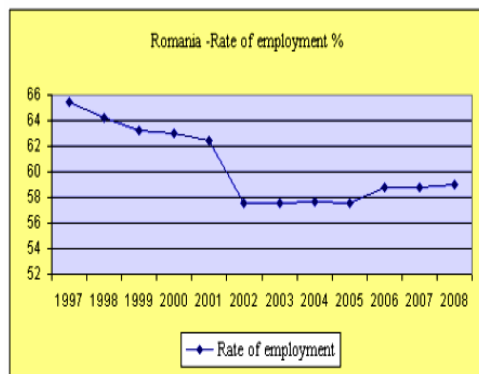


ratio of the indicator  $\text{old\_age} / 15\text{-}64$  years reaching 150 % higher level than at present, while the Nordic countries will have a "young" population.

Activity and "employment rates are at low levels" [1] in Romania

The employment rate decreased from 65.4% (1997) to 62.4% (2001). At that time, Romania registered an employment rate higher than the EU27 average (from 60.7% to 62.4%) and started with the year of net migration indicator's maximum (in 2002) to register a decline (57.6% in 2002-2005), that is appreciating at 59% in 2008.

Fig. 6 Romania – Rate of employment



Source: INSSE Romania

Analyzing "the usage of demographic potential"[6], I appreciate that a great human potential of Romania is not put in value.

#### 4. Conclusions

On their active life, the citizens carry out activities simultaneously or in different periods in many countries of the European Union, bringing up the issue of summing the periods of insurance or others the same.

The calculus of determination of the pensions quanta covers procedures of determination of the national pension, but also one of the community, after which it decrees the pension quantum that the European citizen has the right to.

Some problems arise: determining the insured period, the conversion rules, which are decreed by the Regulation no. 1408/71 and 574/72.

This year, Regulation no.1408/71 will be replaced by Regulation nr.883/2004.

Whereas there are many situations in which interruptions of the employment period are due

to involuntary causes: disease or loss of employment without re-employment opportunities, no matter how modern a society based on private pension system is, redistributive pension system based on social solidarity can not be fully replaced in any country and any other private pension system.

If promoting multi-pillar security and cross-border security, the State can not be fully relieved of ensuring the appropriate level of pensions.

The transparency of establishing the pension rights for persons moving in the European Economic Area and ensuring the portability of pension rights is the responsibility of each member of the Community.

The reform of Social Security System must take into account the following fact: the demographic potential is unused and the population aging is mainly due to economic migration and professional mobility.

These features of Romania's demographic variables lead us to choose the correct model of social security in Romania, to be developed to form a basis for real reform.

New generations are becoming fewer, but balancing social security is still possible by promoting appropriate economic and social policies.

#### 5. References

- [1] Anghelache, Constantin, „Romania 2009, Economie status in deep crisis”, Ed.Economica, Bucharest,Romania, pp.493-497
- [2] Anton Carp, Ana, Gorbe Perşa, Irina, „The Ageing cost analysis in the Romanian Social Insurances’ Reform”, Metalurgia International vol.XV (2010),pp.95-101.
- [3] Anton Carp, Ana, „The principle of compulsory contribution and the pension rights’ restitution in the social insurance system of Romania” - Management in the Worldwide Contemporary Challenges, Ed.Niculescu, 2009,pp. 239-254
- [4] Anton Carp, Ana, Gorbe Perşa, Irina, „The Influences of the migration phenom on the Social Security System”, Management in the Worldwide contemporary challenges, Ed.Niculescu, 2009, ICMIE2009- pp.247-254
- [5] Anton Carp, Ana, Carp, Ciprian, “The Evolution of Romania’s Social Insurance Redistribution System” – Proceeding of 2<sup>nd</sup> International Conference on Quantitative and Qualitative Methodologies in the Economic and Administrative Sciences QMEAS 2009, coordinator by Christos Frangos, Athens, Greece. [www.google.books](http://www.google.books), pp.51-58



- [6] Anton Carp, Ana, Gorbe (Perşa), Irina, „The Labour market and the Social Security systems in the context of economic crisis” – REBE (Romanian Economic business review), November 2009 , pp. 54-59
- [7] Gorbe Perşa, Irina – „Characteristics of migration process in Romania”, Proceeding of 4<sup>th</sup> International Conference on Applied Statistics, Bucharest, Romania, 20-22 november 2008, pp.120
- [8] Georges de Menil, Eytan, Sheshinski, „Romania’s Pension System: From Crisis to Reform”, Volum: „Social Security Pension Reform in Europe”, editor Martin Feldstein and Horst Siebert, 2002, pp.401-438
- [9] Konstantina Kalogeropoulou, „European Governance after Lisbon and Portability of Supplementary Pensions Rights”, JCER, Volume 1, 2009, Issue, pp.75
- [10] Pestieau, P., “The Welfare State in the European Union, Economic and Social Perspectives”, Oxford University Press, 2006, Oxford.
- [11] Directive (PE and CE) no.2003/41/CE, 3 june 2003
- [12] Regulation (CE) no.1408/71
- [13] Regulation (CE) no.883/2004
- [14] \*\*\* <http://epp.eurostat.ec.europa.eu>
- [15] \*\*\* <http://insse.ro>

## Labour Mobility And The Impact On Labor Market

CHIRTOC Irina-Elena  
MUNGIU PUPĂZAN Mariana-Claudia  
*„Constantin Brâncuși” University of Tg. Jiu*  
*irynavoica@yahoo.com*  
MĂRGULESCU Ana-Maria  
*Bank Post Gorj*

### Abstract

*EU enlargement involved, generally, two different ways of approaching the issue of labor mobility: that of countries which are generally host mobility flows and countries that are sources of such flows. Economic effects, positive and negative, are registered in both cases, however there are many difficult to quantify. One of benefits of this phenomenon is to reduce unemployment.*

**Key words:** labour market, income inequality, unemployment

**JEL classification:** F22

### 1. Introduction

At the dawn of the 21st century, high unemployment rate is the most serious economic and social problem for almost all states. One of every 10 people in the EU is looking for a job in vain. Employment rate in Europe is 61%, or nearly 10 percentage points below the U.S. and Japan. Although millions of new jobs were created in the EU, millions are still unable to find work. And more than half of all applications were made over a year unemployed. No net addition of jobs, some population groups have particular difficulties on the labor market in particular long-term unemployed, young, disabled, women and ethnic minorities. Employment rate of women in Europe is around 20% below the men. Disability is even lower - about 30% below the EU average. The EU would not only provide more jobs, but also provide better labor market opportunities for population groups that hitherto have been at a disadvantage. („European Commission European employment and social policy: a policy for people”). The socio-economic conditions existing in Romania, there

is still a high unemployment, to create some pressure for labor mobility to external labor market.

### 2. Labour mobility and the impact on employment and unemployed

Labour mobility is a reaction to adjust the supply of labor according to demand territorial location. Fundamental to this phenomenon are numerous causes such as:

- regional disparities on economic development and emergence of new jobs;
- uneven territorial distribution of unemployment;
- territorial income inequality;
- change in marital status;
- health reasons,

External mobility, the effect of removing restrictions on the possibility of moving out of the population, helped reduce the population of Romania after 2000, and therefore reduce labor supply.

Reducing the number of people left in Romania is due to regulations in developed countries, limiting admission of new strangers. In the absence thereof, the external mobility would have a far greater impact on employment and unemployment in Romania.

Young age groups have the largest weighting in the total of people who fled from Romania. Young age group in Romania is the best prepared professionally, but also the most exposed to unemployment, so the higher they tend to migrate.

Deadlock in general economic and social development of Romania, low living standards, lack of future perspective, it causes many young people seek to achieve in more developed countries. Making training courses, fellowships, etc. temporary employment period., are used mainly by young people to stay in better developed countries with higher standard of

living, working and living conditions higher to those in Romania.

It should be noted that the share of persons aged 26-40 years came in at almost 49% share, which is a worrying phenomenon for Romania. Thus, leaving people with a good theoretical and professional experience in Romania is a real brain drain, outdoors, and for developed countries the issue is a brain gain, as these countries receive most valuable professionals for key sectors economy and research, without any expense to have their preparation.

Reducing unemployment rate in recent years is due to the legal and illegal departure of people to work abroad.

Regarding leaving to work abroad in the form of irregular migration, illegal, manifests the various coatings, to find a job there, mostly in the informal sector of the economy. This phenomenon was amplified by multiplying the travel agencies, international transport firms and so-called agency of employment abroad.

From an economic perspective, labor mobility is the main mechanism with trade and capital flows of european integration.

Short and medium term, emigration from Romania primarily affecting labor availability (quantity effect) and thus have an influence on wages and employment. Secondly, influence labor market through changes in regional and sectoral allocation of labor and the relative distribution of production. Thirdly, depending on destination, payments by the Romanian migrants in the country will affect regions of emigration.

Long-term effects of emigration (the effects of growth) on Romania are not sufficiently clear. There are basically two ways in this regard. On the one hand, mobility is seen as representing only a tool that contributes to the convergence of integrated economies. Moreover, mobility can be regarded as a phenomenon that increases development gap between countries (unfavorable locations will lose many inputs). From this "divergence perspective"; is only one factor mobility potential of center-periphery configuration. If the center (EU) continues to draw the human capital of Romania, will grow faster, while Romania will be left behind. Thus, long-term outcome will be a divergent pattern of growth in the EU and Romania.

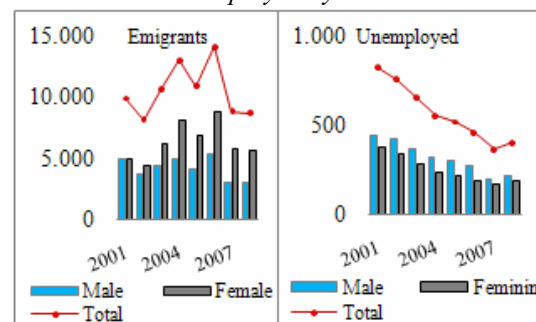
The two mechanisms related to the mobility mechanism are likely to influence the economic development of Romania pre-accession and after gaining EU membership: human capital

outflows due to the emigration of highly skilled (brain drain) and reverse financial flows associated with migration, ie the money sent by migrants in Romania.

Labour mobility affects both employment and unemployment in Romania. Thus, we can estimate that the mobility of people in Romania is that the dimensions of unemployment is lower, because the lack of jobs in Romania these unemployed people would be more mass. This should not be a solution to unemployment, especially that labor mobility has contributed to reducing employment, and if we consider that if Romania's population aging occurs, then the emigration of the Romanians will have negative effect for our country.

Through the emigration is saved internal rate of unemployment but budgets remain without taxpayers (the state budget, social insurance budget, the fund of unemployment, health insurance budget).

Figure 1. Evolution of immigrants and unemployed by sex



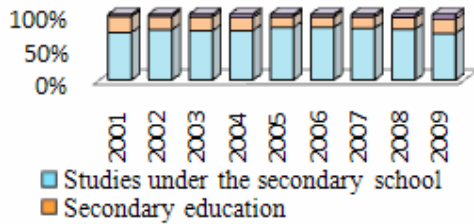
Source: Romanian Statistical Yearbook 2009

Figure 1. illustrates that the period 2001-2006 is characterized by an increase in migrants number with 43 points while a number of unemployed decreased by 44%. In the next period (2006-2007) recorded a sudden drop of 37% immigrants and unemployed keeps the same trend of decline, this can be explained by the fact that people found jobs in the country. The period 2007-2008 is characterized by a slight decrease of 1% of migrants and an increase of 9,8% unemployed number. The latter grew by 75,9% in 2009 to 2008 explained by the phenomenon of global economic crisis.

Persons involved in the phenomenon of mobility are usually women who recorded a 49% share in 2001 and reaching 65% in 2008, the total emigrants. The proportion of women in the number of unemployed is lower than that of men, maintaining that on average 43%. Unemployed with education below secondary

school are the most exposed to the phenomenon of mobility

Figure 2. Evolution of the number of unemployed by education



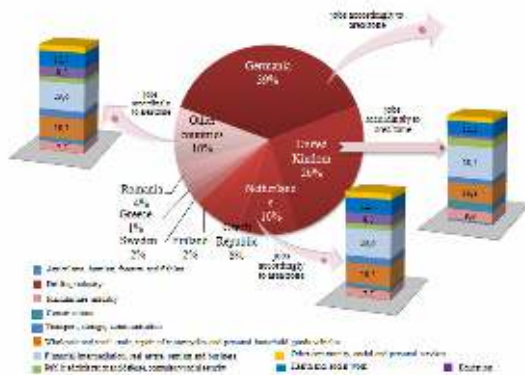
Source: Romanian Statistical Yearbook 2009

Unemployed number is represented (Figure 2.) a fairly large proportion of approximately 75% of these unqualified people with below secondary education, following the unemployed with secondary education in 20% and last place are those with higher education .

Considered very important in the decision to emigrate is the number of existing vacancies in both the home and in the destination.

According to available data from Eurostat for 2008 the largest share of vacancies Germany records by approximately 39% of existing housing in the EU. The UK lies second with 26%, and Romania is placed to the middle of 4%. Most existing vacancies in Germany, UK and Netherlands are in financial intermediation, real estate, renting and business, those holding 47,82% for Germany, 28,05% for United Kingdom, 23,62% for Netherlands of the total supply. Another area where shortages of manufacturing employment is in Germany as representing 10,45%, wholesale and retail United Kingdom and the Netherlands about 17%.

Figure 3. Vacancies jobs in European Union



Source: Eurostat

And can be seen in Figure 3. that in Romania recorded same labor shortage. Unemployed in Romania should therefore be to move towards

an Intersectoral mobility within the country or to find out. Emigration is a topic that reflects the quality of work and domestic employment in Romania, it is primarily the size of wages and working conditions not necessarily (over 50% of those who leave motivated by earnings and 20% by the higher living ).

Labour mobility is one of the most important national phenomenon - the structure of employment, unemployment, budget incomes as well as individual and family level.

After the social economic development have diversified the forms of population mobility:

- movement or commuting mobility;
- seasonal mobility;
- residential mobility.

Immigrants adapt to new territory raises difficult issues to resolve social, economic and cultural conditions. Following in the community of a mass departure of young people, change them to reduce the birth rate is decreasing while increasing marriage and mortality, natural increase is reduced accordingly.

An important question arises both now and in the future, which makes and promotes labor movement is the need for countries of destination language knowledge. Ignorance of the language of a person is disabled wants to work is essential and makes sometimes impossible to function in professional practice it is ready.

When Romania entered the EU restrictions have occurred. First is that the restriction concerning the right to work through the free movement of persons have not been operated upon entering our country in the European Union, but after a certain period.

By achieving the right conditions to benefit every citizen of the Union to have the freedom to seek, to work to establish or to provide services in any Member State, there are some limitations on the free movement of individuals. So for example, will remain limitations to the granting of work permits.

### 3. Conclusions

Currently, there is little mobility of workers from Romania to other EU countries. This is done both through legal and illegally ways. Offer jobs to people from Romania, by the EU countries is low and cover only certain professions, usually poorly paid employment.

„pean market and international flows of labor movements, certain adaptations are needed in

the labor market information system. Eliminate the difficulties of human resource management in general, nationally, in conjunction with other sectors and economic activities can not be

achieved without a picture of the main features of labor. In this regard it is important to develop a uniform system of indicators with a database unit integrating the criteria defining the labor market in general, not only after the administration one but currently available.

#### 4. References

[1] Constantin, D.L., „Human resources in Romania. Area mobility”, A.S.E. Publishing House, Bucharest, 2002.

[2] Dobrotă, N., Aceleanu, M.I., „Employment of resources jobs in Romania”, Economic Publishing House, Bucharest 2007.

[3] Vasile, V., Zaman, Gh., „Labour migration and sustainable development in Romania”, Expert Publishing House, Bucharest, 2006.

[4]\*\*\* Eurostat.

[5]\*\*\* Romanian Statistical Yearbook 2009.

[6]\*\*\* European Commission “European employment and social policy: a policy for people”,[ec.europa.eu/publications/booklets/move/24/txt\\_en.pdf](http://ec.europa.eu/publications/booklets/move/24/txt_en.pdf)

## EMS Certification – Priority for Romania

CONDREA Elena  
STANCIU Anca  
MIREA Marioara  
„Ovidius” University of Constanta  
[elenacondrea2003@yahoo.com](mailto:elenacondrea2003@yahoo.com)  
[castan22us@yahoo.com](mailto:castan22us@yahoo.com)  
[mm\\_mirea@yahoo.com](mailto:mm_mirea@yahoo.com)

### Abstract

*The Environmental Management System (EMS) represents a part of the company general management. ISO 14000 represents the reference standard for EMS implementation worldwide.*

*The ISO 14001 Standard can be integrated into other management systems to help the achievement environmental and economic goals. It describes the requirements for registration and/or self-declaration of the organization's EMS. Demonstration of successful implementation of the system can be used to assure other parties that an appropriate EMS is in place. It was written to be applicable to all types and sizes of organizations and to accommodate diverse geographical, cultural, and social conditions. It does, require commitment to the organization's EMS policy, applicable regulations, and continual improvement.*

*The standard ISO 14001 is divided into six parts and has a total of 18 requirements. The numbering system is identical to the standard.*

*The organization shall establish and maintain an environmental management system that includes policy, planning, implementation and operation, checking, and corrective action, and management review.*

**Key words:** management system, certification, standard, environment

**JEL classification:** Q59

### 1. Introduction

The ISO 14001 standard was approved in 1996 and adopted with no modification as European Norm (EN ISO 14001) in the same year. Romania adopted the standard version as

SR EN ISO 14001:1997.

In Romania, ISO 14001 is the only one normative used for EMS implementation, and the certification procedure (according to above mentioned guide) is already enforced.

The implemented EMS can be certified according to the provisions of ISO/IEC Guide 66:1999 and EA 7/02:2000. The European reference for EMS implementation and certification is the Directive (EC) 761/2001/March 2001 of the European Parliament and of the Council allowing voluntary participation by organisations in a Community eco-management and audit scheme (EMAS II).

The EMAS II transposition is the present objective concerning the EU legislation implementation in the field of EMS's certification/registration.

### 2. Directives concerning EMS

In Romania, environmental issues are among the most difficult and politically sensitive issues to be negotiated during the accession process, first of all in the following economic fields: energy; mining; chemicals and petrochemicals; iron and steel; building materials.

Two major directives will have an impact on these five sectors:

- Large Combustion Plants (LCP, 88/609) for the energy sector; and
- Industrial pollution Prevention Control (IPPC, 96/61) for the other four sectors.

IPPC is probably the only EU environmental directive that focuses on the industrial sector and covers air, as well as water and waste issues. The Seveso directive (96/82) also will affect the sectors to some extent. If the five sectors comply with these three directives (or more precisely with the corresponding transposed Romanian legislation), they will comply with most of the other directives on air,



water, and waste. Some other minor directives (e.g., noise, eco-label, VOC emissions) may also have an impact on the five sectors.

In December 2001, Romania issued its Position Document for the opening on negotiations on Chapter 22. Romania has asked for transition periods to implement the IPPC and LCP Directives: seven years for IPPC and five years for LCP. The EU responded to the Position Document with a Draft Common Position inviting Romania to submit detailed implementation plans and to explain how it would address the negative effects of the requested transition periods.

This report is divided into five chapters. The first two chapters present an overview of the EU Directives with substantial impact on the industry and an overview of the five sectors.

#### **Air Quality Directives**

The major focus of the policy in this field has been the improvement of air quality and reduction of emissions from all sources, in particular photochemical substances and those leading to acidification. The raft of measures introduced so far, known as the “Reference scenario” are expected to protect almost all EU ecosystems from acidification and deliver the health-based ozone target of an eight-hour average of 80 ppb proposed by the US Environmental Protection Agency.

Many provisions are necessary to fully transpose the above mentioned Directives into internal Romanian law:

- Taxes on air pollutant emission with impact on human health and the environment;
- Setting up a National Action Plan on Atmosphere Protection for mitigating the emissions in reasonable steps; and
- Designating an authority to adopt and manage a National System for Assessment and Integrated Management of the Air Quality.

#### **Seveso II Directive 96/82/EC**

The Seveso II Directive aims to ensure high levels of protection against accidents involving dangerous substances. The aim of the Seveso II Directive is two-fold:

- *Preventing* major-accident hazards involving dangerous substances; and

As accidents do continue to occur, *limiting the consequences* of such accidents not only for humankind (*safety and health aspects*) but also for the environment (*environmental aspect*).

Development of a new international standard

for environmental performance evaluation (EPE), ISO 14031, has added impetus to an already growing realization that systematic and creditable performance measurement is a necessary element if environmental management is truly committed to continual improvement (See also EMAS Regulation).

#### **IPPC Directive 96/61/EEC**

The IPPC Directive aims to achieve integrated prevention and control of pollution arising from emission into air, water and land, from the activities listed in its annex:

- Energy industries e.g. power stations, oil and gas refineries;
- Production and processing of metals ferrous and non-ferrous;
- Mineral industry e.g. cement works, glass works;
- Chemical industry organic, inorganic, pharmaceuticals;
- Waste management e.g. landfill sites, incinerators;
- Other activities such as paper and pulp manufacture, fabric treatment and tanning plants, slaughterhouses food and milk processing and treatment installations, intensive livestock rearing units and installations handling organic solvents.

IPPC is a major step forward in environmental legislation, coordinating for the first time the environmental permitting of industrial activities at an international level, and is aimed at bringing with it major advances in improving the quality of the environment. The IPPC requirements also lead to some costs for investments in new and cleaner technology.

The fully transpose the *Acquis Communautaire* in this area; the following legal acts have to be adopted by Romanian authorities as quickly as possible:

- A government decision on environmental information, detailing procedural aspects for access to information, and ways for its dissemination; and
- Ministerial orders for the approval of the methodological norms and of the regulations for collecting, processing, reporting and dissemination of the environmental information, adding the level of tariffs in this respect.

### 3. Benefits of UE standards implementation

In 2001, the European Commission conducted a study to estimate the benefits of compliance with the environmental *Acquis* for the candidate countries. The study identified and estimated the environmental, economic and social benefits that are likely to arise from the full implementation of the EU environmental legislation (known as the “*Acquis Communautaire*”) in the candidate countries.

- ★ *Likely Benefits due to Industrial Pollution Control*
- ★ *Health benefits*
- ★ *Non-health economic exploitation benefits*
- ★ *Ecosystem benefits*
- ★ *Social benefits*
- ★ *Wider economic benefits*

To facilitate the implementation of the EU environmental *Acquis* in the five sectors, we have three recommendations:

1. Implementation costs will increase production costs significantly and the five sectors should start preparing detailed investment plans.
2. Extending transition periods would facilitate the implementation of the LPC and IPPC Directives.
3. Industrial strategies should take into account the high costs of complying with the EU environmental *Acquis*.

### 4. EMS Certification in Romania

Romania adopted the standard ISO 14001 in version as SR EN ISO 14001:1997, its main elements are:

- Environmental policy:
  - ✓ Establishes the framework for the environmental goals of the company;
  - ✓ Establishes the commitment for continual improvement, pollution prevention, reduction of environmental pollution and legal compliance.
- Legal requirements:
  - ✓ Legal requirements identification;
  - ✓ Compliance assessment;
  - ✓ Corrective actions in case of non-compliance.
- Identification and assessment of environmental aspects:

- ✓ Identification of environmental aspects resulted from the activities, product and services of the company;
- ✓ Establishing the assessment criteria;
- ✓ Establishing of the significant environmental aspects;
- ✓ This stage represents the first step for environmental performance improvement.
- General and specific environmental objectives:
  - ✓ Establishing the general and specific environmental objectives;
  - ✓ Measurability of the objectives;
  - ✓ Compliance with environmental policy and significant aspects.
- Environmental management program:
  - ✓ Program for objectives implementation;
  - ✓ Establishing the responsibilities, resources and time schedule;
  - ✓ Continual adaptation;
  - ✓ Establishing the procedures and measures in order to complete the objectives.
- Implementation:
  - ✓ Structure and responsibilities;
  - ✓ Training, awareness and competence of the employees;
  - ✓ Internal and external communication
  - ✓ EMS documentation;
  - ✓ Establishing system and operational procedures;
  - ✓ Prevention of emergency situations and response capacity.
- Control and corrective measures:
  - ✓ Monitoring of environmental aspects associated to the performed activities;
  - ✓ Calibration and service of the monitoring equipments;
  - ✓ Assessment of legal compliance;
  - ✓ Actions regarding non-compliances;
  - ✓ Corrective and prevention measures;
  - ✓ Program and procedures for internal audits.
- Management review:
  - ✓ Assessment of the environmental performance;



✓ Modification of environmental policy, objectives or other EMS elements.

The auxiliary legislation concerns the accreditation of EMS certification bodies and certification procedures of the EMS implemented on the basis of ISO 14001. This legislation includes:

- Governmental Ordinance 38/30.01.1998, approved by Law 245/29.04.2002 regarding accreditation and infrastructure for evaluation of conformity;
- Governmental Decision 456/2000 approving the National Plan of the Governmental Program 2001 and 2001-2004;
- ISO/IEC Guide 66:1999 General requirements for EMS certification/registration bodies;
- EA 7/02:2000 Guidelines for the accreditation of certification bodies for environmental management systems;
- SR EN ISO 14010 14012 Guidelines for environmental audit.

The only accreditation body of certification bodies for EMS in Romania is Romanian Accreditation Association (RENAR).

The RENAR requirements for EMS certification are specified in ISO/IEC Guide 66:1999 and EA 7/02:2000. The ISO/IEC Guide 66:1999 is an international guide setting out criteria for bodies operating assessment and certification/registration of EMS. EA 7/02:2000 provides guidance with a view to harmonise the application of ISO/IEC Guide 66:1999 in the field of EMS, by accreditation bodies, their assessors and certification bodies preparing for accreditation.

According to the originating country, two categories of EMS certification bodies in Romania have already assigned EMS certificates:

A. Romanian bodies: SRAC, AEROQ, and SIMTEX-CO;

B. Foreign bodies: TUV and DQS (Germany), Bureau Veritas Quality International (France & England), Lloyds Register and BSI (England); their certification activity is performed through their own auditors or by the local offices.

Because RENAR is a full member of the European Co-operation for Accreditation (EA), the Romanian EMS certification bodies (accredited by RENAR) are recognised in the European Union; consequently the EMS

certificates issued by SRAC, AEROQ, and SIMTEX OC are recognised in the EU.

The certification procedure includes:

- application for certification;
- preparation for assessment;
- assessment;
- assessment report;
- decision certification;
- surveillance and reassessment procedures;
- use of certificates and logos;
- access to records of communications from external interested parties to organisations.

EMAS II stipulates the creation of two important organizations to manage the participation of the companies to the Eco-Management Audit Scheme:

- Accreditation Authority to conduct the accreditation system of the environmental experts;
- Competent Authority to conduct the EMAS registration procedure.

Is it recommended that a law regulating the structure, activities, and competencies of these authorities be implemented.

## 5. Conclusions

The environmental expert must ensure that the organization has the necessary procedures to control its activity's specific aspects, which fall under EU or Member State legislation. Investigations during the environmental audit must prove that the compliance with legal requirements is assured, as results of the created procedures.

The main cost areas for state authorities are those related to:

- ✓ Establishing and maintaining a network of air quality monitoring stations and associated quality assurance equipment, and reporting the monitoring results.
- ✓ Preparing emissions inventories of greenhouse gases and pollutants that significantly affect air quality.
- ✓ Preparing plans and programmes and strategies to achieve compliance with ambient air quality limits.

## 6. References

- [1] D. Manoleli, V. Platon, R. Stanescu, P. Prisecaru, L. Georgescu, J. Tilly, The impact of transposing EU environment protection standards on selected Romanian industries, European Institute of Romania, Bucharest, 2002.

[2] V. Platon, J. Tilly (expert EU) – The impact of transposing EU Environment Protection Standards on Air Pollution to Romania, European Institute of Romania, 2002.

[3] R.A. Tomcescu, L.V. Cruceru, Methodologies for the accreditation of environmental management, European Institute of Romania, 2002.

[4] Position Paper of Romania Chapter 22 Environmental Protection – Acceptance of The Acquis Communitaire, MWEP, Bucuresti 2001.

[5] RENAR, Informative Bulletin – no.3 March – April 2007.

[6] SR ISO 8402-1994 Quality management and quality assurance. Vocabulary.

## Social and Cultural Effects of Romanian Migration in European Union

CRISTIAN Elena Raluca

*Romanian American University of Bucharest*  
*cristianraluca@yahoo.com*

PĂDUREȚU Elena

*Academy of Economic Studies of Bucharest*  
*elenapaduretu@yahoo.com*

SORLESCU Mariana

*Romanian American University of Bucharest*  
*madisorlescu@yahoo.com*

### Abstract

*Migration is a complex process and phenomenon with a multi-dimensional and multi-motivational feature, which generated and continues to generate a series of challenges, costs and social benefits that need to be managed by each country facing this issue, according to the national and local social scale in the current context of globalization.*

*European Union had been focusing mainly on a philosophy of no visas for work and travel for citizens thus dealing with different specific situations about migration: violence, racism, abuse of all sorts, being forced often, to adopt different positions and policies over time. In the 20<sup>th</sup> and 21<sup>st</sup> century, Europeans hadn't been strangers of the social, economic and politic changes, but the globalization challenges have imposed lately a new way of intra-European reconstruction, of a new balanced, prosperous capitalist democracy.*

**Key words:** migration, labour market, country of origin

**JEL classification:** F22

### 1. Introduction

Due to social, economical and political circumstances of globalization in the 21<sup>st</sup> century along with changes in education and business environment, many countries have developed intercultural relations, mainly because of the foreign immigrants.

Over time, many studies about immigrant behavior and population perception analyzed a panel of countries like France, Italy, Spain,

Portugal and Poland, countries that had numerous migrants to America in the 19<sup>th</sup> century, noticing that these immigrants had no conflict whatsoever in their new environment.

Today, because of globalization primarily, these populations are being completely assimilated and even if all the conflicts are yet alive in the history of these people, they do not suffer as they used to. The purpose of this paper is to highlight the fact that work, viewed as a production factor, represents the main reason that determinates labor force mobility in other regions or countries, as a fast response of a asymmetrical shock in the now context of globalization.

Traditionally in Europe, because of a variety of cultural, linguistic and legal barriers, there tends to be a relatively small mobility. The economic and politic transition in Romania had been affecting the socio-economic environment, changing the old patterns of distribution and forcing people to adopt life strategies which reduce the costs of structural changes [1].

The debates about migration refer often to dualistic labor market, which is mostly legal, but partially illegal, for those who work on the black market. The negative selection of

human capital brings emigrants in an inferior economic sector. This study would look for answers at a series of questions: which are the effects of migration upon the social-economic status of the emigrant? Which are the effects upon the receiving country? How is the country of origin affected?

### 2. Migration sources in the 21<sup>th</sup> century

The immigrant flows from the developing countries are being seen in the contemporary era as a spreading phenomenon, being motivated by

economic grounds and issues concerning labor force occupation in their country.

Economy, demography, war, persecution, repression and ecology are mostly accepted as the main sources of international culture, as a major subject in understanding the phenomenon that leads to migration. Before deciding to migrate, any person needs to be willing to cross many borders: real or imaginary. It is very important for every individual to surpass his mentality before choosing to move away from home, family, children, community and social life and settle down in another region, country or continent for a better life [2]. The conception about migration is closely bound to the available quantity of information and mainly by education. At the same time, the migration movement can become an element of dispute whenever the immigrants integration is missing in the migration policies; also the lack of education in accepting the immigrants and understanding this fact is another subject of debate.

The economic analysis of migration is confronting with two important problems: why do people migrate and what are the consequences toward the host country and the country of origin; the second one is referring to the functionality of the labor force market mechanism. The costs and benefits of the emigrant are also important; the decision to migrate is build on a multitude of reasons and causes and in general, in our society it is seen as a result of a cost-benefit analysis influenced by positive and negative factors, detailed in the third section of this paper [3].

In this study we have focused on evaluating the interaction between immigrants and the adoptive country, centered mainly on Romania and the preferred destinations by Romanians: Great Britain, Spain, Germany, Italy, France and Sweden. At the top of the list of European countries that offer opportunities for immigrants to adapt are Belgium, Netherlands, Portugal and Finland and at the opposite pole are Cyprus, Austria, Greece, Slovakia, Latvia. Frequently and normally, Romanian emigrants interact with the inhabitants where they establish. But there are countries in the European Union where the absorption process is quite slow, for example Denmark, where the labor force occupation rate is 76% for the Danish population and 47% for the Nord – West Europe's emigrants.

Germany and Great Britain have the experience of emigrants from the period after the World War II, developing in time, an efficient system of recruiting and absorption of emigrants. For example, Germany had recorded a first flow of 12 million ethnic German emigrants between 1945 and 1949.

After 1955, West Germany had recorded a spectacular growth, that led to a big number of immigrants who came from Italy, Spain, Turkey, Portugal and Yugoslavia between 1950 and 1960, rising the number of foreign employees to 2.6 million persons in 1973, representing 12% of foreign labor force (Source IABS Insitute for Employment Reaserch în Nuremberg).

The last census showed that about 5.5 million immigrants from South-East Europe are legally established in European Union and represent almost 30% of the total residents of tierce countries who have the most immigrants: Turkey, Serbia, Albania, Ukraine, Romania, Bulgaria, Moldavia.

The most important countries of origin of the immigrants from OECD are China (11% of the total immigrants), Poland (5%) and Romania (5%). At the global level, the source-countries, who had the biggest increases of the migration phenomenon, starting with 2000, have been, in order, Bolivia, Poland and Romania. Beside Bulgaria, our country records the highest level of emigration in European Union.

While the illegal migration has a negative impact in the European Union, the countries of origin are being affected by the migration and movement of labor force away from different activity fields. Discrimination can be approached as a risk factor for the health of the immigrants, mostly because of social exclusion and marginalization.

A study about immigrants discrimination has been done in Spain based on 84 interviews and 12 goals in 5 cities: Madrid, Barcelona, Valencia, Alicante and Huelva who covers all the im7portant immigrant communities: Romanians, Morrocan, Ecuadorians, Colombians and South-Africans. The responders have related discrimination situations in their community and in their professional life, characterized by racism, maltreating experiences and low working conditions comparing with the Spanish population. Also, they talked about restrictions in accessible fields of opportunity: constructions, hotels, services, housekeeping and agriculture.

Over the past few years, Spain has been submersed in a social and cultural process of integration, following the growth of migration phenomenon from different countries, assimilating cultures and civilizations. The final purpose of these immigrants is to enter the labor force market to improve the living level of their families left behind.

The European Union labor force market is distinguished lately by new social relations, intercultural changes, different traditions and habits, opinions and moral and religious values that take place between the native population and immigrants workers. In most cases, the situation becomes detrimental for the immigrants, who are vulnerable to all these environment changes. Their presence in these countries is giving birth to a series of discrimination situations, racism, verbal and physical violence.

### **3. Cost – benefit analysis of the social – cultural migration phenomenon**

The research and studies in the past few years done on different countries in European Union, have emphasized that the immigrant population can be seen in extreme different ways by the population. The manner in which the immigrants are being absorbed represents a disputed issue, even taboo in some countries, rising social controversies (an example can be the Mailat case in Italy). In some situations, immigrants are making maintained efforts, after a period of time spent on foreign land, to integrate in the new society, adopting values and traditions that belong to the host country.

But things are quite different in the case of the population that accepts Romanian immigrants, the opinions being divided in two big categories: Europeans that believe Romanians are poor, uneducated, incompetent, with no moral values, and Europeans that think Romanians are sincere, professional, tolerant, competent, intelligent.

Of course, we can talk here about two distinct categories of immigrants: persons that subscribe in the nonqualified class, with medium or gymnasium education and the second category of persons with post-high school education, intellectuals with bachelor studies and more, with experience like: doctors, nurses, teachers, engineers, talking about brain migration. In Canada, 54% of the total Romanian emigrants have university studies (because the selection for obtaining the visa is

of such a manner); in Great Britain, 46%; in USA, 40%; in Spain and Italy, 20% each. At this moment, only 8% of Romanian labor force has superior education, comparing with Europe with an average of 20% and 30% in USA (source: study realized by Kienbaum Consultancy in 2008).

The decisions that founded the Romanian migration have been the attraction elements which are positive factors for the countries of origin and destination elements: geographical and cultural proximity and comparative advantages of the destination country.

The immigrants accept unclean and degrading activities to obtain material resources and go back home wealthier. Small income jobs are the most traditionally occupied by the immigrants, not having other opportunities.

Connected with the demographic change, the economic growth and life improving reforms, the emigration is in general, associated with slow economies: slow economic growth, big unemployment rate, loosing budgeted jobs, anti-emigration conceptions, criminality rate and terrorism – being showed this way by the politicians as having more negative effects than positive ones [4].

In the cost – benefit analysis there are many factors: differences between income in some countries; differences of unemployment rate; level of social protection development; migration costs (moving expenses in the migration country, psychological costs with moving out of the birth country). Migration costs include also searching a new job, a place to live and supporting them until a job is found, time and money for obtaining a passport, visa and intermediary payments in case of illegal migration.

If we take the language factor for Romanian immigrants, we will notice that they are being attracted by countries like Italy, Spain and France, even if some of them will choose Great Britain too (because of the over-populated labor force in the other countries). Still, Europeans and national statistics incline to believe that there will not be many immigrants drawn to Great Britain, and those who choose this destination would have previous experience in the field and are willing to change the life climate from a southern country to Great Britain.

In a study done among Balkan immigrants, having the main subject their intention to migrate to another European country based on mother tongue (study realized in Ireland at

Dublin by Living and Working Conditions Improvement Foundation), 54.8% of the Bulgarians and Romanians have responded that they would not migrate on linguistic grounds. All researchers agree that Italians, Spanish and French people are being closer to Romanians socially, culturally and ethnically comparatively speaking with Nordics: English, Irish, Danish, Swedish, Norwegian, Finnish population.

Most Romanian immigrants accept jobs refused by natives, in some fields like: agriculture, housekeeping, construction, hotel; for the employers in the destination countries, immigrants mean low salaries, inexpensive workers and high income. A greater proportion considers that immigrants obtain earnings by working, but a small part of public opinion believes that they are gaining material resources by stealing or begging [5].

The illegal Romanian immigrants have no education or qualification, increasing the number of poor, thieves, and their children have no official access to health care and education. Mostly who work without papers have small salaries, no insurance and difficult conditions of living.

The Romanian emigrant, more than any others, once on the promise land rewrites his biography, changes, it's ashamed with his origin, his native country, his fellow citizen and even his faith and hides into unknown. These loses of country identity make them increase the number of prostitutes, thieves, beggars, felons and criminals [6].

But the most profound effects who will have ample repercussions are the social and cultural ones. Many Romanians who leave to work and cross borders for the first time and bring with them children, relatives, friends, are founding real colonies, resulting a serious collision of civilization. Some studies among immigrants settled in other countries have noticed that over time, because of changes and culture assimilation, suffer transformation of perception and even emotional alterations.

Psychiatric studies among immigrants have confirmed depression and schizophrenia cases for those who come back home; this is due to the fact that immigrants need to assimilate a new culture, live and work in a stressful environment, need to often change their residence and job. All these social and cultural changes lead in time to stress and reflect upon immigrants, giving in time severe health problems.

The cultural transformations bring in time behavior changes, alterations of attitude, faith, social and moral values, aspiration. It is quite difficult to realize an evaluation additionally to the borrowed cultural elements by the immigrants, depending mostly to the age, sex, religion orientation, geographical zone, social class, vocation or profession the immigrant had initially.

Among immigrants, the term acculturation is often used, meaning a group of individuals, immigrants from different countries with dissimilar cultures who enter into a first way of contact, where both cultures coalesced and lend different basic elements: usual expressions, gesture, preferences, taste for varied services, products, bringing visible modifications into their behavior.

Take a note that after a period of time, the immigrants are borrowing, assuming a new culture, a new language, although it can not be specified for sure how much is the adoptive country lending or how much represents the native culture of the immigrant.

The studies from psychology show that the integration, assimilation and even separation, marginalization process adopted by the immigrant population can be seen in a different way depending to the host population.

At the opposite pole of immigrants, there are individuals with superior studies, either diplomats or attached consuls in some countries, or business men who borrow cultural elements just because of simple necessity, having already well shaped moral and cultural values. The integration form that is mostly preferred in Europe among young men, especially teenagers and young adults by the age of 35 is cultural absorption.

At Brussels in 2008 there had been adopted by the European Union Commission – “The Green Cart of migration and mobility: Challenges and opportunities for education systems”, trying to answer to the elicitions involved by migration and mobility flows inside European Union.

According to national and international data, many migrant children in European Union suffer because of educational disadvantage by comparing with their native class mates: early dropout is frequent to these pupils and application to superior education is lower; the studies realized by psychologies show that second generation of migrant families pupils have lower school performances.

This is based on major gaps between social classes in European Union countries, these children parents with a better financial situation having the tendency to withdraw their children from the classes with a big number of immigrant pupils.

Things become subjective when we talk about intercultural effects, traditions, opinions, moral and religious values, in different countries: France, Spain, Italy, Sweden, Norway, Finland, Great Britain, Ireland, Scotland, but the smallest differences between these perceptions of nations are given by the integration behavior of Romanian immigrants as well.

#### 4. Conclusions

Member to European Union since 2007, Romania is a part of European space of freedom, security and justice, therefore it is important for our country and the society we live in to correctly perceive all the challenges brought by the complex migration phenomenon and labor force mobility at European and international level. Romania is not just a simple gate toward international East – West migration (Spain, Italy, Greece and Portugal or to South – North Europe), we are talking here about a real national labor market who needs workers.

As a big part of the native labor force has emigrated already, mainly in South – West Europe (more than 2.5 millions of workers are over borders, both legal and illegal), the Romanian companies can't find qualified workers to benefit of the foreign investments and structural funds from European Union. Counting the actual crisis we are confronting with, the migration flow will accentuate, because Romania will suffer a long period of time negative effects beside West countries, which will make Romanians migrate hereinafter, even though, at the beginning of 2008, a policy of bringing back the qualified persons (in constructions and health) had started.

The national employers before 2009, instead of rising the salaries to Romanian workers, preferred to import workers from poorer countries like China, Moldavia, Ukraine. These are still accepting lower paychecks comparing with the average salary per economy in Romania, but bigger than their origin countries salaries.

Romania had assumed the role of East frontier after European Union adhesion as a

follow up to the tendencies of the 21<sup>th</sup> century, the legal and illegal routs of migration are already formed, being flexible and capable enough to adapt at the conjunctural modifications.

The migration phenomenon is a permanent changeable process, which gains ground on divers reasons about family ties, relatives or friends. Young Romanians with superior education prefer countries with bigger perspective on professional achievement and relative easy conditions to integrate into the new communities: USA, Canada, Australia.

For the Romanian immigrant, integration consists of knowing the host country language (reading, writing), legal access on labor market, possibilities of growing professional mobility by rising the level of education and professional qualification, equality in front of law, cultural and religious freedom, respect towards the laws and traditions of the country where they live.

For the host society, emigrants integration requires tolerance, openness, agreement to receive immigrants, understanding the advantages and challenges of a multicultural society, access to information about the vantages of a job, intercultural dialogue, respecting and understanding the conditions, traditions and migrants culture (Source: IOM, World Migration 2003).

Romanian migration, held under strict control during communism regime, had known an apart expansion after 1990, as in migration flow volume and diversity of destinations, reasons and social – economic structure of immigrant population from different zones of Romania.

The migration phenomenon followed an upward tendency and implied all the society classes, becoming concomitantly one of the important migration flows at European level. Over the last few years, extern migration had imposed itself as one of the defining phenomena for our poor and in lack of resources society.

#### 5. References

- [1] Alexandru M., „Migration and Social Mobility. A New Perspective on Status Inconsistency”, The Romanian Journal of European Studies, no. 5–6/2007, pp. 1
- [2] Simina O., „Romania conected to the european migration space”, The Romanian Journal of European Studies, no. 5–6/2007, pp. 5
- [3] ,[4] Silași G., Simina O., „Romania, a Country in Need of Workers? The Bitter Taste of “*Strawberry*

*Jam*””, The Romanian Journal of European Studies, no. 5–6/2007, pp. 3  
[5], [6] Sorlescu M., Cristian E. R., “The Romanian migration evolution phenomenon”, National Conference “European integration –new challenges for Romania’s economy” V<sup>th</sup> edition, 29-30 May, Oradea, 2009  
Anglitoiu G., “The big Romanian colonization”, Contemporary Ideas, nr.41, February 2009  
Ciocan V., “Contemporary emigration: problems, solutions and solutions”, XCIII<sup>th</sup> mondial day of migrant and refugee, January 2008  
Constantin, D., “Migration phenomenon from the perspective or Romania’s adhesion to European

Union”, Impact studies, II, Study nr. 5, Romanian European Institute, 2004  
Ghetiu V., “Demographic decline and the future of Romanian population. A perspective from 2007 upon Romanian population in the XXI<sup>th</sup> century”, National Institute of Economic Research Centre of Demographic Research, Alpha MND Bucharest, 2007  
“Green Cart of Population”, National Commission for Population and Development, 2006  
“National strategy concerning migration for 2007 – 2010”



## Comparative Analysis of the Adoption of the Euro. Case Study: Slovenia and Slovakia.

CROITORU Elena Lucia  
PRICOPI Alexandra  
PREDESCU Iuliana  
*Romanian American University of Bucharest*  
[lucia.croitoru@yahoo.com](mailto:lucia.croitoru@yahoo.com)  
[pricipi.alexandra@yahoo.com](mailto:pricipi.alexandra@yahoo.com)  
[iulianapredescu@yahoo.com](mailto:iulianapredescu@yahoo.com)

### Abstract

*The Maastricht Treaty states certain criterias that have to be achieved in order for a EU Member State to qualify in undergoing the 3rd stage of UEM, the introduction of the euro. Slovenia followed a plan based-cooperation between government and national bank, with a clear strategy, adopted the euro on January 1, 2007. Slovakia instead, even though it followed a well defined managed to adopt the euro two years later in 2009.*

**Key words:** Economic and monetary union, convergence criteria, fiscal developments

**JEL classification:** F36

### 1. Introduction

According to the Treaty of Maastricht a EU member state must meet the cumulative criteria of nominal convergence (inflation criteria, interest rate criteria, fiscal criteria and the exchange rate criteria) to adopt the euro. Also, even if the Treaty does not also refer to a real convergence, as there are no formal criteria and complete agreement to this effect, some experts believe that should be taken into account some variables such as growth rates of GDP per capita, weight and productivity of various sectors in GDP, because during the 90's, the EU included countries with the same economic level, but today, after the accession of Central and Eastern European countries the situation is different, real convergence becoming a reality.

The purpose of this paper is to present comparative steps that were made by Slovenia

and Slovakia joining the EMU and euro adoption. In the first part of this paper we tried to highlight a relevant issue, namely why two countries that became EU members almost at the same time have adopted the euro in two years difference from one another. In the second part of this paper we analyzed the fulfillment of real and nominal convergence criteria by the two countries, trying to find a logical explanation for the first part.

### 2. Fulfillment analysis of convergence criteria by Slovenia and Slovakia

Slovenia after EU accession in 2004 has coordinated economic policies with other states on the guidelines set by the Commission and, thus, managed to adopt the euro on January 1, 2007. Although Slovakia joined the EU at the same time, only in 2008 sent the request to develop an analysis of the country, confirming the intention to adopt the euro from January 1, 2009.

The analysis can start with the question: why Slovakia failed to adopt the euro at the same time with Slovenia? A good answer would be that in 2002 (Table 1), it met only 2 of the 4 criteria of the Treaty and in the process of assessing the degree of convergence, an important issue is also sustainable convergence. As shown in the Treaty, the Commission and the ECB reports should consider the dynamics of indicators, although reference values are those observed one year before the exam. In this regard indicators reference values are tracked for a period of 4-5 years (in particular the interest rate and inflation).

Table 1. Economic indicators of convergence for Slovakia

	Inflation	General government surplus (+) or deficit (-)	General government gross debt	Long-term interest rate
2002	3.5	- 5.7	43.3	6.9
2003	8.5	- 3.7	42.6	5.0
2004	7.4	-3.0	41.6	5.0
2005	2.8	- 3.1	34.5	3.5
2006	4.3	- 3.6	30.4	4.4

Source: BCE, Convergence report, 2004 and 2006

Also during 2005-2006 (Table 2) Slovenia fulfilled all convergence criteria, while Slovakia only two of them as can be seen from Table 1. Adopting appropriate measures to rapidly reduce inflation and budget deficit were all recommended as possible, but would lead to a disruption of nominal convergence, something undesirable for euro area members.

Table 2. Indicatory of economic convergence

		Inflation	General government surplus (+) or deficit (-)	General government dept	Long term interest rate
SI	2005 - 2006	2,3	-1,8	29,1	3,8
SK	2005 - 2006	4,3	-3,4	33	4,3
RV		2.6%	3%	60%	6.2%

Source: BCE, Eurostat and European Commission

- 1)The stability of the exchange rate is not included.
- 2)Average percentual modifications. The data for 2005-2006 refer to the reference period of November 2005-October 2006.
- 3).The reference value refers to the November 2005-October 2006 period

To continue this assay it is important to note how each of these countries have fulfilled the convergence criteria.

Monetary policy adopted by Slovenia was based on 2 pillars, taking into account both the monetary and economic development. At the same time monetary policy was supplemented by an exchange rate policy, based on non-coverage of the currency fluctuations, this allowing monetary policy to maintain a high level of interest rate, in order to support the disinflation process. Starting from June 28, 2004 when Slovenia participated in ERM II, monetary policy was focused on maintaining parity vis-à-vis the euro. In the period under review, the Bank of Slovenia was facing maintenance of tolar-euro exchange rate, while

maintaining a high level of interest rate, and thus achieved a uniform distribution, comparable with the interest rate in the euro area. This in turn facilitated the transition to price stability. Disinflation process was also supported by fiscal policy and structural reforms, including the dropping of subsidy for contracts and salaries and, as I said before, the gradual liberalization of financial markets.

Thanks to this efforts, Slovenia managed to reduce the level of inflation, so according to the last Convergence Report, which analyzes the reference period April 2005 - March 2006 the average inflation rate records a level of 2.3%, below the reference value of 2.6% (Table 3).

Table 3. Inflation and long-term interest rate developments in Slovenia

	Dec 2005	Jan 2006	Feb 2006	Mar 2006	Apr.2005 - Mar. 2006
HICP Inflation	2,4	2,6	2,3	2,0	2,3
Reference value					2,6
Long term interest rate	3,7	3,7	3,7	3,8	3,8
Reference value <sup>1</sup>					6,2

Sources : European Commission and European Central Bank

1)Calculation for the April 2005 to March 2006 period is based on the unweighted arithmetic average of the interest rate levels of Poland, Finland and Sweden, plus 2 percentage point.

In the long-term interest rate criterion, Slovenia has not experienced problems, in recent years the long-term interest rate followed a downturn. Thus, during the reporting period of April 2005 - March 2006 (Table 3) long-term interest level was around 3.8%, on average hovering below the reference value of 6.2% set by the criterion of interest rate.

As regards fiscal developments in recent years, Slovenia has not experienced major fluctuations, the deficit ratio has deteriorated from 4.3% in 2001, returning to 2.3% in 2004, to 1.8% in 2005 and 1.9% in 2006 (Table 4). The proportion of government debt increased by 4.5 percentage points from 1999 (first year for which data analysis are available) until 2005. It grew rapidly from 24.6% in 1999 to 29.5% in 2002 (Table 3.1), remaining above 29% in the years after 2005. Thus, the reference year 2005 general government budget balance showed a deficit of 1.8% of GDP and public debt ratio of 29.1%, well below the 3% and 60%

respectively. Compared with the previous year, the fiscal deficit declined by 0.5 pp and 0.4 pp in gross debt ratio.

*Table 4. Fiscal developments for Slovenia*

	2004	2005	2006
Deficit	-2,3	-1,8	-1,9
Reference value	-3,0	-3,0	-3,0
General government dept	29,5	29,1	29,9
Reference value	60,0	60,0	60,0

Source : European Commission and European Central Bank

Slovenian currency has participated in ERM II since 28 June 2004 for approximately 22 months of the reference period of 2 years, between May 2004 - April 2006. Reference value was set at 239.64 tolar / euro, which was the market value at that time. It was established a fluctuation margin of +/- 15% around the central value.

Analyzing the inflation for a longer period, in Slovakia this has been quite volatile, sometimes high. Starting from 1998 Slovakia had an average annual inflation of 6.5% and recorded a downward trend in general. In the first phase inflation increased from 6.7% in 1998 to a peak of 12.2% in 2000, dropping for the next two years to 3.5%, but in 2003 to rose again to 8.5%, and in 2007 reached a low of 1.9%. This volatile route is primarily due to repeated rounds of increases of administered prices and changes in the sector of indirect taxes.

After exchange rate based on cart was abandoned in 1998, inflation was influenced by a monetary policy which had the primary purpose of achieving a certain level of inflation, while taking into account at the same time the exchange rate reported in euro. An amendment of the Slovak National Bank (NBS) in 2001 established price stability as the primary objective of monetary policy, and in January 2005 were announced explicit inflation levels for 2005-2008. NBS has set an inflation target at 2.5% for December 2006 and below 2% for December 2007 and 2008. And as inflation has been influenced especially by repeated increases of energy prices and indirect taxes, the main goal of monetary policy was to counter the adverse effects of these measures. In late November 2005 Slovak koruna passed to ERM II. Central rate was reevaluated in March 2007 and was set at 8.5%. In fact, Slovak koruna was actually continuing the appreciation against the euro since the late '90s.

Exchange rate appreciation and a series of liberalization measures, including financial markets, implemented in the first half of 2000 and reforms meant to increase labor market flexibility and competitiveness of market products led to limit the pressures upon inflation. Since 2006, there were no major structural reforms adopted, but there was a fiscal policy which focused mainly on price stability.

During the reporting period April 2007 - March 2008, average annual inflation rate in Slovakia was 2.2%, well below the reference value of 3.2% calculated according to the Treaty.

*Table 5. Inflation and long-term interest rate developments in Slovakia*

	Dec. 2007	Jan. 2008	Feb. 2008	Mar. 2008	Apr. 2005 - Mar. 2008
HICP Inflation	2,5	3,2	3,4	3,6	2,2
Reference value					3,2
Long term interest rate	4,6	4,5	4,4	4,3	4,5
Reference value <sup>1</sup>					6,5

Sources: European Commission and European Central Bank

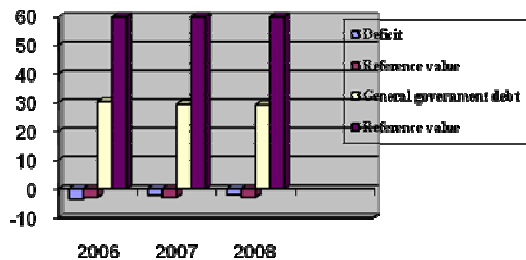
1)The basis of the Calculation for the Period April 2007 - March 2008 is the unweighted average of the interest rates Arithmetic levels in the Netherlands, Malta and Denmark plus 2 Percentage points.

During the reporting period April 2007 - March 2008, long-term interest rates have averaged around 4.5% (Table 5), well below the benchmark of 6.5% interest rate criterion. Interest rate followed a downward trend between 2001 and 2005, reaching 5% in 2003 and 2004 and 3.5% in 2005, close to the euro area interest rate. These developments reflect the reduction in inflationary pressures and increased confidence in monetary policy.

With regard to fiscal developments, analyzing the period 1998-2007 were observed a number of improvements on GDP ratio. Starting from a level of 5.3% in 1998, the deficit increased rapidly to 12.2% in 2000, reflecting primarily the costs of restructuring the banking sector. Balance improved in the next period, the deficit dropped back to a level of 5.7% in 2002 and continued to decline. Slovakia has been the

subject of Council's decision on the existence of an excessive deficit since 2004, the deadline for its correction was being set for 2007. Slovakia under the Council's decision and thus the reference year 2007, recorded a fiscal deficit of 2.2% of GDP, below the reference value of 3%. The Commission therefore recommends the Council to abrogate the decision of occurrence of the excessive deficit for Slovakia. Concerning the debt ratio, between 1998 and 2007 it decreased by 5.1% cumulatively. Initially jumped from 34.5% in 1998 to 50.4% in 2000, mainly due to debt assumption caused by restructuring the banking sector. The debt ratio declined in 2001 reaching 29.4% in 2007. The initially deficit was the most important factor that increased the public debt ratio. The deficit-debt adjustments produced an effect of increasing debt in 1999 and an overall reduction effect in the next period, largely due to payment of debt resulted from privatization certificates. Thus, in the period under review, public debt registered a value of 29.2% of GDP. Compared with the previous year deficit rate decreased by 1.4% and public debt fell by 1%.

Chart 1. Slovakia's fiscal position



Source : European Commission and European Central Bank

Slovak koruna has participated in ERM II with effect from November 28, 2005 for a period of more than 2 years, from April 19, 2006 until April 18, 2008. Agreement on participation in ERM II was based on a series of political commitments of the Slovak authorities to promote a sound fiscal policy, structural reforms, moderate wages and to reduce credit growth. Central rate within ERM II was set to 38.4550 koruna / euro with a fluctuation margin of + / - 15%. Currency has appreciated gradually and the central rate was revalued by 8.5% and set to 35.4424 koruna / euro, with effect from March 19, 2007. After that date, the crown was traded at a rate higher than the central parity diverting up to 8.9%.

Overall, participation in ERM II was characterized by a gradual appreciation of the currency.

### 3. Conclusions

The Maastricht's criteria are strict and should be interpreted in a rigorous manner for economic stability and maintaining an adequate level of economic development. Thus, proper assessment and analysis of conditions for participation in EMU will be decisive in preparation of convergence for the states that wish to join the eurozone.

In Slovenia inflation remained stable in the month prior to euro adoption and immediately after it. Average inflation stayed stable at 2.5 % in the last three months, whereas year-on-year inflation amounted to 2.3 % in November 2006 and declined to 2.1 % in February 2007. So, if in Slovenia the euro changeover has not affected long-term inflation dynamics, in Slovakia the things weren't the same. Inflation reached 3,7% [1] in march 2009 compared with the same period of 2008.

Slovenia joined the ERM II a few months after joining the EU, being the only state in the ten who successfully adopt the euro on January 1, 2007. It defined very well it's strategy regarding ERM II, successfully managed not to devalue the currency and ,thus, no need to wait another two years to adopt the euro. Thus, Slovenia was the country with the most easy and direct way to integration, the first country that managed to "broaden" the euro area.

Although Slovakia haven't an equally direct way, managed largely by political support but also by the ability of governments to make progress on fiscal and structural reforms, its efforts are significant and we can not observe the advantage that Slovakia it's having comparing with countries which are not members of EMU: stability, both in money and the business environment.

### 4. References

- [1] Igor Barat, "The euro changeover in Slovakia", PAN-DirCom, Brusel, 5 May 2009, pp. 4
- [2] Convergence report may 2002, European Central Bank
- [3] Convergence report octomber 2004, European Central Bank

[4] Convergence report may 2006, European Central Bank

[5] Convergence report december 2006, European Central Bank

[6] Convergence report may 2008, European Central Bank

[7] Programme for ERM II entry and adoption of the euro, Banka Slovenije

[8] Report from the Commission – Convergence Report 2006 on Slovenia, European Central Ban

k, Brussels, 16 may 2006

[www.euromena.sk](http://www.euromena.sk)

[www.evro.si](http://www.evro.si)

[www.ecb.int](http://www.ecb.int)

[www.europa.eu](http://www.europa.eu)

[www.bsi.si](http://www.bsi.si)

[www.umar.gov.si](http://www.umar.gov.si)

[www.slovakia.org](http://www.slovakia.org)

[www.finance.gov](http://www.finance.gov)

## Romanian Foreign Trade: Before and Three Years after EU Accession

DECEANU Liviu – Daniel  
PINTEA Mirela-Oana  
„Babeş-Bolyai” University of Cluj-Napoca  
[liviu.deceanu@econ.ubbcluj.ro](mailto:liviu.deceanu@econ.ubbcluj.ro)  
[mirela.pintea@econ.ubbcluj.ro](mailto:mirela.pintea@econ.ubbcluj.ro)

### Abstract

*EU enlargement in recent years implied profound changes in the new member states' international trade; this is explained by the adoption of new principles of trade policy, new tools, able of reshaping international economic relations, causing phenomena of trade creations and trade diversion. Of course, EU enlargement has also marked significant developments in terms of vision on trade in the old member states, these becoming now union partners (custom union also) with some interesting countries in terms of production costs, potential sales and market size.*

*For a country like Romania, trade is as important as for any other country, due to its advantages – it represents an important growth engine for states at different stages of development. Exporting and importing provide advantages, but, in the same time, represents a delicate subject.*

**Key words:** foreign trade, EU accession, economic integration, trade creation and trade diversion

**JEL classification:** F14, F15

### 1. Introduction

Participation in the economic global cycle contributes, currently, at revealing international transactions as a true factor of economic growth [2]. In this context, we can mention beneficial effects for economies such as getting necessary inputs, the possibility of selling domestic resources surplus, export specialization (of course, in those industries in which comparative advantages are held), diversification of internal offer of goods and services. From this perspective, we found it essential – for a state like Romania, which has traversed a long and difficult transitional period – the adoption of appropriate strategies

concerning foreign trade, particularly in the context of EU accession process, which has a considerable impact on all types of transactions with foreign countries.

As regards foreign trade, it should be stressed that the EU is the main global exporter (assisted, not surprisingly, by China), which attests the appetite of the area for international trade; a significantly increased level of transactions is recorded between member states, which is explained by trade liberalization, the elimination of tariff and non-tariff barriers. This generates, in time, a tendency to income convergence; from this point of view, although the present economic and financial crisis that we are facing (and maybe also a systemic one?) and the economic depression caused by it can reduce the positive effects, it is expected that EU enlargement to 27 countries will induce a convergence of economic growth, through a better allocation of resources, a favorable trend of productivity and increased competition in the European market.

Of course, it didn't occur, nor was expected a spectacular intensification of trade relations, and this is simply because trade liberalization between the European states (old and new EU member states) – and hence the preference for exchanges between them – was already a constant before 2004.

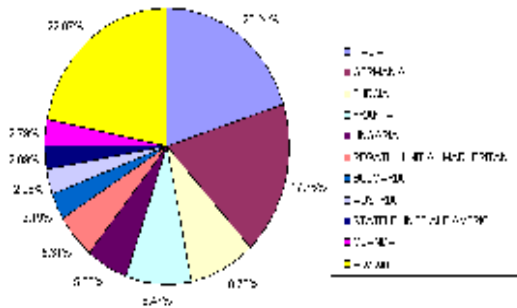
### 2. Romanian Foreign Trade – pre-accession context

Romania's main trading partners in recent years were the European Union countries. In this context, we emphasize the massive diversion in Romanian trade flows after 1989, and the neglect of some traditional partners with good potential (mainly from the ex-Soviet space), which is, in our opinion, an error. Thus, for example, in 2005 our country's top trading partners were Italy, Germany and France. A year later, France was surpassed by Turkey, followed by Hungary and the United Kingdom



of Great Britain, and eventually Germany would become the main commercial partner of Romania, mainly due to massive imports of cars and technology products. In 2006, our country's foreign trade in terms of export was as follows:

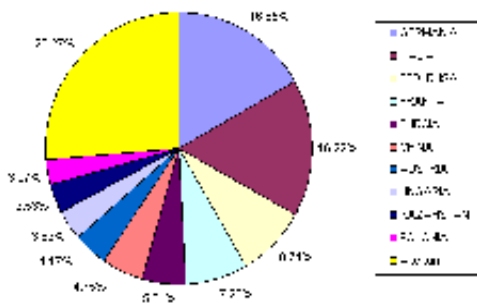
Fig.1 Distribution of Romanian Exports, 2006



Source: Website of the Romanian Center for Promoting Trade and Foreign Investments.

During the same period, imports of Romania were divided between the next trading partners:

Fig.2. Romanian Imports division, 2006



Source: Website of the Romanian Center for Promoting Trade and Foreign Investments.

In 2006, FOB exports – amounted to 25,850.5 million euros – exceed with 16.2% those achieved in 2005, a total of 6 sections with 77% of all exports (machinery and mechanical – 20.3%; clothing, textiles – 16.1%, metallurgical products – 15%, mineral products – 10.4%, transport equipment – 9.8% and footwear and similar articles – 5.4%).

The section of machinery and mechanical devices for the first time overtook the garments section that had long occupied first place in exports. Also in this period, CIF imports – amounting to 40,745.8 million euros, up with 25.1% over the previous year, primarily aimed at the following sections (with a share of 76.5% in total): machinery and mechanical – 24.3%,

mineral products – 14.8%, transport equipment – 11.6%, metal products – 9.9%, clothing, textiles – 8.3%, chemical products – 7.6%.

For both exports and imports, pro-European option was strongly felt (16.3% increase in exports to the EU compared with 2005 and 25.9% increase in imports from the EU).

A reality of recent years is represented by the widening of current account deficit. For example, in the first half of 2006, it increased by 40% over the same period in 2005, according to data published by the NBR. In this context, the danger of macroeconomic stability problems, with – as major cause – the deterioration of current account deficit became an important topic. There are multiple explanations for this situation; firstly, the substantial trade deficit (3.4 billion euros only in the first five months of 2006). At the end of the year, the trade deficit reached 14.895 million EUR (FOB / CIF prices), an increase of 4581 million euros over 2005; among the causes, we can note a substantial increase of imports and the reduction of exports to developing states.

It is also important that in the first half of 2006 the goods trade balance recorded a deficit of more than 52% over the same period of 2005. A positive balance was recorded only for services and current transfers – to note here is the importance of remittances from Romanian workers abroad. Another important source of external deficit was represented by transports, while the balance of tourism has maintained the trend of deterioration (for example, in May 2006 was an unfavorable balance of one million euros). At the end of 2006, as illustrated by a series of reports and studies[6], our balance of payments has shown a widening of the negative current account, the level rising to 9.973 million euros, exceeding by 44.8% the one recorded on the previous year. Also it increased the current account deficit to GDP ratio (10.3% versus 8.7% in 2005). Moreover, the current account deficit is boosted by the lending decisions taken by the private sector to invest. Thus, non-government credit is a contributory factor to the chronic current account deficit of Romania.

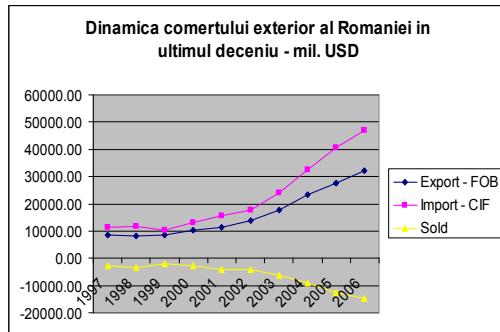
Regarding the development of foreign trade in the last decade, we exemplify the following set of data, this time expressed in U.S. dollars (values):

Table no.1 : Romania's foreign trade dynamics in the last decade (million U.S. \$).

Year	Export – FOB	Import – CIF	Balance (Export-Import)
1997	8430,07	11278,55	-2848,48
1998	8301,91	11830,94	-3529,03
1999	8499,53	10392,03	-1892,5
2000	10366,52	13054,49	-2687,97
2001	11384,99	15551,61	-4166,62
2002	13868,84	17856,68	-3987,85
2003	17618,08	24003,17	-6385,09
2004	23485,06	32664,04	-9178,98
2005	27729,60	40462,89	-12733,30
2006	32312,50	47011,25	-14698,75

Source: Website of the Romanian Center for Promoting Trade and Foreign Investments

Graph no.1: Dynamics of romanian foreign trade



In order to better highlight the evolution of Romanian foreign trade from year to year, we present a tabular situation containing indexes – chain based – expressed as percentages, regarding exports, imports and trade balance in the pre-accession period (The formula used:  $\text{Index} = \text{Value}_{n+1} / \text{Value}_n * 100$ ):

Table no 2: Chain based indexes – exports, imports and foreign trade balance

Year	Export index	Import index	Balance index
1998	98.48	104.90	123.89
1999	102.38	87.84	53.63
2000	121.97	125.62	142.03
2001	109.82	119.13	155.01
2002	155.01	114.82	95.71
2003	127.03	134.42	160.11
2004	133.30	136.08	143.76
2005	118.07	123.88	138.72
2006	116.53	116.18	115.44

The data highlight a trend of foreign trade that is characterized by steady deterioration of the balance, 2003 being the year that witnessed the most dramatic change; the evolution

underlines an increase of both exports and imports, the latter being placed at a higher level, which has led to a widening trade deficit. In the considered period, until the final year – 2006 – the index of exports peaked in 2004 (133.3%), while the import index presented the highest value in the same year (136.08%), at a small difference compared to 2003 (134.42%). Value speaking, the trade deficit peaked in 2005 (the negative balance being of 12.733 million dollars), while the most dramatic developments occurred in 2003 when the balance has deteriorated by 60% over the previous year, 2002. The highest level of imports was reached in 2006, standing at high rates also in 2005 (40,462.89 million dollars), amount 3.6 times higher than the one in 1997; exports have witnessed the most spectacular growth in 2004 when the index was of 133.3%. Also, in spite of moderating in 2006, our country's trade deficit continued to grow and the negative trend of the balance is becoming more evident.

Evolution of foreign trade of Romania during 1997-2006 presents a number of important characteristics related to trading partners, to the privileged geographical areas in international trade. Thus, in terms of Romanian imports and their distribution by geographical area, we note:

- Increasing imports from Europe (from 77.66% in 1997 to 84.05% in 2006), with a major emphasis on imports from European Union (67.61% in 1997 to 74.44% in 2006);
- Reduction in imports from CEFTA countries in the context of EU enlargement (7.96% in 1997 to 1.33% in 2006);
- Fall in imports from Africa and the Middle East (from 7.55% in 1997 to 4.56% in 2006);
- Maintaining the level of imports from Asia and Oceania.

In what follows, we focus our attention on our country's foreign trade, trying to catch the main trends of development of foreign trade in the post-accession period.

### 3. Facts and prospects of post-accession Romanian foreign trade

Projections made before January 2007 have underlined the deepening trend of Romania's trade deficit in relation to its main partners. Of course, a responsible projection could not be achieved without taking into account the experience of states that joined the EU in 2004; from this perspective, we underline the



significant developments of exports and imports of these countries. Growth of exports, about 10% annually, or less, has been replaced by a superior one. For example, for Czech Republic this index approached 30% in the first year after accession. For our country the forecast has proved reliable, the rate being about 17% in 2007; of course, the current economic situation, the possible depression – even world-class – is likely to moderate the pace of Development of international transactions.

The starting point of this brief analysis is the consideration of data provided by the National Institute of Statistics and Economic Studies, which allow preliminary sketch of an image of Romania's foreign trade in the aftermath of EU accession.

Thus, we note that our country exports increased from the early months of 2007 – compared with the corresponding period of the previous year – with 5.0% (in lei) or 11.4% (in euro) – the difference is due to currency appreciation against the corresponding months of 2006.

Higher pace of growth of imports compared to exports against 2006 is due to a variety of factors, among them being the trends in intra-community trade of goods, such as: reduction of intra-community transactions of petroleum products by over 40% compared to the same period of 2006, the downward slope of lohn operations concerning textiles, the conclusion in 2007 of the customs procedures begun before accession by the National Customs Authority, mainly for goods in customs warehouses or free zones (the case of vehicles is eloquent on this issue), influences due to the general trade system (Intrastat) for intra-community trade, goods being recorded at the pass of national border and not at their release in circulation.

Regarding the share of intra-community imports in total imports it can be noted a significant increase, reaching 71.5% of total domestic imports; the increase of EU imports has significantly exceeded the increase in imports from other countries in the first half year.

In this context, the trade deficit has significantly exceeded that recorded during the same period of 2006; it can therefore speak of a deepening of it after the accession. The first seven months of 2007 brought an increase of 62.9% of Romanian trade deficit, trend manifested until the end of the year; this trend

can be explained largely through significant advance of imports from other member states. As we mentioned, one of the predisposing factors of higher current account deficit was the non-governmental credit, joining a series of effects of EU accession. In this context, the likelihood of currency depreciation increases significantly.

In order to offer a better view of the development of post-accession foreign trade, we present the following two comparative tables (covering the years 2006, 2008 and 2009):

1. *FOB Exports – using available data on [www.insse.ro](http://www.insse.ro)*

Sections / share in total exports	2006	2008	2009
Machinery and mechanical appliances	20%	24,1%	26,4%
Textiles	16,5%	14,8%	10%
Metal Products	14,7%	14,6%	10%
Mineral products	11,4%	9,3%	6,1%
Vehicles	9,4%	12,4%	16,8%
Footwear / Chemical products	5,5%	9,3%	7,1%
<b>Top partners (share in total)</b>			
Italy	18,4%	15,4%	15,3%
Germany	15,2%	16,5%	18,8%
Turkey	7,7%	6,5%	5%
France	7,5%	7,4%	8,2%
Hungary	4,9%	5,1%	4,3%
Deficit (million euros)	<b>14896</b>	<b>22708,9</b>	<b>9780,6 (reduced with 58% from 2008)</b>
Exports to EU (Share in total)	<b>67,6%</b>	<b>70,5%</b>	<b>74,3%</b>

2. *CIF Imports – using available data on [www.insse.ro](http://www.insse.ro)*

Sections / share in total exports	2006	2008	2009
Machinery and mechanical appliances	23,8%	24%	26,9%
Textiles	8,6%	8,3%	7,1%
Metal Products	9,6%	11,3%	9,7%
Mineral products	16%	13,8%	10%
Vehicles / Agro-food products	10,9%	12,4%	11,2%
Chemical products	7,4%	14,1%	11,1%
<b>Top partners (share in total)</b>			

Italy	14,8%	11,4%	11,7%
Germany	14,9%	16,3%	17,3%
Turkey	4,8%		
France	6,5%	5,7%	6,2%
Russian Federation	8,8%	5,9%	
China			4,9%
Hungary		7,4%	8,4%
Imports to EU (Share in total)	<b>62,2%</b>	<b>69,2%</b>	<b>73,3%</b>

For 2009, we note a decline in imports far more significant than for exports (FOB exports 29,116.3 million euros, down 13.7% in value in euro against 2008 ... CIF imports 38,896.9 million euros, 32.8% decrease in value in euro from 2008), which allowed contracting trade deficit with 58.5% compared to 2008.

Evolution of the value of Romanian imports had an upward character in recent years, but their structure underwent significant changes. There are notable increases in imports of steel products and transport equipment and a fall in imports of mineral products and textiles. After 2007, a number of phenomena related to trade creation and trade diversion became likely to happen. In addition to the structure of imports and exports, our analysis proves relevant to the list of Romania's main trade partners for import and export. Thus, stand out for the last decade a number of shifts, in case of imports, as:

- Significant growth, due to elimination of various barriers, of imports from EU countries: if in 1997 they amounted to 67.61% of total imports, in 2008 they amounted to 69.2% and in January 2009 reached 74.1%.

- Sharp decrease in imports from AELS members states (1.9% in 1997 to 0.8% in 2007) and CEFTA (7.96% in 1997 to 1.33% in 2006) during the European enlargement; it should be remembered here that from 1 January 2007 Romania and Bulgaria have left CEFTA;

- Considerable decrease in imports from Africa, the Middle East and USA.

Regarding export trading partners, we find:

- Export growth in EU countries, but not spectacular, a peak was reached in 2004 when they accounted for 81.64% of total Romanian exports;

- A decrease of exports to other regions – Africa and the Middle East (12.41% in 1997 and 6.20% in 2006), Asia and Oceania (5.43% in 1997 in comparison to 2.57% in 2006), U.S. (5.85% in 1997 and 3.42% in 2006).

The most obvious aspect of post-accession Romanian foreign trade is the Common Customs Tariff. In average, the tariffs applied

by Romania are lower, and this is a key element capable of stimulating exchanges.

#### 4. Conclusions

Romania's European integration will undoubtedly be a long process, and its success depends on the way Romanian economy as a whole will face many challenges, mainly related to efficiency. Increasing competition from markets and deepening of globalization requires more and more factors to be considered.

In our opinion, Romania's success in international trade is linked primarily to the efficiency of production process, a good guidance and identifying key success factors, the differentiation factors so important nowadays. A series of measures should be taken seriously so that the competitiveness of local products improve and exports increase, such as:

- Identification of required products on foreign markets and of sectors with export potential in the Romanian economy - the current National Export Strategy includes clothing, furniture, wine, glass and ceramic items, chemicals, machine building industry, equipment and auto components, rural tourism, IT sector, communications, farming, etc.;

- Reduction of production costs, increase of efficiency;

- Promoting research and development, innovation and ultimately productivity growth;

- Identifying and use of all sources of competitive advantage;

- Trade finance, development of public-private partnerships;

- Shifting to niche markets, promoting national brands;

- Stimulating investments; increasing the competitive strength of companies;

- Providing support services in conducting business;

- Identify alternative markets.

At the same time, it appears necessary to ensure an optimal correlation between investment, consumption and export, as growth engines. But we are convinced that free market mechanism will help to increase the quality and attractiveness of Romanian production. European integration and its impact on the Romanian trade flows is a complex resultant of forces which can only have a positive effect on the Romanian economy and society. The successful integration into the European and the world economy is a difficult task that awaits Romanian economy; trade liberalization, especially with the EU, has played an important

role since the start of the economic transition process. We believe in the benefits of trade creation for Romania, and we consider that these advantages will exceed, in the case of a proper trade policy, the cost of trade diversion.

## 5. Acknowledgments

The authors wish to thank for the financial support provided from the program co-financed by THE SECTORAL OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT, Contract **POSDRU 6/1.5/S/3** – "Doctoral studies, a major factor in the development of socio-economic and humanistic studies".

## 6. References

- [1] Botez, Gh. O., Militaru, Mădălina, *Politica comercială a României în perioada de pre și postaderare la Uniunea Europeană*, Editura Fundației România de Măine, 2007.  
[2] Ciobanu, Gheorghe (coord.), *Tranzacții economice internaționale*, Editura Risoprint, Cluj-Napoca, 2009.  
[3] Drăgan, Gabriela, *Fundamentele comerțului internațional*, Editura ASE, București, 2004.

- [4] Dumitrescu, S., Puiu, O., Marin G., *Economie mondială*, Editura Independența Economică, Pitești, 2006.  
[5] Festoc, Frédérique, *Reinsertion des pays d'Europe Centrale dans le commerce mondial: la voie européenne*, doctoral thesis, 1996.  
[6] Guillochon, B., *Economie internationale*, Editions Dunod, Paris, 2001.  
[7] Luțaș, Mihaela, Călea, Sorin, *Economie europeană*, Editura Imprimeria Ardealul, Cluj-Napoca, 2006.  
[8] Mucchielli, J.-L., *Economie internationale*, Editions Dalloz-Sirey, Paris, 2005.  
[9] National Bank of Romania, *Annual Reports 2006 and 2009*.  
[10] Neary, P., *International trade*, Ed. Aldershot, Hampshire, 1995.  
[11] Pârvu, Gh., *Integrare europeană*, Editura Sitech, Craiova, 2007.  
[12] Popa, Ioan, *Tranzacții de comerț exterior: negocieri, contractare, derulare*, Editura Economică, București, 2002.  
[13] Puiu, O., Gust, M., Mihăilescu, M., *Organisme și politici economice internaționale*, Editura Independența Economică, Pitești, 2006.  
[14] [www.cnp.ro](http://www.cnp.ro) (Comisia Națională de Prognoză)  
[15] [www.dce.gov.ro](http://www.dce.gov.ro)  
[16] [www.europa.eu](http://www.europa.eu)  
[17] [www.euractiv.ro](http://www.euractiv.ro)  
[18] [www.europeana.ro](http://www.europeana.ro)  
[19] [www.insse.ro](http://www.insse.ro)  
[20] [www.tradepoint.org](http://www.tradepoint.org)  
[21] [www.traderom.ro](http://www.traderom.ro)

## Trade Effects of European Integration

DOBRE I. Claudia  
"Ovidius" University of Constanta  
[dobre\\_claudia@yahoo.com](mailto:dobre_claudia@yahoo.com)

### Abstract

*In this paper I have examined the trade effects of European integration, analysing four phases in the process of European integration. The first one (up to 1973) can be seen as an example of "traditional" regional integration, where the main effects stem from the reduction of formal tariff barriers between the member states. The second phase (1974 - 1986) involves consolidation of the customs union agreement together with the first stages of monetary integration. The third phase (1987 - 2000) can be characterized as an example of "new" integration, where the aim was to create a truly single market through the removal of non-tariff barriers and the harmonization of product standards and other rules and regulations with an impact on trade. The fourth phase of integration could be illustrated by the enlarged EU, that emerged after the accession of ten new member countries in 2004.*

*In the first phase of integration, the trade effects are related to some reallocation of production between the member countries and after 2004, by contrast, the main effects emanate from better use of scale economies, with higher efficiency and external competitiveness as the main results.*

*A common measure of the integration effects is the amount of trade taking place between countries. During the 1990s, the share of the EU-15 in the new member states markets has remained substantially stable, but since 2004 the rate of growth of imports has increased remarkably. After the accession of Romania and Bulgaria in 2007, there has been an expansion in the intra-EU-27 trade flows. In order to assess the significance of such an "enlargement effect", I checked for the existence of a statistically significant change in the values of trade flows after 2004.*

**Key words:** integration effects, trade, single market, Europe Union

**JEL classification:** D10

### 1. Introduction

Twelve countries from Central and Eastern Europe and the Mediterranean joined the European Union in two waves in 2004 and 2007. This was the biggest ever enlargement of the EU and a historic step towards unifying Europe after several decades of division resulting from the Cold War. Five years after the 2004 accessions, the enlargement has emerged as a major success for the EU and its citizens, fulfilling one of the original purposes of European integration.

### 2. The impact of regional integration agreements

Twelve countries from Central and Eastern Europe and the Mediterranean joined the European Union in two waves in 2004 and 2007. This was the biggest ever enlargement of the EU and a historic step towards unifying Europe after several decades of division resulting from the Cold War. Five years after the 2004 accessions, the enlargement has emerged as a major success for the EU and its citizens, fulfilling one of the original purposes of European integration.

The character of European integration has changed over time. *The first stage of integration*, the period 1962-1973, with the custom union as its centerpiece, could be seen as a typical example of "traditional" regional integration, where the expected trade effects are related to some reallocation of production between the member countries. Looking at the first phase of European integration, we also find that several of the industries with high growth in regional orientation record diminishing external competitiveness. Many of these industries belong to the group labelled "Land intensive", which includes agricultural products and other raw materials that were

protected by high tariff and non-tariff barriers.

*The second phase* runs from 1974 to 1986, and involves consolidation of the customs union agreement together with the first stages of monetary integration. The mid-1980s also saw a shift in the character of the European trade integration process. The achievements during this period were mainly related to the abolition of internal tariffs (which was largely done by 1968) and the reduction of external tariffs through the GATT and bilateral agreements, e.g. with the EFTA countries. Yet, there was a general feeling that the integration process had come to a standstill towards the mid-1980s, as economic growth in the EC fell behind that in the US and Japan.

To revive the stagnant European economy, the EC therefore launched the so called Single Market Program, which was intended to be completed by 1992. The aim of the Single Market Program was to dismantle the numerous non-tariff barriers that had been created. The Emerson et al. (1988) report, which assessed the economic impacts and gains of deeper integration, grouped the remaining barriers into five categories: tariffs, quotas, cost increasing barriers (e.g. delays due to customs procedures and different national regulations), market-entry restrictions (e.g. government procurement restrictions, restrictions on the entry into some regulated markets) and market-distorting practices (e.g. collusion and abusive use of dominant positions of private enterprises). Most of the economic gains were instead expected to emanate and this "new" form of integration was also expected to improve the competitiveness of European producers in comparison with producers from other countries, e.g. the US and Japan (see Gustavsson and Kokko 2004).

*The third phase* (1987 - 2000) includes a deepening trade integration process leading to the Single Market, as well as deeper integration in the monetary area, through the European Monetary Union. This process can be characterized as an example of "new" integration, where the aim is to create a truly single market through the removal of non-tariff barriers and the harmonization (or more often, the mutual recognition) of product standards and other rules and regulations with an impact on trade.

An impact on European integration was the development of the multilateral trading

system, together with the great increase in preferential trade agreements between the EU and its various trade partners. As a result, Europe's nominal protection levels have fallen dramatically, and most developing countries have duty-free access to a large share of the European market. In the manufacturing sector, the average tariff has fallen below three percent, which means that there is in principle free trade in most of the product groups. Developing countries in Africa, Latin America, and Asia have apparently been able to exploit these opportunities, and their shares of EU imports have increased substantially since the early 1980s.

The announcement of the Single Market Program not only affected the EC (which now became known as the European Union), but it also had effects outside Europe. Many of Europe's trade partners voiced fears about the emergence of a "Fortress Europe" where internal trade would expand at the expense of trade with the rest of the world. As a result, by the early 1990s, all EFTA countries except Iceland had announced their intention of joining the EU in the future. The first step in this expansion was the establishment of the European Economic Area (EEA) agreement in 1994, which essentially extended the Single Market to include the EFTA countries (although Switzerland opted not to join). In 1995, Austria, Finland and Sweden joined the European Union, but Norway decided to stay outside after a novote in a referendum.

*A fourth phase of integration* could be illustrated by the enlarged EU that emerged after the accession of ten new member countries in 2004. This enlargement not only involved a larger number of countries than earlier enlargements, but it also differed in character, since the income levels and economic structures of the new members were notably different from those of the 15 incumbents. Following the fall of the Soviet Union, the former socialist countries in Central and Eastern Europe were looking towards western Europe for support and partnership. The EU recognized the need to contribute to the integration of these countries, and required them so called Copenhagen Criteria from 1993. Twelve Central and Eastern European countries - Estonia, Latvia, Lithuania, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Malta and

Cyprus in 2004, Romania and Bulgaria in 2007, joined the EU.

The present paper deals with the relation between European economic integration and international trade. Establishing a single common market increases competition between the member countries and changes the competitiveness of national industries requiring adjustments in the structure of the production and distribution processes.

This is the aim of this paper, where we show that integration is indeed deep in a number of areas, but it is still a goal in others. There were still relevant differences in the economic structures of the old members and members-to-be and such differences led to think that it would have taken a long time and many efforts to integrate this heterogeneous group of countries. The most common measure of integration is the amount of trade taking place between countries. The free circulation of goods and services within the EU is also one of the pillars of the European single market.

### **3. Implications of integration on European trade**

Enlargement has opened, for enterprises in the old Member States, new markets for exports and foreign investment. It has offered them opportunities to increase their efficiency and competitiveness. With a well-educated labour force and a similar legal, institutional and regulatory environment, new Member States offer ample opportunities in this regard. Although the restructuring involved may imply sizable adjustment costs in the short term, they increase the global competitiveness of EU enterprises and ultimately help safeguard jobs and boost growth all across the EU. Indeed, in several sectors (machinery, furniture, medical instruments, chemicals, wood) investment in new Member States went hand in hand with employment in the old Members.

The structure and volume of European trade has changed substantially during the past four decades, as European integration has become progressively deeper and more countries have joined the common market. While the composition of the EU group has changed over time with the accession of new members, the EU9 group remains constant over time,

including those countries that had joined by 1973 (Belgium, Luxembourg, Denmark, France, Germany, the Netherlands, Ireland, Italy and the UK).

EU exports have grown very rapidly over the period, with particular growth spurts during the second half of the 1970s and 1980s, as well as over a few years in the mid-1990s. The short-term growth rates have obviously been affected by global macroeconomic developments, with events like the second oil crisis in the early 1980s and the crisis in the early 1990s leaving clear marks on performance. However, the main driving forces are likely to be related to income growth and trade liberalization: trade has expanded as trade partners have grown richer and tariff barriers have fallen. However, the tariff reductions have not been uniformly distributed across regions and goods.

Trade liberalization has proceeded faster for the relations between developed countries than for North-South trade. In particular, Europe has been able to reduce its internal trade barriers faster than the barriers to trade with other regions. In terms of goods, the liberalization of trade in manufactures has been faster than the liberalization of trade in agricultural products. These distinctions have also affected EU trade.

Intra-regional trade has increased greatly in importance during the period 1960 - 2000, from about 40 percent to around 60 percent of total exports. Two observations can be highlighted. Firstly, the period from 1962 to 1973 exhibits very rapid increases in the share of intra-EU trade, at the same time as the share of Europe as a whole remains more or less constant. Since no new members were admitted during this period, there is reason to suspect some diversion of trade from non-members (mainly EFTA countries) to members. Secondly, the increase in the intra-EU share since the mid-1980s has coincided with the expansion of the European Union: trade with Europe as a whole, including members as well as non-members, has remained fairly constant at around 70 percent of total exports.

Looking at the commodity structure of EU trade, it would be reasonable to expect the pattern of exports and imports to reflect the comparative advantages of the EU and its trade partners. Overall, capital and technology intensive products were dominant in 1962, with each of the product groups accounting for 27-28 percent of total exports.

In addition, the Northern expansion of the

EU in 1995 added member countries (Austria, Finland, and Sweden) with substantial capacity in human capital intensive and technology intensive sectors. The implication, that the EU has comparative advantages in relatively advanced industries, is well in accordance with the stylized picture of the EU as a region with relatively abundant human capital and technological assets.

Looking separately at intra-EU and non-EU exports, some further observations emerge. Firstly, it is obvious that the increases in intra-EU exports have been concentrated to human capital and technology intensive products: these product groups have increased their shares of intra-EU exports as well as total EU exports.

Turning to the *import* side, a first point to note is that the shares of intraEU and non-EU imports have remained relatively stable over time. In 1962, the intra-EU imports corresponded to approximately 52 percent of total EU imports: in 2000, the share was 54 percent. Capital intensive and land intensive products were the largest product groups in 2000, but technology intensive products were more important until the 1970s. The predominance of land intensive products is probably an indication of remaining trade barriers: there is no reason to believe that the EU would have substantial advantages in these product groups if the European market was completely open to foreign competition.

However, it should be noted that the fluctuations in the shares of the different product groups are uncomfortably large.

During the 1990s, the share of the EU-15 in the new member states markets has remained substantially stable, but since 2004 the rate of growth of imports of the new member states has increased remarkably. After the accession, there has been an expansion in the intra-EU-25 trade flows, also because the amount of trade among the new member states expanded. In order to assess the significance of such an « enlargement effect », I checked for the existence of a statistically significant change in the values of trade flows after 2004.

Trade flows have increased rapidly between the EU-15 and the candidate countries already in the 1990s. In 2003, when most barriers to trade flows had already been removed, even if formal membership was not achieved yet, the EU-15 was the destination of 67% of the future member countries' exports and originated 58% of their imports. For all of the new member states (with the only exception of

Lithuania) before the accession, the shares of trade with the EU-25 were above the average of all members, and they were much higher than the ones of many older members.

The new member states share in intra EU-25 exports has increased substantially in the last few years, and this is true for all the countries involved. After the accession, the new member states shares in the EU-15, which were increasing since the mid-1990s, experienced an acceleration.

During the 1990s, the share of the EU-15 in the new member states markets has remained substantially stable, but since 2004 the rate of growth of imports of the new member states has increased remarkably.

After the accession, there has been an expansion in the intra-EU-25 trade flows, also because the amount of trade among the new member states expanded. The relevance of the new member states in EU trade is much higher than their weight in term of economic development.

An enlargement that takes place during a period of increased globalisation is clearly different from previous enlargements. This can be seen in the rapid increase, albeit starting from a low level, in the market share of the new Member States after 2004. In general, trade by both the new and old Member States grew faster after the 2004 enlargement (by 12.8% and 6% respectively) compared to the preceding five-year period. In most of the regions in the world, trade grew faster from 2004 onwards, compared to the preceding five-year period, with the exception of China.

Interestingly, extra-EU trade grew faster than intra-EU trade after the 2004 enlargement (by 10.4% compared to 8.7% on average in 2004-2007). This suggests that the creation of trade (additional gains due to reduction of trade barriers between the Member States) was stronger than the trade diversion effect (losses due to shifts of trade flows from third countries towards the Member States).

The new Member States as a group increased their market shares in all country groups to which they exported in 2007 compared to 1999, although the shares are still relatively small compared to those of the old Member States. This confirms that, generally, the new Member States were able to improve their international competitiveness

thanks to their transition dynamic during the last decade.

#### 4. Conclusion

The latest enlargements of the European Union have brought greater economic prosperity for all EU citizens and made Europe a stronger player in the world economy. The enlargement helped further unleash the growth potential and increase the resilience of the European economy by deepening economic integration and boosting competitiveness. The enlarged EU is now the largest integrated economic area in the world, accounting for more than 30% of the world's GDP and more than 17% of world trade (excluding intra EU trade).

It is reasonable to conclude that different European regional integration agreements are likely to have different trade effects. The character of European integration has changed over time. The first stage of integration, with the EEC customs union as its centerpiece, could be seen as a typical example of "traditional" regional integration, where the trade effects are related to some reallocation of production between the member countries. The latest stage of integration, by contrast, is an example of a "modern" regional integration agreements where the main trade effects emanate from better use of scale economies, with higher growth, efficiency, and external competitiveness as the main results.

The current severe global economic crisis poses major new challenges for national policies. The crisis impacts all Member States through declining trade, reduced availability of financing, plummeting household wealth and deteriorating confidence. Although EU membership, and even more so euro area membership, provides protection and a stability anchor that expands the comfort zone of investors, the crisis puts a large premium on sound domestic policies. All Member States that have experienced a credit boom have developed similar vulnerabilities, such as a high dependence on foreign savings and weak balance sheets in the corporate and household sectors. The EU is working to

restore stability, transparency and confidence in the financial sector by addressing not only the most prominent failings but also tackling the need for a more profound reform of the regulatory and supervisory system.

#### 5. References

- [1] Angeloni, Ignazio, Michael Flad and Francesco Paolo Mongelli, "Economic and Monetary integration of the New Member States – Helping to Chart the Route", *Occasional Paper No. 36*, European Central Bank, 2005
- [2] Brada, Josef C., Ali M. Kutan and Taner M. Yigit, "The Effects of Transition and Political Instability on Foreign Direct Investment Inflows: Central Europe and the Balkans", *Working Paper B 33*, Center for European Integration Studies, 2004
- [3] Beetsma, R. M. and A. L. Bovenberg, "The Optimality of a Monetary Union without a Fiscal Union", *Journal of Money, Credit, and Banking* 33, 2001
- [4] Checchini, P., "The European Challenge 1992: The Benefits of a Single Market", Aldershot, 1992
- [5] Comisia Europeană, 2009, *Five years of an enlarged EU Economic achievements and challenges*
- [6] De Grauwe, P., "The Economics of Monetary Integration", 5th ed., Oxford, 2003
- [7] EU Commission publication, "Enlargement, two years after: an economic evaluation", *European Economy Occasional Paper no. 24*, Brussels, 2006
- [8] Giovannini, A. and C. Mayer, "European Financial Integration", Cambridge, 1990
- [9] Gustavsson, Patrik; Kokko, Ari, "Regional Integration and Regional Trade Agreements", *SIEPS Rapport nr 1*, Stockholm, 2004
- [10] Rose, A.K., "The Effect of Common Currencies on International Trade: A Meta-Analysis", in: V. Alexander, J. Mélitz, and G.M. von Furstenbert (eds.), *Monetary Unions and Hard Pegs – Effects on Trade, Financial Development, and Stability*, Oxford, 2004
- [11] Sanguinetti, Pablo, Iulia Traistaru and Christian Volpe Martincus, "Economic Integration and Location of Manufacturing Activities: Evidence from MERCOSUR", *Working Paper B 11*, Center for European Integration Studies, 2004
- [12] Siebert, H., "Structural Change and Labor Market Flexibility: Experience in Selected OECD Countries", Tübingen, 1997
- [13] Yeats, A., , "Does Mercosur's Trade Performance Raise Concerns about the Effects of Regional Trade Arrangements?" *The World Bank Economic Review*, Vol. 12, No.1, 1998



## European Budget And The Regional Policy

EPURE Tiberius Danut  
“Ovidius” University of Constanta  
[epure\\_dan@yahoo.com](mailto:epure_dan@yahoo.com)  
JUDEU Viorina Maria  
“Agora” University of Oradea  
[viorina@univagora.ro](mailto:viorina@univagora.ro), [viorina.maria@gmail.com](mailto:viorina.maria@gmail.com)  
STEFANICA Virginia

### Abstract

*Budgetary funds are used to finance all EU policies the respective budget year. Budget EU. reflected the key stages of European integration.*

*Developments such as the single market, enlargement, developing a global vision on Europe, have required each time, changing pattern of EU spending. Existing regional inequalities within the EU are not evenly distributed. European Union looks like a puzzle regions in very different stages of economic development, there are major discrepancies even within Member States, and prosperous regions coexist with poor regions.*

*Basically, today, U.E. became extremely heterogeneous, with large differences in the development of Member States and regional level.*

**Key words:** European budget, regional policy, European integration

**JEL classification:** O18

### 1. Introduction

Budgetary funds are used to finance all EU policies the respective budget year. Expenditure categories are extremely diverse and have a large scope.

EU policies have seen enormous changes in the last decade and the budget has tried both promoting and reflecting this evolution.[1]

### 2. Regional development and European integration

EU Budget reflected the key stages of European integration. Developments such as the single market, enlargement, developing a global vision on Europe, have required each time, changing pattern of EU spending.

Year 2008 opened a new stage in this development, since, first, policies aimed in particular growth and jobs will absorb most of the EU budget EU expenditure profile has changed considerably over time: traditionally, most of the EU budget was concentrated on a relatively small number of policy areas. However, both within and outside these areas, expenditure priorities and policy objectives pursued have evolved. Budget reform is always a hit intrinsic conservatism.

Despite the fact that reform is a political challenge, there was potential for significant shifts and changes, although sometimes came late response.

Budget structure and its size, a trend continues [2]:

- The beginning of the integration process, each of the– three European Communities had a specific budget. The first budget of the European Economic Community (EEC) was very small, covering only administrative costs;

In 1965, payments for Common Agricultural Policy (CAP) – absorbed 35.7% of the budget and increased to 70.8% in 1985. In the first year of the 1988-1992 financial expenses accounted for 60.7% of the CAP budget. By 2013, the share of traditional CAP spending (excluding rural development) will decrease by half (32%), following a reduction

in real terms occurred during the current funding period; - only 6% of the EU budget

in real terms occurred during the current funding period; - only 6% of the EU budget was spent on cohesion policy in 1965, a share that has known only a mild increase in 1980 (10.8% in 1985).

Single European Act put an emphasis on economic and social cohesion and was followed by a significant increase in expenditure on cohesion. The amount devoted to structural measures already risen to 17.2% in 1988 and will represent 35.7% of EU budget in 2013, with at least two thirds for competitiveness, growth and jobs; funding for other policies (in particular, competitiveness, external actions and rural development) was initially very limited. In the first financial framework, only 7.3% of the budget was reserved for those areas. However, the new emphasis on growth and competitiveness will lead to increased share of these policies by 26% in 2013, of which 10.2% for competitiveness, external actions and 6.3% to 7.3% for rural development.

Expenditure policies for 2007-2013 have new priority objectives of growth and employment and new policy directions such as freedom, security and justice. Meanwhile, the decision to conduct a review confirmed that a more thorough assessment, which provide a context for defining long-term proposals for the next financial framework and distant future.[3] The challenge is to develop a budget for the future, anticipating future challenges in a world facing rapid change. As budget evolves from a financial framework to another, each frame is characterized also by her flexibility. While some programs have continuing costs, changes in the political situation may also test the ability of the EU budget to adapt to produce optimal results and to increase political responsiveness.

EU regional policy, in addition to being focused primarily on how the economy works in the various regions, seeking to find solutions to the following two categories of problems: reduction by elimination of interregional disparities in the economies analyzed chronically; impact assessment using various instruments of regional policy on regional economies under examination.

Regional policy in the EU is a very important role and the objectives established at national level: opportunities for those who want to work, achieving a satisfactory pace of economic growth, income distribution and

welfare in an equitable manner across the whole economy.

In other words, regional policy is the way the benefits of a prosperous modern economy can be allocated effectively to ensure equitable development of the entire society. This has a double impact: on the one hand, allows prevention "arrhythmias" that may occur in the economy, due to excessive economic development in certain areas - the negative externalities of congestion, the emergence of inflation - and provide sustainable economic development and on the other hand, contribute to reducing socio-economic inequalities between some areas and preventive emergence of new inequalities.

Existing regional inequalities within the EU are not evenly distributed. European Union looks like a puzzle regions in very different stages of economic development, there are major discrepancies even within Member States, and prosperous regions coexist with poor regions.

EU regional policy is to concentrate financial resources and technical assistance towards the poorest regions and, in this context, decentralization of regional policy at European level would lead to disputes between regions and between countries, a dangerous competition for allocation of funds, the net detriment of poor countries and regions.

Being primarily a policy of solidarity, EU regional policy must have a unified character in order to ensure consistency measures for regional development and convergence of regional policy instruments in order to achieve the ultimate objective of economic and social stability of the entire Union.

EU regional policy aims to correct imbalances in regional population distribution and location of poles of development in the EU Net support convergence between Member States' economies.

EU regional policy is quite recent, initially, it was not an essential element of EU policy This is because the EU founding Member were developed economically, the only exception being a regional southern Italy.

Extending EU in 1973, which joined Denmark, Ireland and the UK, resulted in the emergence of major regional disparities. This is because northern England and Northern Ireland are faced with high unemployment and a per capita income level below the EU average In addition; Ireland was much less developed economically than other member

states. GDP per capita represented Ireland in 1973, approximately 50% of the E.U. 6.[4]

Accession of Greece, Spain and Portugal to the EU was the last argument in favor of implementing a common EU regional policy, 1990 led to German reunification. Following this process, resulting in 17 million people whose incomes were only 35% of average EU income, Following EU enlargement, in 1995, 2004 and 2007, regional disparities widened further.

Basically, today, EU became extremely heterogeneous, with large differences in the development of Member States and regional level.

### 3. Conclusions

The main challenges which the European Union must now deal with them refer to:

- economic restructuring
- globalization
- trade liberalization
- technological
- revolution
- aging
- labor migration
- slow pace of economic growth
- rising unemployment
- The global crisis.

In this context, EU cohesion policy needs, which is implemented the most commonly, through tools that are provided by regional development policy.

**Structural instruments (2007-2013)**

Structural instruments		Objectives	Sphere of content
Structural Funds	F E D R	Convergence Regional competitiveness and employment European territorial cooperation	Lisbon Infrastructure Investment Research and development

	F S E	Convergence Regional competitiveness and employment	Lisbon -Training; - Employment; - Institutional capacity and administrative efficiency
Cohesion Fund		Convergence	Environmental and transport infrastructure (TEN) Outside the TEN-Transport; -Sustainable Urban Transport; Interoperability -Energy efficiency; -Renewable Energy

### 4. References

- [1] EUROSTAT, Regional GDP per inhabitant in the EU27, in EUROSTAT News Release no.19/2008.
- [2][http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP\\_PRD\\_CAT\\_PREREL/PGE\\_CAT\\_PREREL\\_YEAR\\_2009/PGE\\_CAT\\_PREREL\\_YEAR\\_2009\\_MONTH\\_02/3-27022009-EN-AP.PDF](http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2009/PGE_CAT_PREREL_YEAR_2009_MONTH_02/3-27022009-EN-AP.PDF).
- [3] Ionescu R, Marchis G., Uniunea Europeană-prezent și perspective Ed. Didactică și Pedagogică, București, 2004.
- [4] European Commission The E.U. Economy 2000 Review, European Economy no.71, Luxembourg, 2000.
- [5] \*\*\* Financial Perspective 2007-2013, CADREFIN 268, 15915/05, Council of the European Union, Brussels, 19 December 2005.
- [5] <http://www.cnp.ro>
- [7] <http://www.mie.ro/index.php?p=555>

# Implementation and Evaluation in Romania of the Integrated Border Security System (SISF)

FULGA Mircea

*Ministry of Administration and Interior, DGCTI*

MARINESCU Desiree M.A.

*Academy of Economic Studies of Romania*

*desiree\_marinescu@yahoo.com*

## Abstract

*EU's objective to „maintain and develop the Union as an area of freedom, security and justice” is transposed into the Romanian national strategy. The EU Member States have a common interest to implement a security system.*

*The increase of complexity and scale in cross-border crime emphasised the need for an integrated border management. As part of the state border management, the Integrated Border Security System (SISF) consists of a complex of organizational measures and coordination structures with responsibilities in the field, integrating existing surveillance and control systems, incorporating new ones. This system creates the bases for free movement of persons and goods within community borders.*

*The evaluation of the National Strategy of Integrated management for the Romanian Border is made by the Romanian Inter-ministerial Group for Integrated State Border Management (GIRMIFS) based on the DAC Criteria developed by Organisation for Economic Cooperation and Development (OECD).*

**Key words:** EU border, Integrated Border Security System, evaluation

**JEL classification:** F52, K39

## 1. Introduction

This paper is presenting the concept of the Integrated Border Security System (SISF) in Romania as part of the country's integration in European Union.

Following Romania's EU accession on 1 January 2007, according of the Protocol on the Schengen *acquis* integrated in the Treaty on European Union, Romania has to fully accept the Schengen *acquis*. As part of the three pillars, in the field of Justice and Home Affairs the EU objective is to „maintain and develop the Union

as an area of freedom, security and justice”. Romania is achieving it through the national strategy based on the integrated border management.

Creation of a new concept of border security and setting up of new surveillance technologies are of interest for both Romania and the EU, since the Romania's border with Ukraine, Moldova, the Black Sea and Serbia are now EU external borders.

## 2. The four-tier access control model

The integrated state border management consists of four levels in line with the provisions of Schengen Catalogue „The Control of the External Borders, Removal and Readmission” and the National Strategy of Integrated Management for the Romanian Border.

The four-tier access control model forms the core of integrated border management. Each tier covers specific objectives, as described below:

**1) Tier I – Activities developed in third countries, especially in the countries of origin and transit of the illegal migration**

The first tier consists of a set of measures that Romania will take in third countries, particularly in countries of origin and transit with migratory potential or in areas with active terrorist activities.

Actions are developed by internal affairs attachés, liaison officers and collaboration with various international institutions in order to prevent and combat cross-border crime carried out in other countries.

**2) Tier II – International cooperation regarding the border**

The second tier includes measures and actions undertaken jointly with the institutions responsible for state borders in order to enhance the cooperation with other EU

Member States and neighbouring countries. The main measures aim to developing a bilateral legal framework, signing and implementing the legal provisions related to state border, border cooperation, border crime and improved exchange of information.

Cooperation is made by establishing appropriate working mechanisms such as exchange of information, appropriate communication channels, central, regional and local, contact points, emergency procedures, handling incidents, etc.

### **3) Filter III – Control and surveillance of the Romanian Border**

The third tier ensures border control of persons and goods passing the external border, ensuring in the same time adequate border surveillance between border crossing points or on the sea. This filter comprises of measures related to adapting legislation in line with the *acquis communautaire*, provision of infrastructure and proper facilities for control and border surveillance.

Border control has two components:

- *border passing control*: control at border check-points to ensure that people and goods crossing the border are allowed to enter or leave the territory of EU Member States,
- *border surveillance* in order to prevent passing of persons who seek avoidance of border controls.

Thus, border control is part of national crime prevention. The measures detect and reveal human smuggling, stolen property and other cross-border and border-related crimes as well as contributing to the detection of serious crime.

### **4) Filter IV – Activities developed inside the national territory**

The fourth tier sets out measures undertaken within the area of free movement. These actions are carried out on national territory in order to prevent and combat illegal migration and cross-border crime through enhanced searches, controls and surveillance measures based on existing national information.

Member States define specific standards for control measures within their territory, according national law.

## **3. Operational components of the Integrated Border Security System (SISF)**

European Union promotes the principle of open and secure borders. The need for an

integrated border management is emphasised by the increase of complexity and scale in the cross-border crime.

The integrated border management comprises of a complex set of organizational measures and coordination structures with clear and specific responsibilities in the field of border security in order to facilitate the free movement of persons and goods within the community borders, in line with the principles underpinning the European Union treaties.

The integrated border management is established based on five strategic objectives, namely:

1. border control and surveillance based on relevant risk analysis and processed data and information on crime,
2. cooperation of the authorities in the discovering and investigation of cross-border crimes,
3. ensuring implementation of four-tiers model (measures in third countries, cooperation with neighboring countries, border control and control measures within the community space);
4. inter-institutional cooperation both at national (between national authorities with competence in the field – border police, customs, police,) and international level,
5. coordination of national institutions activities with the community organizations.

The main tool to implement the integrated border management is the Integrated Border Security System (SISF). It is a real challenge to policy makers and stakeholders involved, in terms of design and implementation.

The Integrated Border Security System (SISF) is a comprehensive complex system aiming to ensure state border security in order to accede into the Schengen area. It integrates several technical and operational sub-systems on a communication platform specifically designed, composed of several applications enabling real-time information exchange between national and international structures with responsibilities in border control and monitoring. In the same time, the system is open, allowing interconnection with other national and international systems, being characterized by flexibility and heterogeneity.

The institution with direct responsibilities is the Police Border.

The Integrated Border Security System (SISF) has three inter-correlated components,

which act as a whole. These are:

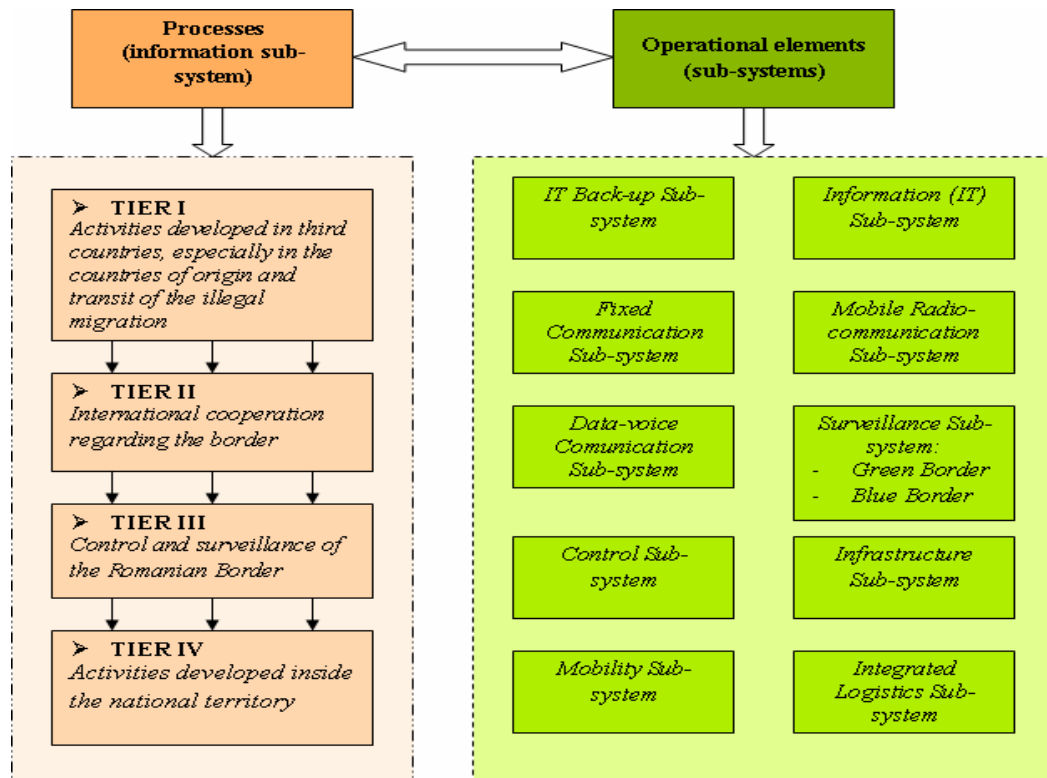
- a. *operational component* represented by the legal framework, trained staff responsible for operating the SISF and operational procedures for the integrated border management,
- b. *technical component* consisting of the support sub-systems of SISF,
- c. *training component* comprising the e-training, testing and evaluation to comprehensive training for integrated border management.

SISF comprises of a group of processes (included in the information sub-system) and

operational elements (represented by actual sub-systems). The processes are defined as a sequence of activities and actions undertaken at different levels in the structures responsible for state border security and consist of collection, selection, processing, analysis, transmission and storage of data and information needed for preventing and combating cross-border crime.

The SISF support sub-systems are operating in close correlation. In figure 1, we present the relation between these sub-systems.

Figure 1. Correspondence between the SISF sub-systems



#### 4. Evaluation of the implementation of the Integrated Border Security System (SISF)

Evaluation is not only a process that analyses the results by reporting the results and outputs to a set of defined criteria and specific performance indicators, but also the process that assesses the performance of existing actions and draws up recommendations for further improvement. In view of this statement, the evaluation is not limited to reporting on the achievements, and also to assist in an efficient allocation of resources and provide input for future actions.

The DAC Criteria developed by Organisation for Economic Cooperation and Development (OECD) define the most relevant criteria to be applied in evaluation. These are considered in evaluation of the development assistance programmes and projects and analyse the key elements of public interventions as defined in the logframe. The five criteria are as following:

1. *Relevance* – examines the extent to which stated objectives are appropriate to the addressed issues and the project feasibility in relation to the environment where it is implemented;
2. *Efficiency* – evaluates the link between resources involved in project, activities performed and obtained results if the cost is reasonable, in other words “value-for-money”;
3. *Effectiveness* – concerns the degree to which the project achieves its objectives through the envisaged activities and provision of foreseen outcomes;
4. *Impact* – follows the impact of short, medium and long term, how the project affects the environment, the political and social aspects, changes in behaviour etc.;
5. *Sustainability* – refers to long-term positive benefits that the project can bring, taking into account its connection with other projects.

The monitoring and evaluation of SISF implementation is based on these criteria. The assessment is made checking the degree of achieving the objectives foreseen in the National Strategy of Integrated State Border Management. Thus, the following issues are pursued with priority:

- coordination of actions of each institution with those included in the National Strategy,

- prioritisation of tasks and consistency with the general objectives for border management,
- allocation of required funds to finance the programme,
- monitoring and on-going evaluation of the implementation status of the National Strategy.

The evaluation of the National Strategy is made Romanian Inter-ministerial Group for Integrated State Border Management (GIRMIFS) during the working meetings. The evaluation reports comprise the status of the SISF implementation and provide recommendations and measures to accelerate implementation and/or to avoid inconsistencies, and to correlate the National Strategy with the up-dated situation in the field.

Practically, the evaluation compares the results of the activities defined in the National Strategy and the Schengen Action Plan and the established objectives. The evaluation conclusions are used to emphasise the future improvements and support the decisions for changes.

Annually, it is elaborated an implementation report of the National Strategy and it presents the status of SISF implementation SISF, actions and activities undertaken in accordance with the Schengen Action Plan.

#### 5. Conclusions

Romania's borders comprise both EU internal and external borders. The Integrated Border Management is part of the common European space and joint efforts are needed to support its security. Therefore, the implementation of the Integrated Border Security System (SISF) is important for both Romania and European Union as a whole.

The Integrated Border Security System (SISF) is a complex system, integrating several sub-systems on a communication platform. It represents an innovative concept. SISF is part of the Schengen *acquis* and Romania is implementing it to promote the open and secure border principle.

#### 6. References

- [1] EU Schengen Catalog, vol 1 – External Borders Control, Removal and Readmission: Recommendations and Best Practices, Council of The European Union, 2002, updated 2009.

- [2] Government Decision 943/2001 for setting up the Romanian Inter-Ministerial Group for Integrated State Border Management.
- [3] Government Decision 482/2003 for adopting the Strategy for an Integrated State Border Management for 2003-2006.
- [4] Government Decision 471/2004 for adopting the Strategy for an Integrated Border Management of Romania 2004-2006.
- [5] Government Decision 1248/2005 changing H.G. 943/2001 for setting up the Romanian Inter-Ministerial Group for Integrated State Border Management.
- [6] Government Decision 882/2006 for setting up the National Commission for Schengen Self-Evaluation.
- [7] Government Decision 324/2007 for approving the National Strategy of Integrated State Border Management for 2007-2010.
- [8] Government Decision 1314/2007 for approving the National Strategy accession to Schengen Area.
- [9] Government Decision 1540/2008 for approving the National Strategy for accession to Schengen Area for 2008-2011.
- [10] 715/2008 for approving the Indicative Schengen Plan for 2007-2009 for ensuring the financing provided to Romanian by the EU.
- [11] Schengen Action Plan 2007.
- [12] Schengen Action Plan 2008.
- [13] Schengen Action Plan 2009.
- [14] DAC Principles for the Evaluation of Development Assistance, OECD, 1991.
- [15] Evaluation – an essential component in the process of formulating and implementing public interventions, Ministry of Public Finance, Managing Authority for Community Framework Support, Evaluation Central Unit, 2007.
- [16] Project Cycle Management Guidelines, Brussels, European Commission, 2004.
- [17] Project Cycle Management Handbook, Brussels, European Commission, 2002.
- [18] <http://www.mai.gov.ro/Home/index.htm>
- [19] <http://www.politiadefrontiera.ro/>



# Principles of European Union's Action for Consumer Protection in the Internal Market

GHEORGHIU Gabriela  
„Ovidius” University of Constanta  
gabi\_eforiesud@yahoo.com

## Abstract

*Although there are a variety of directives and regulations which fall within the field of EU consumer policy dealing with a rather diffuse range of consumer issues, it is nevertheless possible to identify certain key principles, or techniques, which are common to many of these measures. Principles analyzed in the present paper facilitate the legislative harmonization in this field at European level in order to encourage consumers to action in the EU internal market.*

**Key words:** consumer protection policy, harmonization, principles, regulation

**JEL classification:** D18, F15, O52

## 1. Introduction

The creation, growth and development of the European Union (EU) have, over the last fifty years, freed its citizens from all sorts of restrictions. Progress has been especially marked since the creation of the “internal market”, a decade ago. National frontiers between EU countries have been virtually dismantled and the four freedoms – the freedom of movement across internal EU frontiers of people, goods, services and money – were put in place by 1993. This was the beginning of a process which is constantly expanded, refined and updated.

The internal market allows all these citizens to move around with unprecedented freedom, to choose from a vast range of products and services, and to enjoy top standards of protection for their security and health. They can live, work, study and retire in the EU country of their choice. They enjoy ever-expanding legal rights as citizens and consumers.

## 2. State of the art

Promoting consumers' rights, prosperity and wellbeing are core values of the European Union. That is why consumer policy is central to the EU's objective of continuously improving the quality of life of all European citizens.

Consumer policy first emerged in the mid – 1970s. Treaty of Rome (1957) did not provide for such a policy and it was not until the Paris Summit in 1972 that the heads of state and government first called for political action in this area.

The first action programme on consumer policy was published by the European Commission in 1975. This reference text cites five categories of fundamental rights which represent the basis for Community legislation in this area:

- the right to protection of health and safety;
- the right to protection of economic interests;
- the right to redress;
- the right to information and education;
- the right to representation.

Other action programmes followed and enshrined a certain number of fundamental rights and principles.

The Single European Act (1987) introduced the notion of “consumer” into the Treaty, consequently allowing the European Commission to propose measures aimed at protecting consumers, taking as a base a “high level of protection”. The Single Act also removed the requirement for unanimity in adopting legislation concerned directly or indirectly with the protection of consumers.

The perspective of completing the Single Market highlighted the existence of an European market of more than 340 million consumers and the need for new rules to increase consumer confidence in the opportunities of cross-border trade.

The Maastricht Treaty (1992) enshrined consumer protection as a fully fledged Community policy, stating as a general principle the Community's obligation to contribute to the "strengthening of consumer protection".

The food crises of the 1990s, such as "mad cow" disease, dioxin-contaminated feed and adulterated oil, marked a turning point in the policy of consumer protection and, especially, food safety. They highlighted the limitations of EU legislation and engendered a strong reaction on the part of the public authorities. The adoption of sector directives has resulted in differing approaches and level of application in the Member States, with legal gaps remaining unfilled in some areas.

European Commission carried out a structural reform of its services based on reinforcing health protection. It reorganized the departments concerned with consumer health and food safety, with separation of responsibilities in relation to the drafting of legislative texts, scientific consultation and inspection, and the transparency and dissemination of information.

The Treaty of Amsterdam (1997) gave a new impetus to consumer policy, stating that the Union's general aim is to protect the health, safety and economic interests of consumers and to promote their right both to information and education and to organize themselves in order to safeguard their interests. A very important provision of the Treaty is related to the necessity of taking into account the consumer protection requirements in defining and implementing other EU policies and activities.

The Treaty of Amsterdam extended the application of codecision procedure to most cases where food safety is an issue, being also fully applicable to consumer protection and public health.

Faced with enlargement, and in order to fully benefit from the internal market, consumers needed simpler and more uniform rules, a similar degree of application throughout the Union, more accessible information and education measures and effective appeal mechanisms. In consideration of these needs, the consumer policy strategy for 2002-2006 set itself three objectives: a high common level of consumer protection; the effective enforcement of consumer protection rules; and the involvement of consumer organisations in EU policies.

The last proposed Health and Consumer Protection Programme for 2007-2013 builds on the two existing Public Health and Consumer programmes and seek to maintain and develop their specific areas of work. Bringing the two policies together generates greater policy coherence, economies of scale, increased visibility and streamlining of procedures, and reinforces the potential to ensure that citizens' interests are taken into account across the board in EU policies.

### **3. From Minimal to Maximal Harmonization in European Consumer Protection Policy**

For many years, the dominant philosophy of consumer protection policy in European Community was the *minimal harmonization principle* applied to certain limited areas. This was combined with *mutual recognition principle of national standards*, unless receiving states could justify imposing higher standards under EC law.[1,2] Although it was recognized that some areas needed to be totally harmonized, for the most part European Community saw its role as creating a floor of rights on which Member States could build. The model was one under which European consumer protection could progressively be improved by building on best practices from the Member States.[3]

Based on minimum harmonization principle a situation has emerged on the EC's Single Market where the level of consumer protection in individual Member States differs. As a result, obstacles to the free movement of goods and services remain in the Single Market, and the effectiveness of the Community laws as a means of harmonization is severely limited. Therefore, the new approach on European consumer protection policy promotes the *maximal harmonization principle* in assuring a proper common framework of rules at EU level.[4,5]

This transition became more important in the context of EU enlargement. Community's consumer protection measures, because of their direct impact on ordinary people, can be a powerful way of demonstrating concretely the advantages of membership for the citizens of the new member states.

Maximal harmonisation goes beyond the previous Community rule of mutual recognition, because the standards are now the

same and there is no scope for more protective national rules. As a result, mutual recognition is being replaced by the *country of origin principle*, under which it is for the home state to implement European laws and control their observance and the receiving state has to trust in their effectiveness and competence.

This new maximal harmonization approach may be challenged for the reason that EU law is no longer a benevolent friend of consumer guaranteeing minimum rights, but becomes the guardian of trade interests. So, business only has to be concerned to lobby hard for favorable European laws and national legislators are unable to react to any remaining consumer concerns.

#### 4. Key Principles of EU Consumer Protection Relementations

No matter which level of harmozation is envisaged by the EU consumer protection regulatory measures, it is nevertheless possible to identify certain key principles, or techniques, which are common to many of these measures.

- The dominant principle is the *information principle*. It is reflected in a range of different measures requiring that certain items of information are disclosed to a consumer prior to or on completion of a particular transaction. This obligation is often accompanied by a transparency requirement which demands that information is given in plain and intelligible language.

The information principle is based on the idea that sufficiently informed consumer can help himself, while his autonomy of will could still be guaranteed. Information remedies may allow consumer to protect himself according to his personal preferences instead of causing the problem for a regulator to compromise diverse preferences with a common product or service standard. Rules making disclosure of information mandatory have an especially crucial role in transations such distance-selling, where it is particularly difficult for a consumer to obtain information.

The standard by which the adequacy of the information is to be measured is determined by the „average consumer” - a consumer reasonably well-informed and reasonably observant and circumspect. This assumes that a consumer actively participates in the market and is able to make reasonable use of the information provided to him in order to take a

consumption decision.[6]

But mandatory duties to inform might be needless if the free market by itself produces a sufficient amount of information, so producers or suppliers cannot exploit consumers by charging them a higher price, if they cannot easily distinguish informed and uninformed consumers. As long as it is not sufficiently difficult for enough consumers to acquire information by engaging in comparison-shopping, mandatory intervention seems not necessary.[7]

Also, informational duties are only justified if the benefits to the consumers, by having enhanced consumer choices, outweigh the administrative costs plus the compliance costs of regulatory intervention. Hence, a comprehensive cost-benefit analysis is required.[8]

And, finally, there can be the danger of an information overload. This means that although with an increasing amount of available information the subjective feeling of security of the consumer increases as well, the objective decision-making efficiency is decreasing due to his limited information-processing capacity. Therefore it becomes important to find the optimal, instead of the maximal, amount of information that has to be disclosed.

- Another feature commonly applied in some EU measures is the use of *right of withdrawal or cancellation right*, combined with a „cooling-off” period. This allows consumers to walk away from a transaction which they had previously entered into if they change their mind within a specified time period.

The rationale for such provisions is that consumer is not in a position to be sufficiently aware of all the aspects of a particular transaction at the time of conclusion for different reasons (such as having instable preferences depending on the situation in which he has to make decision, like if he is under stress, or confronting with a monopoly situation from the supplier, due to particular circumstances, or being able to evaluate the quality of a product only after contracting, at the time of consumption), and is effectively given more time to confirm his decision.

But cooling-off periods may also have potential adverse effects. First of all, there is the danger of moral hazard and opportunism on part of the consumers that may be tempted to misuse their right by using the good or service and later withdrawing claiming bad quality. In

addition, delay and uncertainty increases the cost of transaction, which is in effect completed only after expiration of the withdrawal right. If the latter transaction costs exceed the benefits achieved by curing the economic distortions in consumer markets, cooling-off periods may, on balance, be welfare reducing, and even harm rather than benefit consumers.[9]

So, in determining the optimum size of the period of thought given to consumer should be considered both making available a sufficient time to obtain and process all relevant information about the transaction which he is interested, according to its specificity, and preventing any excessive transaction costs that would outweigh the benefits involved.

- A special place in consumer protection measures occupy the *precautionary principle* that can be invoked when urgent action is needed because of a potential hazard to human health and the scientific results available do not allow a determination of the risks involved with sufficient certainty, without being permitted their use as a pretext for promoting protectionist measures that prevent free movement of goods within the single market.

Measures to protect consumers resulting from the application of the precautionary principle may take the form of a decision to act or inact, depending on the level of risk considered as acceptable by society. Thus, any decision must be preceded by an assessment of the involved risk and the potential consequences of any inactions.

- Finally, also in consumer protection area – as all the areas that are not recognized as of Community exclusive competence - is applied the *subsidiarity principle*. Under this principle, European Union intervention should occur only in a subsidiary manner, as far as the objectives of the proposed action may not be sufficiently achieved by Member States, either because of their complexity or because of field action that goes beyond the national borders.

The subsidiarity principle should not be interpreted, however, so narrowly as to be used by Member States to reject the initiatives launched at Community level in order to protect national regulations. Conversely, given that the Single Market success is judged, ultimately, in terms of beneficial effects felt by the consumer, the subsidiarity principle should be managed so that consumer protection within the EU Single Market to be provided with priority in intra-Community transactions and key areas of special interest.[10,11]

## 5. Conclusions

Despite harmonization efforts undertaken by the authorities in Brussels, the European Single Market remains, at present, largely fragmented along national borders for reasons not solely related to the regulatory process, but rather to the lack of confidence of economic agents in its functionality.

Generally, the Brussels bureaucrats have been remarkably successful in adopting consumer laws with limited resources and have coped well with the challenge of finding compromises between twenty-seven different national systems. However, European consumer protection actions cannot ignore the complex tapestry of national consumer regulations that already exist in this area.

Consequently, while maximal harmonization is unequivocally imperative in certain areas of consumer protection, in others, we appreciate that diversity can be allowed, requiring only a simplification of existing rules, and, where appropriate, even a deregulation, supplemented by a minimum harmonization, in order to help national systems to evolve naturally towards a common approach.

## 6. References

- [1] Micklitz, H. W., Weatherill, S., „Consumer Policy in the European Community: Before and After Maastricht”, *Journal of Consumer Policy*, Vol. 16, 1993, pp. 285-304;
- [2] Dougan, M., „Minimum Harmonization and the Internal Market”, *Common Market Law Review*, Vol. 37, 2000, p. 853;
- [3] Howells, G.G., „The Rise of European Consumer Law – Whither National Consumer Law?”, *Sydney Law Review*, Vol. 28, no. 63, 2006, p. 64;
- [4] Micklitz, H.W., Reich, N., Weatherill, S., „EU Treaty Revision and Consumer Protection”, *Journal of Consumer Policy*, Vol. 27, 2004, pp. 386-394;
- [5] Reich, N., „Protection of Consumers’ Economic Interests by EC Contract Law – Some Follow-up Remarks”, *Sydney Law Review*, Vol. 28, no. 37, 2006, pp. 39-40;
- [6] Twigg-Flesner, C., „Innovation and EU Consumer Law”, *Journal of Consumer Policy*, Vol. 28, no. 4, 2005, pp. 418-419;
- [7] Schwartz, A., Wilde, L. L. (1978), „Intervening in Markets on the Basis of Imperfect Information: A Legal and Economic Analysis”, *University of Pennsylvania Law Review*, Vol. 127, p. 630;
- [8] Beales, H., Craswell, R., Salop, S. (1981), „Information Remedies for Consumer Protection”, *American Economic Review*, Vol. 71, no. 2, p. 410-413;

[9] Rekaiti, P., Van den Bergh, R., „Cooling-off Periods in the Consumer Laws of the EC Member States. A Comparative Law and Economics Approach”, *Journal of Consumer Policy*, Vol. 23, no. 4, 2000, pp. 381-384;  
[10] de Sadeleer, N., „The Precautionary Principle in

EC Health and Environmental Law”, *European Law Journal*, Vol. 12, Issue 2, 2006, pp. 139-172;

[11] Gibson, L., „Subsidiarity: The Implications for Consumer Policy”, *Journal of Consumer Policy*, Vol. 16, 1993, pp. 323-344.

## The Current Account and the External Trade Balance Sheet of Romania. Evolution and Features after 1990

GIURGIU Adriana,  
NEGREA Adrian,  
HAȚEGAN D.B. Anca  
University of Oradea  
[adrianagiurgiu@gmail.com](mailto:adrianagiurgiu@gmail.com)  
[ngr\\_adrian@yahoo.com](mailto:ngr_adrian@yahoo.com)  
[anca\\_dodescu@yahoo.com](mailto:anca_dodescu@yahoo.com)

### Abstract

*Comportamentally, the external trade balance is determined by the state of the national economy, external factors and by the evolution of the currencies in which the trade is done. The evolution of the external trade balance is the mirror of the external imbalance recorded by Romania in the period between 1990-2009. That's why, an analysis in which is needed to discover the sources that cause the trade deficit, is not only opportune, but also imperative, because the existence of the trade deficit determines the amassment of external debt, which subdues Romania to numerous efforts in order to pay back the debt and the interest.*

*The present paper analysis the evolution of the Romanian external trade balance with its elements, from 1990 till the end of 2009, in order to find out its essential characteristics and what are the sources for the trade deficit of this country, by emphasizing on the continuity and discontinuity factors from the evolution of the external trade balance, and also the resources for financing the deficit. The paper points out the characteristics of the external trade balance evolution, and the measure by which the currency evolution had an influence.*

*The analysis offers these conclusions: Romania needs urgent measures to attract foreign direct investments to balance the external trade deficit, and needs to assess thoroughly the means by which it finance its deficit; the authorities should focus with the utmost responsibility the idea of a sustainable external trade balance, and to adopt the necessary decisions, because the continuous deficit will put in peril the durability of any economic growth and the deflation process.*

**Key words:** external trade balance, current account, sold, deficit

**JEL classification:** F39

### 1. Introduction

In this paper we tend to analyze the evolution of the external trade balance of Romania, with its elements, from 1990 until the end of 2009, in order to find out what are the most important characteristics, and what are the sources for our country external deficit. After that, the continuity and discontinuity factors from the evolution of the external trade balance will be analyzed as well. The paper will assess the characteristics of the current account, and the measure by which the currency evolution has an influence upon the Romanian external trade.

### 2. Romania's external trade balance from 1990 to 2009. Tendencies

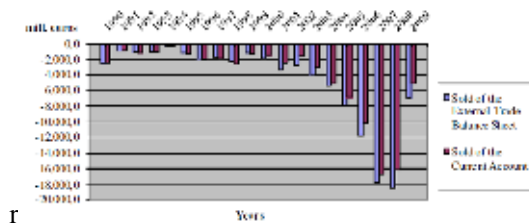
*The current account* is one of the „two” pillars of the external trade balance in Romania, along with *the capital and financial account*. It registers a negative figure each year from the analyzed period, 1990-2009.

The annual rhythm shows an discontinuous growth of the current account deficit. In the period 1990-1999, the years 1991, 1994 and 1999, the negative account reduces itself from the previous year. The year 1995 points out a growth in the current account deficit compared with 1994. In the period after 2001, *the current account deficit* grows every year, except 2002, 2008 and 2009. In 2008, the annual negative growth of the current account is significantly smaller compared to the previous year. In 2001, 2003, 2004 and 2007, the negative growth of the current account is significantly larger, but, in 2009, it has suffered a major downfall,

reducing itself more than 3 times compared to 2008. The determined influence on the current account was brought by the deficit of the external trade balance, which in 2005, 2006 and 2007 being generated by the explosion of the trade deficit, which marks the tendency of growing economic imbalances (see *Graph 1*).

*Graph 1. The Evolution of the Sold of the External Trade Balance Sheet and of the Sold of the Current Account in Romania; years 1990-2009*

The growth of the Romanian current account deficit reflects a mix of structural factors and the medium time growth of the external shocks and internal policies. The demise of the current account was the



result of the growing external trade deficit, of the deterioration of the services balance, the growth of the debt degree, profit repatriation and the appreciation from 2007 and 2008 against the EUR and USD, the main currencies that the international contracts of the Romanian entrepreneurs are signed in. For example, the aggravation of the current account deficit in 2005, was boosted by the doubling in the service balance deficit, because of the rise of costs in the transport of imported merchandise.

In 2003, the current account deficit grows exponentially, tendency manifested until 2007. This growth is explained by:

- structural modifications in the national economy, or perhaps, by the lack of these;
- the continuity of the convergence process;

The convergence and the economical restructuring needs high investments, both in the public sector and in the private one. This process gives the current account deficit, *caeteris paribus*, a structural and persistent character on a medium term.

- the continuous growing of the internal prices, in a decreasing rhythm between 1998 and 2007;
- high investment rate (explains the high current account deficit until 2008);

- the appreciation of the national currency in 2007 and 2008, stimulating the demand for imported goods (because of the necessity to regain the lost ground regarding the economic partners, and because of the influence of the substantial inflow of foreign investments, reflecting the perspective of joining the EU, and then becoming a member state);

- the rapid growth of the income, sometimes at a higher rate than the growth in productivity, because of the easy access to credits, materialized in the growing pace of the nongovernmental credit, both contributing to the consumption process in that period, based on the assumption of higher revenues in the future (consumption smoothing), including the high demand coming from the private consumption, that generates premises for a perpetual of high demand;

- rapid development in the last years of some activities that in their essence are non-tradable, like services (trade, financial-banking services) and constructions;

- the slow pace in developing a sector of competitive and diverse goods destined for export, because of the rigidity of the offer;

- free trade that stimulated imports of capital, consumption and services goods;

- total capital account liberalization. Normally, the growing external deficit should drive the national currency depreciation, but because of the attractive interests in Romania, once the total capital liberalization took place, there have been high inflows of foreign currency (as portfolio investments), so a high demand for the local currency, Romania not knowing depreciation in the first two years after joining the EU.

So, in the absence of some effective productive structures, capable of sustaining the economic growth, specific to the process of catching-up (Ansari and Ojemakinde, 2003), consumption has been filed by imports, that generated the growth of the current account deficit.

As an exception for the evolution of the current account of Romania after the year 2000, we need to keep in mind that one of the most important factors of the growing external imbalances is the poor budget performance in the transition economies. The models of public deficit reflects local factors, and the advices coming from the developed economies and the international institutions such as IMF and the World Bank, which determined, in almost all

the developing countries, dramatic fiscal adjustments, because of a high level of governmental spending, and a moderate reduction in the public revenues.

*Table 1. Correlation between budget deficit and current account*

Year	1995	1996	1997	1998	1999
Budget deficit PIB (%)	-2,6	-3,9	-3,5	-3,6	-1,8
Current Account Balance GDP (%)	-5	-7,3	-5,9	-6,9	-4
Current Account Budget Deficit	1,9	1,9	1,7	1,9	2,2

Year	2000	2001	2002	2003	2004
Budget deficit PIB (%)	-4	-3,2	-2,5	-2,3	-1,1
Current Account Balance GDP (%)	-3,7	-5,5	-3,3	-6	-8,4
Current Account Budget Deficit	0,9	1,7	1,3	2,6	7,6

Year	2005	2006	2007	2008	2009
Current Account Balance GDP (%)	-0,8	-1,5	-2,3	-3,9	-0,7
Current Account Budget Deficit	-8,7	-10,4	-13,5	-12,3	-10,3
Budget deficit GDP (%)	10,9	6,9	5,9	3,1	8,3

**Source:** personal computations based on public data provided by the National Bank of Romania

In Romania, the budgetary deficit has grown uneven as absolute value, but it revealed a reduction as percentage in GDP until 2005, on account of EU requirements of nominal accession convergence criteria regarding the budgetary deficit. This evolution combined with the results of the report between the current

account balance and the budgetary deficit (whose normal limits are between 2% and 4%) show that in Romania, the budgetary deficit hasn't always been representing a factor of external deficit, in some years it actually limited its additional deterioration (between 2004 and 2007, and in 2009). Unfortunately, the fiscal policy was oriented to the consumptions' reduction and to the reduction of budgetary expenses as GDP percentage, not to stimulating efficient investments, further more their lack determined the high volume of Romanian imports.

Regarding this as a balance between investments and savings, Romania's current account deficit reflects the decisions taken by the private sector of seeking external financing of investment projects instead of concentrating on national savings. Romania has registered a private savings rate (14%) under the one of other transition countries between 1990 and 2005, while the investments as part of GDP occupied a comparative level (20%). Regarding the private savings one can notice a descending trend between 2002 and 2005, fundamentally owed to a raise of consumption and also because of a negative interest rate in certain periods of time, and afterwards this trend reversed. The highest value registered by the public savings rate between 2003 and 2007 was in 2006, when it reached 2.6% in GDP, in 2007 was 1.2% and in 2005 of 1.8%. As regarding the private savings rate, it registered 14.4% in GDP in 2007. On the other side, the investment rate was following an ascending trend, registering 3.6% of GDP in the public sector in 2007, and 26% of GDP in the private sector. As a consequence, the deficit between savings and investments in the public sector decreased between 2003 and 2006 (reaching 0,6% of GDP) and increased considerably in 2007 to 2.4% of GDP. Regarding the deficit of investments and savings in the private sector, it registered a constant ascending trend between 2003 and 2007, when it reached 11.6% of GDP. Analysing this information we can say that the current account deficit is generated in particular by the private sector.

It must also be considered the fact that the impending risk in the revenues balance, would contribute more and more to the current account deficit, because it manifests an increase of repatriating profits and dividends of foreign direct investments, owed to their high stock and to their high interest rates paid for the external loans received, combined with the decrease of



labour income inflows, as a consequence of Romanian families' reunification and also of the slowing economies where they worked, specially in the construction field.

A positive aspect is given by the *high rate of the current account deficit sustainability owed to the high covering through FDI* inflows starting with 1997, excepting the years 2007 and 2009. A convenient perspective for the current accounts' evolution can be obtained through registering a constant competitive FDI inflow and also through continuing a supply expansion, including an export oriented production, investments based on important earnings offered by the Romanian economy and also serving as a substitute of insufficient internal savings.

The external financial markets conditions' deterioration between 2007 – 2009 raised the probability of the current accounts' deficit adjustment (through exchange rate and economic structure). As the current account deficit is higher, the rebalancing trend is more substantial, because as it grows, the external deficit is harder to finance and so it tends to limit.

On the other hand, in 2007, it also manifests the polarization of financial resources, by the sectors that produce untradeable goods, that concludes in a decrease or temperation of the Romanian exports growth. Although this process is normal for the gap recovery, the contraction of untradeable goods sectors resources allocation can generate boom and bust type evolutions, because FDI are not oriented to high tech sectors. Moreover, as the financial flows percentages to the untradeable goods sectors are bigger the economy reorientation flexibility has to be stronger. As regarding Romania, we can notice that both negative influences (the lack of external balance raising and high percentage financing to the untradeable goods sector) are high. Moreover, the untradeable goods sector contribution to GDP formation decreases, its growth rate being outran in the second half of 2007, by the tradeable goods sectors. The companies activating in the untradeable goods sectors are lent more (internally and externally) than those that produce tradeable goods and in superior dynamics.

Usually, in high growth rate economies the gap recovery process is sustained by the more and more efficient tradeable goods sector, a considerable part of real appreciation reflecting the sectors' productivity earnings (owed to

Balassa – Samuelson effect). In Romania, the economic growth is high strating with 2001, and the labour productivity in the industry after 1999, the local currency, leu, appreciation being produced between 2005 – 2007.

Accordingly, in Romania exists a paradox. Although the tradeable goods sector is more efficient, the investments were oriented to the untradeable goods sector. The explanation refers to Romania's features, precisely: high demand in real estate, the undeveloped tertiary sector.

Regarding the current account deficit ascending manifested trends, the authorities must consider in a seriously and responsibly way the current account deficit sustainability problem. Because an appreciation of a real exchange rate tempers the dynamics of the external debt necessary to insuring the current accounts' sustainability, it must be considered when calculating the sustainable level of the external debt. This evolution of the local currency produced in Romania between 2005 and 2007, on the account of thenational currency underevaluation from the beginning of the transition process, on the account of the basic macroeconomy elements (productivity and technology), Balassa – Samuelson effect, also because of the existence of high productivity rates, compared to those at international level, also considering the Romanian workers earnings transfer (that registered an ascending and powerful dynamics and seasonal character).

It must also be considered the fact that the constant growing of current account deficit can affect the durability of economic growth and the deflation process.

The current accounts' deficit problem must be analysed in the context of a globale approach. This determines the necessity of adapting the country specific current account deficit analysis.

The National Bank of Romania tries to reduce the consumption demand (through credit limitation), but the solution remains the supply. Unfortunately, the Romanian supply is still rigid and moreover there are not any unused production capacities. To resist to the international competition, on the internal market, but also on the external markets, the Romanian supply must adapt to the internal demand and also to the international demand requirements, through import reduction and exports stimulation.

**The trade balance** is constantly decreasing between 1990 – 2008, reflecting the superiority of imports over exports of goods (Table 1). The

trading deficit decreases in 1991, 1993, 1994, 1997, 1999 and 2002. But in 1995, 2000, 2001 and also after 2003, we can notice a negative value of the trading balance, except 2008, when an important decrease of the current accounts' deficit is registered. Accordingly, the trading balance deficit emphasis from year to year, sometimes being very strong, but there can be seen cases when the difference between exports and imports reduces considerably compared with previous years.

One of the most important factors that contributed to the deepening of the trading balance deficit, after 2000 is the ascending dynamics of unguvernamental loan, that separated as a pressure factor on inflation, through stimulating the internal demand. Being placed on a careful position, the central bank had initiated some measures of decreasing the growing rhythm of loans, of monetary nature every year after 2004.

The main sectors that generated trade deficit in 2007 and 2008 in Romania, are „machinery, autovehicles, mechanic disposals and electric equipments, sound and image disposals”, „mineral goods” and „chemical goods” in specially pharmaceuticals. Overall, this three departments have generated since 2002 to present a constant trade deficit of 10% of GDP. The first sector reached a trade deficit of 5% of GDP, reflecting a high necessity of investments, the second generated a deficit of 3.3% of GDP, Romania having in this way a very low energetic efficiency, and the chemical sector registered a trade deficit of 2.3% of GDP, as a consequence of high imports of pharmaceuticals.

The trading balance risks still remain and we can expect to a worsening through the decreasing of exports, in the condition that our main trading partner, the EU, has economic problems and the rest of the countries as well, in the context of the economic recession extension.

The degrading of the trading balance also comes from the agricultural sector, Romania representing a net importer of food products, considering that our country has an unvalued agricultural potential and it depends exclusively on weather conditions, as a consequence of failed development, and a lack of a normal level of civilisation. If the agricultural potential would be valued we could register a surplus.

The groups of merchandise that would register a surplus are „textiles, confections and footwear”, products with a low degree of processing, that can not contribute

considerably to the decreasing of the deficits produced by other groups of merchandise.

Regarding the revenues, it registers a flexible evolution during the period analysed. The payments for *Other capital investments* grow between 1990 and 2001. The years 2002 and 2003 are an exception, registering a slight reduction of debit. Starting with the year 2004, the growth of outflows is regained. During 1990 – 2008, the revenues from *Other capital Investments* have low values, without any growth perspectives, and the payments reduce continuously, reaching higher values than the revenues, the explanation being our country's situation – not enough external loans accessed or given, therefore cashing few interest rates for the loans given before 1990.

As regarding to the current account, *Current Transfers*, through its balance permanently registering surplus, it counteracts partially the deficitary accounts of the Current Account, *Revenues and Goods and services*, contributing in this manner to the improvement of Current account balance.

### 3. References

- [1] Aristovnik Aleksander (2006), *How sustainable are current account deficits in selected transition economies?*, MPRA (Munich Personal RePEc Archive) Paper No. 1976;
- [2] Aristovnik Aleksander (2006), *Current account sustainability in selected transition countries*, William Davidson Institute (University of Michigan) Working Paper Number 844
- [3] Banca Națională A României (1990-2009), *Rapoarte anuale*;
- [4] Banca Națională A României (2006-2010), *Rapoarte asupra stabilității financiare*
- [5] Banca Națională A României (2009, 2010), *Raport trimestrial asupra inflației*;
- [6] Banca Națională A României (2009, 2010), *Buletine lunare*;
- [7] Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008
- [8] Institutul Național De Statistică – *Anuare statistice ale României 1990-2008*;
- [9] Institutul Național De Statistică (2008, 2009) – *Anuarul statistic al României 2008, 2009*;
- [10] Isărescu Mugur (2007), *Probleme ale politicii monetare într-o țară emergentă. Cazul României*
- [11] Zaman Gheorghe (2000), *Bilanțul economiei de tranziție în România în perioada 1990-1999. Evaluări și perspective pe termen scurt, mediu și lung*, Revista română de economie, anul X, vol. 10, nr. 1/2000, Centrul de Informare și Documentare

Economică, Institutul Național de Cercetări  
Economice, Academia Română;  
[12] Zaman Gheorghe, Vasile Valentina (2001),  
*Evoluții recente în comerțul exterior românesc.*

*Dinamica avantajelor /dezavantajelor comparative,*  
OECONOMICA nr. 4/2001, Societatea Română de  
Economie, Institutul Român pentru Libera  
Întreprindere

## The Impact of the European Integration Process on the New Member States Banking Sectors

ILUT Bogdan

“Alexandru Ioan Cuza University” of Iași, Doctoral School of Economics  
ilut2k@yahoo.com

### Abstract

The European integration process has dominated Europe landscape for the last decade. In least than five years between 2004 and 2007 the number of member states has been raised from 15 to 27. An important part of this process is the development of the single European financial market as a mean in achieving a fully functional European community which will allow all member states to obtain a sustainable development and an enhancement in the job creation process. As part of the financial market the integration of the banking system is playing a fundamental role in this task. The aim of this paper is to provide an overview of the impact that the integration of the new twelve member states had on their banking system. In order to achieve that we have underlined the developments in foreign bank development in the new member state while also testing the law of one price in order to establish if it apply in the case of the banking sectors from the new member states. Far from being an exhaustive study on the subject the paper provides the necessary argument for the continuation of the structural reforms and enhancements in the banking sectors of the new member states as a mean for deepening their European integration.

**Key words:** European integration, banking system, European Central Bank

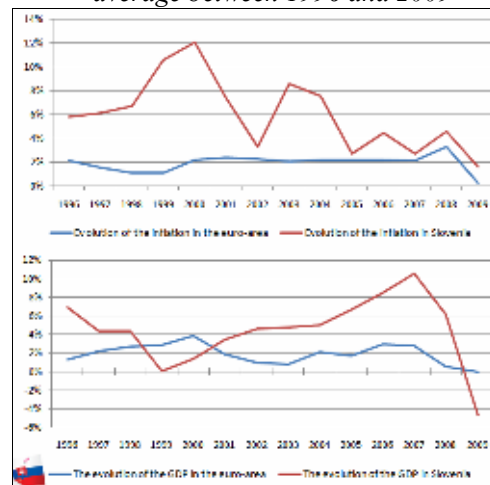
**JEL classification:** F36

### 1. Introduction

The banking sectors from the new member states have developed sharply in the last decade. This was mainly because on the one hand their economies have registered a development rate far superior to the one of the euro zone and on the other hand their ascension

process to the European Union has created the necessary structural changes in the regulation and supervision process that has allowed foreign bank to develop their business here (see [5] and [6]). These two premises have had a direct impact also on the real and nominal convergence of these nations [9], [10]. At the macroeconomic level the raise of the GDP of these countries has registered rates above the EU-15 average rate while the inflation has dropped to euro zone like figures.

Graphic 1. The evolution of GDP and inflation in Slovenia compared with the euro zone average between 1996 and 2009



Source: Own simulation based on the IMF (<http://www.imfstatistics.org/imf/>) and ECB (<http://sdw.ecb.europa.eu/>) data

We must stress out from the beginning that the macroeconomic evolution of these countries had suffered as a result of the financial turbulences that have started in the fall of 2007 [4]. Also because of the relative short period of time since their ascension to the European Union our analysis had to rely on a relatively short period of time. Also, we must take into consideration the fact that most of these countries have set specific dates for the adoption of the euro currency while others have had

adopted already (like Slovenia in 2007, Malta and Cyprus in 2008 or Slovakia in 2009) and this had also a direct impact on the integration of their banking sectors.





## 2. Characteristics of the banking sectors from the new member states









In the process of transition from a centralised economy to a free market economy and afterward to the integration in the European Union common market, these countries have undertaken a series of reforms and adjustments that had a direct impact on the structure and the development of the new member states banking sector [8].

A decisive factor for a banking system is represented by the supervision and regulation authorities that exist. In all the new member state as a result of the transition to the market economy and also the ascension to the European Union the banking system is in general regulated and supervised by a dedicated authority, usually the Central Bank of that state. This structural component of the banking system is in concordance with the European Union guide lines on the matter and proves the lining of the banking systems structure of the new member states to the one of the EU-15. This development strengthen by a reform of the legislative framework regarding financial and banking service in line with the *acquis comunitare* has provided the base for the development and the integration of the banking sectors from the new member states [3].

The next big event that will have a direct impact on the integration of the banking sector from these countries will be represented, as mentioned earlier by the adoption of the European single currency. All new member state must adopt the euro within 7 years of their ascension to the Union; the enlargement of the euro zone should take place in different waves until 2015[10].

Table 1. The dates on which the new European Union member states will adopt/ have adopted the single currency

Country	Date
 Bulgaria	1 January 2014
 Romania	1 January 2015
 Slovenia	1 January 2007
 Slovakia	1 January 2009









Country	Date
 Malta	1 January 2008
 Cyprus	1 January 2008
 Czech Republic	1 January 2015
 Poland	1 January 2015
 Estonia	1 January 2011
 Lithuania	1 January 2014
 Latvia	1 January 2014
 Hungary	1 January 2014





Source: ECB and authors update

Taking in to consideration the fact that these countries had a relatively similar development in the last decade (see [1]), dominated by the reforms needed in order to be able to become full time members of the European Union we can acknowledge the fact that de development of the banking sectors in these countries is relatively in the same stage. Even if the banking activity has developed very fast in this period, it still remains in terms of quality but also quantity well below the EU-15 average. The economic activity is mainly financed through the banking system, which in general terms is the same also in the EU-15 [8, p.3].

The banking systems from these countries are dominated by commercial banks, which account for almost 90% of the total banking assets of the new member states [4]. In several new member states there are specialised banking institutions that operate alongside commercial banks like cooperative banks, specialised financial institutions (mortgage bans, construction banks) and also foreign branches of other EU member states. All these financial institutions are having a determined role of the actual banking system of each new member state.

Table 2. Percentage of total banking assets owned by other EU member states banks (branches and subsidiaries)

Country	Percentage of total banking assets
 Bulgaria	81,24%
 Romania	79,43%
 Slovenia	30,78%
 Slovakia	92,80%
 Malta	36,54%
 Cyprus	33,43%
 Czech Republic	90,80%
 Poland	63,49%

Country	Percentage of total banking assets
 Estonia	97,27%
 Lithuania	84,84%
 Latvia	61,86%
 Hungary	57,55%

Source: Own simulation based on ECB (<http://sdw.ecb.europa.eu/>) data

The presence of the European banking corporations in the new member states is manifested either through branches or subsidiaries. At the end of 2009 the foreign banks operating in the new member states had 84,37% of the total assets of the banking systems. On the other hand the banks from the new member states have a limited presence abroad, mainly through participation in the banking corporation from which they are part of (e.g. *Raiffeisen Bank Romania has a participation in Raiffeisen Bank Zentral Bank A.G.*).

We can note that at least until the start of the international financial turmoil in the late 2007 early 2008 the banking systems from the new member states have developed sharply because of the favourable economic environment and the structural changes imposed as part of the integration process in the European Union.

### 3. The impact of European financial integration process

Once the enlargement of the European Union from 15 to 27 members has taken place the need to analyse the impact of EU ascension on the banking sector from the new member states has become evident. As noted earlier the economic boom that these countries have felt since the year 2000 doubled by the structural changes in their banking architecture has provided the necessary background for their banking system development.

If it were to take in to account the structure of the banking systems in the new member states since their EU ascension we can note that there were no fundamental changes, mainly because all the mergers and acquisitions that had a direct impact on it took place before their integration mainly at end of the '90 and early 2000 [3].

These mergers and acquisitions have led to the diminishing of the number of banks with

dominant domestic capital in the new member states. This has led to the increasing of the systemic risk in the case of the new member states banking system, as it has become more dependent on the economies of the EU-15 states especially more than these economies have become exposed to risk associated with the banking enterprises that the western banking corporations have undertaken. This is mainly because of the way in which the European banking corporation have extended their businesses in the new member states. Rather than taking advantage of the banking passport that will allow them to set up a branch under the home rules of supervision and regulation, their approach was more corporate orientated, opening subsidiaries either through mergers and acquisitions or by simply developing it from scratch (see [5]; [2] and [7]).

If by any chance one or more markets from the new member states should find themselves in trouble, the banking western banking corporation can easily isolate the "damage" and intervening directly by reducing its size or selling it. On the other hand if the banking corporation is experiencing problems in the home country it could call back its credit line to its subsidiaries from the new countries in order to ensure its liquidity. Thus in turn will reduce the overall liquidity in that country banking system transmitting or enhancing the crisis in that state. This is a perverse effect of the European banking integration process a good example of this being Slovenia where only in 2009 the foreign banks subsidiaries and branches have repaid approximately 3.3 billion euro to their home corporations, as a effect of the recalling of credit lines [4].

In such a case the most affected banking sectors are the corporate and the mortgage one. In the case of corporate banking the credit lines granted to large clients tend to be the first that are resized and downsized. Mortgage lending has also to suffer because of the long time exposure that a bank has to these types of credit operations. The fact that securitisation is a very underdeveloped in the new member states also plays an important role in the diminishing of mortgage lending squeezing in case of a financial crisis. Also, investment crediting is becoming more selective making the economic slump deeper.

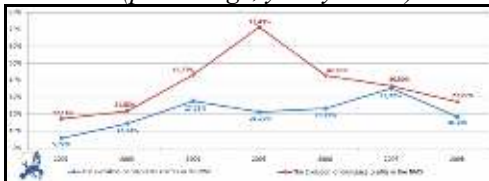
One reason why the credit market has developed so quickly in the new member states was the ability of the banks operating on these markets to get access to cheap credit line from



EU-15 banks and investor as these countries changed their banking structure and legislation to fit the requirement for EU ascension. Also a side effect of this process was the economical and especially financial stability which was gained as a result of the reform which encourage foreign lenders to invest in these countries via their banking systems.

The rise in mortgage lending and corporate crediting has began well before the integration in to the European union and had a upward trend until the international financial turmoil hit Europe in late 2007 and early 2008. The access to foreign lender has allowed banks to take a short cut in the deposit-credit relationship, having an excess of liquidity their only worry was getting credits in to the market as quickly as possible. The highest degree of credit rising was on the mortgage sector followed by the corporate credit and consumer credit.

*Graphic 2. The development of mortgage credits and corporate credits in the new member states between 2002 and 2008 (percentage, yearly based)*



Source: Own simulation based on the IMF (<http://www.imfstatistics.org/imf/>) and ECB (<http://sdw.ecb.europa.eu/>) data

This quickly development of credits in the new member states has raised the question about the sustainability of these credits by the banking sector, which put deposits development as their second priority to credit operations. The limits of this scheme have been proven as the 2007 financial crisis unfolded.

#### 4. The “law of one price” in the banking sector from the new member states

The law of one price is a good test in order to underline the impact that the integration of these countries in the European Union had on their banking systems. In order for the banking sectors from these countries to be integrated, the interest rates from them should converge, in other word, the dispersion between the interest rates from the new member states should get smaller (for methodological considerations see: [12], [13] and [14]). We will analyse the

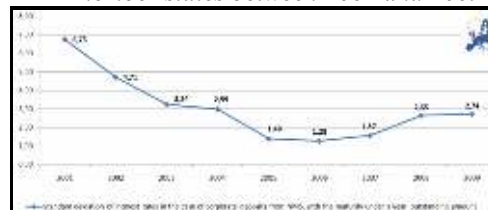
convergence of the interest rates on the corporate sector.

*Graphic 3. The evolution of the convergence of the interest rates for corporate credits in the new member states between 2002 and 2009*



Source: Own simulation based on the ECB (<http://sdw.ecb.europa.eu/>) and Bankscope - Bureau van Dijk data

*Graphic 4. The evolution of the convergence of the interest rates for corporate deposits in the new member states between 2002 and 2009*



Source: Own simulation based on the ECB (<http://sdw.ecb.europa.eu/>) and Bankscope - Bureau van Dijk data

We can note that in the light of European integration the dispersion of interest rates between the new member’s states, both for credits and deposits, has shrunken having a descending trend. This proves that the Integration in the European Union had a direct impact on the integration of the banking sector from the new member states. Despite different monetary policies strategies employed by their central bank the decreasing of the dispersion regarding the interest rates of the banking sector proves the fact that the banking sector in these countries has become more integrated.

#### 5. Conclusion

Following the analysis undertaken in this paper on the integration of the banking sectors from the new member states we can argue that:

- These banking systems have gone and are going through an accelerated process of European integration, the results of the application of the law of one price on the new member states underling that. It is rather hard do to determine the exact degree that these banking sectors have achieved as there is no sure

methodological approach to the subject;

- Even if there are oscillations in the evolution of the interest rate dispersion both in the case of credits and in the case of deposits, these can be attributed to local economical factors and the impact of the global financial crises, rather than on a fundamental change in the integration process of these sectors.

In closing we can note that the banking sector from the new member states known a deepening in the European integration process since these countries have become members of the European Union especially because of a better structural and legislative environment and also because of the heavy presence of foreign banks especially from EU-15. But this process still remains a long term endeavour, full of challenges and opportunities.

## 6. References

- [1] Casu B. and Girardone C., "Integration and efficiency convergence in EU banking markets", *Omega*, 38, 2010, pp. 260–267.
- Dermine J., "European banking integration: Don't put the cart before the horse", *Financial Institutions, Markets and Money*, 15, 2006, pp. 57–106.
- [2] European Central Bank, "Banking structures in the new EU member states", ECB Press, Brussels, 2005.
- [3] European Central Bank, "Financial integration in Europe", ECB Press, Brussels, 2010.
- [4] Kahn C. and Winton A., "Moral Hazard and Optimal Subsidiary Structure for Financial Institutions", *Journal of Finance*, Vol 59 (6), 2004, pp. 2531-2576.
- [5] Koutsomanoli-Filippaki A., Margaritis D. and Staikouras C., "Efficiency and productivity growth in the banking industry of Central and Eastern Europe", *Journal of Banking & Finance* 33, 2009, pp. 557–567.
- [6] Rangan S., "Seven Myths to Ponder Before Going Global", in *Mastering Strategy*, Pearson Education, London, 2000.
- [7] Soos J., "Impacts Of Euro Adoption On Banks In The New Member States", *Gazdálkodás: Scientific Journal on Agricultural Economics*, 51 (19), 2008.
- [8] Soós J. and Farkas-Fekete M., "Convergence path of the new Member States: challenges and risks", *International Journal of Business, Management and Economics*, 1 (1), Istanbul, 2005.
- [9] Soós J., "Enlargement of EMU: considerations on the convergence criteria in the New Member States", *International Conference Cesme, Turkey, June 2006*.
- [10] Guiso L., Jappelli T., Padula M. and Pagano M., "Financial Market Integration and Economic Growth in the EU", *Centre for studies in economics and finance, Working paper no. 118*, 2004.
- [11] Pérez D., Salas-Fumás V. and Saurina J., "Banking integration in Europe", *Banco de Espana, Documentos de Trabajo no. 519*, Madrid, 2005.
- [12] Quirós G. and Mendizábal H., "The Daily Market for Funds in Europe: has Something Changed with the EMU?", *European Central Bank, Working Paper, No. 67*, Brussels, 2001.
- [13] Fernández de Guevara J., Maudos J. and Pérez F., "Integration and Competition in the European Financial Markets", *IVIE*, 2003.
- [14] Baele L.M., Ferrando A., Hordahl P., Krylova E. and Monnet C., "Measuring financial integration in the euro area", *European Central Bank, Occasional paper no. 14*, Brussels, 2004.



## The Movement of Persons and Employment in EU States

IONESCU Dumitrita  
LARION Alina

„Stefan cel Mare” University of Suceava

[dumitritai@seap.usv.ro](mailto:dumitritai@seap.usv.ro)

[lariona@seap.usv.ro](mailto:lariona@seap.usv.ro)

### Abstract

*From ancient time, in the name of an primer instinct became a reason of being, the man travel, conquered the spaces from the need of relationship and progress. Alexander Macedonian, Napoleon Bonaparte are leaders of the crowds which carried the expansion in the name of "vital space" through the extreme.*

*The dismissal of the conventional barriers including of the borders, defeating the preconceptions, the dialog for the ethno-religious compatibility represent the solution for the creation of an free zones, of some spaces without visas like the European Schengen, of some districts like China-town in New York in which the cohabitation, the human relationships are non-antagonistic.*

*The free movement of person it's particularize between other human rights through that the exertion and the full achievement of this one involve the relationship between the states, the harmonization of those position regarding of this right, fact that influence in a positive way the international atmosphere.*

**Key words:** free movement, Single market, liberalization

**JEL classification:** F15

The free movement of persons on a certain territory was the subject of numerous international documents, which according to the sphere of the regulated legal relations, have recognized the principle of free movement as being crucial in protecting one's rights and freedoms.

The labor freedom is one of the basic principles of the EU internal market. Thus, citizens of the member states can sign on in any member country without needing a special permit and on the same principles as the nationals.

**The freedom of movement** is the fundamental freedom of the internal market and of the EU policies at the European Union level. It may refer to persons, goods, services and capital.

A key aspect of the legislation is the free movement of persons, this principle representing a more sensitive issue for the Member States than the free movement of goods, due to the implications related to national security or to social security.

The free movement of persons is intended, economically to create, first, a single labor market, and politically, to achieve a greater cohesion of peoples that comprise the European Union by removing the barriers of migration.

The essence of this freedom consists in the elimination of discrimination between the nationals of the Member State on whose territory they are located or working, and the citizens of the other Member States who are staying or working in that state. Such discrimination may relate to travel, work, employment or earnings. By providing such a non-discriminatory regime the free movement of persons within the Community is achieved.

The first consecration at the global level of the free movement of person it's achieved through the article 13 from the Universal Declaration of Human Rights from December 10, 1948: "every person has the right to travel free and to choose the residence inside of any state. Every person has the right to leave any country, including his own, and to return in it's own country".

On the European ground this right was included in the Roma's Treaty from 1957 which put the bases of the European Economic Community. Among the objectives of C.E.E. was held "the elimination, between the members states, of the obstacles in the way of the free movement of persons, services and capital".

The essence of the free movement of persons is consist in the elimination of the discrimination between the citizens of the member states on which territory they unfold their activities and the citizens of the other member states who live or work on the territory of that state. The discriminations could refer to the entry conditions, removal, work, engagement or remuneration.[7]

Although, the Roma's Treaty assert the duty of the Communities to ensure the free movement of persons, until the middle of the '80's the efforts depose in this way manage to settle only partial the aspects related of the free movement of the certain categories of persons: the workers and their families, the services suppliers and the economics agents. The European Court of Justice play an extreme important role in the consolidation of this process, also through the alert and elimination of the vagueness, and through the alert of the legislatives gaps. [7]

In the course of the 80's years, had place the European debates about the significances of the notion of "free movement of the persons". For the certain member states, this right has to be apply only to the European citizens from the member states, which imply the maintain of the control to the borders for to distinguish the European citizens from the nationals of the third states. Others countries, on the contrary, wish the settlement of the free movement for all, and consequently, the retrenchment of the control at the borders. In the face of the impossibilities to found an agreement in the frame of the European Community Treaty, the France, Germany, Belgium, Holland and Luxembourg has sign at June 14, 1985 in the Belgium locality Schengen "The gradually reduction of the common borders controls Agree". The objective of this agree was the progressive retrenchment of the common borders controls and the establishment of an free movement regime for all the persons – nationals of the signatory states, of the others member states of the Community or the thirds states. On this agree it's add The Unique European Act, entry in vigor at July 1, 1987, the document which had remove the last barriers in the way of the achievement of the unique market and had lead to the acceleration of the extension process of the right of the free movement on the some new categories of persons: students, persons that doesn't depose economics activities, but has enough resources of living. [5]

The free movement of the persons is define by the Unique European Act like been one of those four fundamentally liberties which form the Intern Market alongside the goods movement liberty, of the services and the capitals. Through the Intern Market it's understand an space without the interns frontiers which had to operate in the same conditions like a national market: the staffs, the persons, the services and the capitals had to be circulate within without no borders control between the member states. [8]

For to reconcile the liberty with the intern security, the consecration *in fact* of the free movement of the persons was join by the "compensatory" measures. That way the states had agree to action in order to improve the coordination between the police services, the custom and justice, and to take the necessary measures for the combat the terrorism and the organized criminality.

The Maastricht Treaty, enter in vigor in 1993, had introduce the concept of "the European citizen" through which it's give the right of free movement and the free residence inside of the Union to all citizens of the member states of the European Union. Beside, the Treaty has place in the common interest domain of the member state also the political refer to the asylum, the issue of the external borders pass and the political refer to immigration (Title IV – the cooperation in the justice domain and the internal affairs, named also like The Third Pillar of U.E.). [8]

The Amsterdam Treaty from 1997 and the Nisa Treaty, had consecrate, at their turn, the achievement of the internal market and the important position which had the Four fundamentally liberties in the process of the European integration.

An important document for the free movement of the persons it's constitute The Fundamental Rights Charter sign at the Nisa's European Council from December 2000. The article 45 from the Charter it's stipulate that: 1. "Any citizen of the European Union has the right to move and to establish the residence in a free way on the territory of the member states". 2. "The movement liberty and staying could be award conforming with the European Community Treaty, to the citizens of the third states which legal reside on the territory of the member state".

The retrospect of the papers which consecrate the free movement of the persons in the community law shown the evolution of the

sense of this right. Therefore, if initial the primer stipulations consider the peior person just like an economic agent – like an employee or services provider, further the concept it's extend to include the aspects related by the notion of the citizen of the Union, whatever by any economic dimension or the differences related by the nationality. [7]

The movement liberty it's particularize between other rights of the human been through that the exertion and the full achievement of this involve the relationship between the states, the harmonization of those position regarding of this right, fact that influence in a positive way the international atmosphere. Also, through the exertion of the free movement right it's produce the effects both in the macro plan and micro-social, fulfilling the role of the progress factor both for the collectivities and also for the human personality (especially), enriching it's knowledge and developing it's feelings. [4]

Through it's political, The European Union envisage creation of an free European area, of the security and justice in which has no need by the persons control at the internal borders, the European citizens benefiting by the fundamental right to move and to set anywhere they wish.

An important area of the community acquis on free movement of persons is the movement of labor, the community legislation containing provisions on the necessary conditions for circulation and residence of workers and their families within the EU.

The free movement of the workers is settle by the article 48-49 from the Roma's Treaty. In this treaty the free movement of the workers is define through the right to reply at the offers regarding the work places, to move in this scope on the territory of the member states, to stay on the territory of the member states to unfold an activity, inclusive to remain on the territory of one of this country after a person unfold an activity (art. 48, par. 3). Therefore, the free movement of the workers suppose that the worker which it's displace answer to an effective offer made regarding to a place of work, not being about an absolute right of the worker to move freely on the territory of the member states for looking a place of work.

By this right benefit only the workers from the member states. The term of the "worker" embrace the persons engage in the host country, those which there is in the searching of an place of work, the unemployed workers capable of work and which were hired previous (CEJ, the

case Hoekstra, Nr. 75/63),the incapable work persons thanks to an illness or an accident suffer during the engagement in the host country (art. 7(1) of the Directive no. 68/360), the persons that reach the normal age of retirement during to unfold of an activity in the host country.

The member states are obliged to remove any internal administrative restrictions which could to stumble the exertion of this right.

The stipulations of the institutive treaties regarding the free movement of the workers was initial develop through the Council Regulation no. 1612/68 which dispose in it's preamble that "the mobility of the work hand in the Community must to constitute for the workers one of the means which to guaranty the possibility to improve the life and work condition and to facilitate the social promotion". This regulation was initial modify and improve by the Regulation no. 2434/92 by July 27, 1992.

The base principle is that of the equality treatment, each citizen of an member state having the possibility to exertion an remunerate function in another member state in the conditions applicable to the nations of this state behind. Conforming the Regulation no. 1612/68 (art. 10 and 11) the beneficiary of this right is both the worker and the family members which had an derivative right from the person right which exertion the free movement right. In the notion of family are include the wife and the descending until 21 years, the relatives in the ascending line of the worker or the husband and depending of that.

Through the Decision of the Council from May, 7 2002 it's create an consultative Committee for the free movement of the persons which are the fate to propose the improvement measures and by the utilizations of the legislation in the movement work force domain in the community space. [7]

The specialized administrative services from each member states had the obligation institute by the Regulation no. 1612/68, to periodic send to the specialized services from other member states and also to The European Office of coordination in the information domain regarding:

- The jobs offers susceptible to be engaged by the nationals of the other member states;
- The jobs offers addressed the member states;

➤ The requests for the jobs depend on the persons which declare in the formal way that they want to work in the another member state;

➤ The information, on the activity district and branch, regarding the applicants for the jobs which they declared in the effective way willing to occupy an work place in the another state.

Any job offer addressed to the occupancy services of an member state must to be communicated and analyzed by the responsible occupancy services in the case of the member states (art. 16 from the Regulation no. 2434/92.).

Workers from a Member State enjoy the same tax advantages, all the rights regarding housing including home ownership and the same social advantages as national workers.

Maastricht Treaty established by the 8 th art. the principle of non-discrimination based on nationality, between the workers of the Member States, regarding the employment, remuneration and other conditions related to the activity.

After Romania's EU accession, many countries in this community were dissatisfied with the Romanian citizens and their attitude towards the laws of the state.

The Member States can invoke, though, the subject of public policy, health and public safety, thus removing the application of the principle of non-discrimination. The simple breach by a citizen of a Member State, of the formalities regarding the entry, the movement and the stay of foreigners it is not itself a conduct that threatens public order and security.

The European Union called upon all the Member States, including Romania, a transitional period of 2 to 7 years after accession. Thus, the Member States will continue to apply national measures for a period of 2 years after the accession, regarding the right to work of the citizens belonging to the new Member State. This period may be extended by 3 years, according to a prior assessment and continue with another 2 more years in case of serious disturbances in the labor market of the new Member State. Meanwhile, any Member State may introduce, under the national law, a greater freedom of movement of workers than at the present, including full freedom of movement.

In another train of thoughts, there are Member States that have imposed transitional measures for Romanian workers such as:

- Austria, to work in this country Romanian workers need a work permit;

- Belgium, as Romanian workers who want to work in Belgium will not receive the principle of free movement of workers, being obliged to obtain a work permit;

- Denmark, to work legally in this country, Romanian citizens need a residence permit and a work permit;

- France, allows the employees of the 2 Member States which acceded in 2007 (Romania and Bulgaria), to work only in seven industries, where there is a poor number of staff;

- Germany, Romanian workers still need an approval to exercise an activity in this country;

- Ireland, to exercise an activity in this country a work permit is needed;

- United Kingdom, to work in this country, Romanian workers need permission from the country's Ministry of the Interior;

- Portugal, has imposed restrictions regarding the access to labor market of the Romanian workers.

The freedom of movement for workers, from and between the Member States which joined the EU on May 1, 2004 (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia) and on January 1, 2007 (Bulgaria, Romania) may be restricted for a transitional period not exceeding 7 years after the accession.

## Conclusions

Every EU citizen has the right to work and reside in another Member State without being discriminated on grounds of nationality.

Since January 2007, Romania is a member of the European Union, to which the transitional arrangements are applied to. By these measures every Member State may continue to apply the national provisions or the provisions resulted from two-side conventions and these measures can be maintained at the latest by 2014.

## References

- [1] Ioan Alexandru, The European administrative law, Ed. Lumina Lex, București, 2005.
- [2] Ioan Alexandru, Mihaela Cărăușu, Ilie Corjan, Ivan Vasile Ivanoff, Cezar Corneliu Manda, Alina Livia Nicu, Crina Rădulescu, Cătălin Silviu Săraru, The administrative law in the European Union. The comparative administrative law. The administrative law of the European Union, Ed. Lumina Lex, București, 2007.

- [3] Dumitrașcu, A., The Peculiarities of the juridical community order, [www.uniuneaeuropeana.go.ro](http://www.uniuneaeuropeana.go.ro).
- [4] Fecioru, I., The movement liberty between desideratum and reality, Ed. Ministerului de Interne, București, 2000
- [5] Marcu, V., The Community Institutional Right, Ed. Lumina Lex, București, 2001,
- [6] Mazilu, D., The European Integration. The Community law and the european institutions, Ediția a -II- a, Ed. Lumina Lex, București, 2004.

- [7] Pascal, I., Deaconu, Șt., Vrabie, C., Fabian, N., „The free movement of the persons”, București, 2002, [www.crj.ro](http://www.crj.ro), The juridical resources center,
- [8] Stoica, C., The free movement of the persons in the European Union, Ed. Oscar Print, București, 2001
- [9] [www.infoeuropa.ro](http://www.infoeuropa.ro)
- [10] [www.uniuneaeuropeana.go.ro](http://www.uniuneaeuropeana.go.ro)

## Aspects Regarding the Financing of Higher Education Institutions

IPATE Dragoș Mihai  
PÂRVU Iuliana  
“Spiru Haret” University of Constanta  
dragosmihaiipate@yahoo.com  
iulia.parvu@yahoo.com

### Abstract

*In spite of its universally recognized importance, the literature reveals that higher education in most countries (and Romania is not an exception) is suffering from increasing austerity traced to some combination of rising costs and stagnating and even diminishing revenues. So it is obviously that we need some changes in the financing systems of higher education, systems that not to affect the quality of the educational services, moreover to be a support for them. This paper presents an analytical view of the other countries' experience in the matter of financing higher education institutions from the cost sharing perspective, in order to offer solutions for Romanian higher education managers. Our work offers a new perspective and a point of discussions over the changes which must to be made in financing of public higher education system. The paper also reveals the advantages and limits of some of the methods used worldwide and, most of all, affirms the necessity of the implication of all stake-holders in financing higher education.*

**Key words:** higher education, public funding, fees

**JEL classification:** H52

### 1. Introduction

Since 1950, in developed countries and later in developing countries, the demand for educational services virtually “exploded”. As regards higher education, there have been recorded unprecedented developments. Basically, it appears that higher education was transformed from an elitist and restricted to a small minority phenomenon in a

mass phenomenon. With these developments, the issue of financing higher education has become extremely pressing. [4]

Until 1980, except some minor cases, the higher education in Europe was free or almost free of charge. In recent years, however, under pressure from budgetary constraints, the economic analysis showed that higher education supported wholly by the State is neither efficient nor fair and therefore the idea of introducing tuition fees in higher education was accepted. In the last decade, international organizations, government officials and economists have recommended the partial privatization of higher education, the general sense being that increased privatization of higher education through tuition fees must be accompanied by a substantial expansion of student support schemes. Under this approach, with general basis of reforming the financing of public sector and of restructuring based on efficiency criteria of higher education institutions, the existing trends in university education policies focus on rebalancing the funding of university education by supporting it with private funds. Thus, the burden of carrying the higher education costs will be shared between the general taxpayer and beneficiary students or their parents, emphasizing the role of the latter. This action must be complemented by building, in parallel, of a scheme of financial assistance to ensure accessibility, in order to equalize opportunities for access to higher education.

The European countries have reacted differently in terms of this financial problem, trying to find different ways of providing sources for funding of academic activity, as follows:

## 2. Public funding

Regardless of the size of these funds, it is clear that they can influence the functioning of an institution of higher education. For this reason, for public authorities should become a matter of great interest to find the most appropriate way of granting the funds so as to generate an increasing quality of educational services. To this end there have been proposed and used several methods:

*Financing based on volume of activity* - is a widely used method that takes into account for funds allocation the volume of educational activity (number of enrolled students, personnel, material basis).

*Financing based on results* - the Netherlands and Denmark are countries that have introduced this system in determining financing funds.

*Financing based on strategic projects* – the most eloquent example is France that have introduced the requirement of elaboration, at each university level, of multi-annual strategic projects on which to negotiate the public amounts to be allocated. [1]

## 3. Tuition fees

In this area it seems that European countries will be obliged to follow the U.S. model (private funds in U.S. higher education represent 50% and in Canada 35%). In the U.S. the trend is to have universities based on the market model (“market-model university”, a term used by professors James Engells and Anthony Dangerfield, from Harvard University). This term means that the U.S. federal government contributes relatively little to the maintenance of universities and other institutions of higher education, leaving in general the problem of financing institutions at the discretion and competence of the institutions themselves. In general, public higher education institutions are funded partly by taxes paid by citizens of that state, the rest of needs being covered from fees payable by students. Some private higher education institutions receive some financial support from the state administrative bodies, but most income is made from student fees, private donations, funds provided by foundations and

companies, federal grants, etc.. Basically, the model of U.S. higher education financing is based on the idea that public expenditure should be minimized, and, in parallel, at the society level, must be realized a “philosophy of costs sharing”. What means this philosophy? Starting from the idea that a higher education of quality is also an expensive one, tuition fees charged are very high. The idea is that from education received from people benefit both that people and the society on the whole, but also the company where he/she will be employed later. Therefore, all these beneficiaries must financially support the training within the university. The advantage is that training provided by universities is proportional to these charges, and the system works so well that for getting a job in the United States is more important what university you graduated than what you have studied there.

This exclusive orientation towards the market has its disadvantages, examples in this respect being the following:

\* Joan Obra *et al.* (2001) note the situation of Stephen Hall University in Berkeley, California, where the African Studies Center occupies two rooms with cracked walls and floors covered with linoleum, while within the same university the Middle East Studies Center occupies sumptuous offices as a result of a 5 million dollars donation made by a foundation from Saudi Arabia;

\* some departments within U.S. universities have sometimes controversial relationships with companies. For instance, Novartis, a pharmaceutical company, won 2 of the 5 seats of the Committee for Research at the University of Berkeley, after making a donation of 25 million dollars;

\* also, in an article from 2001, Ibrahim Warde notes that academic integrity has become a merchandise, giving the example the Nike company decision to withdraw donations of millions of dollars for Universities of Michigan, Oregon and for Brown University, because their students dared to criticize working conditions within the company. [2]

Until now, the issue of tuition fees has been approached in most European countries in various ways, beginning with charging high fees, as happens in Britain, the consequence being that the access to higher education has been limited, achieving instead a system of

high level of quality, not observing however the principle of fairness (Lincoln and Walker, 1993). Other European countries such as France, Italy, Spain, have adopted the egalitarian policy of open doors to all young people who want to study, with the risk of endangering the quality of higher education system due to lack of financial resources needed. There is a third version, adopted in Norway, Finland, Netherlands, countries which reached an equilibrium, because of their generous public financing of higher education.

Many countries have introduced tuition fees, if they did not exist before, or have increased the fees if they already existed. Thus, in countries like Spain, Holland, Belgium they were introduced in early 80s, in Portugal, Italy, United Kingdom in 1990, in Austria in 2000, and also in Central and Eastern European countries the tax system has been introduced everywhere. Taking into account the levels of university fees to be paid by students, Western European countries can be divided into three groups, as follows:

- countries where university education is almost free: Denmark, Finland, Austria, Greece, Norway, Sweden, Germany (in a study from 2001, Karl-Heinz Heinmann shows that in Germany even foreign students receive free education in university).
- countries where university fees are low: France (approx. \$ 200);
- countries where taxes are high: Belgium (approx. \$ 800), Spain (between \$ 450 and \$ 800), Ireland (between \$ 1,000 and \$ 4,000), Italy (between \$ 450 and \$ 800 mandatory fee plus a fee up to \$ 600 to the faculty choice), Netherlands (approx. \$ 1,500), Portugal (approx. \$ 800), Switzerland (between \$ 500 and \$ 2,000).

A version of the tuition fees taken in some countries is *selective study fees* according to the category of students whom it is addressed. Some are designed to stimulate students, as happens, for example, in Baden-Württemberg in Germany where, since 1997, there have been introduced tuition fees for students exceeding the normal duration of studies. Similarly, those taxes apply to foreign students enrolled in certain programs of study or over the number of places allocated and supported by public funds. The Russian Federation, the Government being unable to cover all costs of higher education, allows the

universities to admit the fees payer students up to 25% of the total number, but the lack of effective control of the state in this area leads to that percentage increase.[3]

At the level of Central and Eastern European countries have started to be introduced reform programs related to financial relationships between universities and state and to institutional financial management. The changes resulting from these reforms can be summarized as follows:

- relative decentralization of financial competences, relative reduction of general constraints, decentralization of financial control;
- diversification of financing sources, increase of self-financing and by this means, reducing dependence of universities on state, although the public budget remains the main source of financing for higher education and fundamental scientific research;
- sharing of costs for higher education between state, local communities, beneficiaries (including the introduction of tuition fees);
- increased institutional and financial responsibility of financial managers and their incipient professionalization;
- introduction of transparent and partly competitive mechanisms for allocation of public funds. [8]

#### **4. Consumer subsidization: the voucher system**

A strategic market instrument, often considered by reforms of higher education but rarely widely implemented is the use of vouchers. Together with university fees, the voucher is an instrument whose application in higher education contributes in influencing the structure of university market by creating competitive behaviors. The voucher is a special form of government subsidies oriented to consumers' university-products (students) and not to university institutions.

Office of Economic Opportunity is one of the organizations that developed one of the first such experiments in 1973 in Alum Rock, California. In 1990, Milwaukee (Wisconsin) became the first U.S. city to implement a program of school choice based on vouchers. In Cleveland, Ohio, is running a similar program,



and in 1998 the voucher system was approved also in Pennsylvania. The voucher system in Colombia has grown substantially over the past 5 years. The enrolments included 100,000 students from disadvantaged families, leading to an improvement in educational opportunities among the poor people.

One of the most alleged advantages of the use of vouchers in higher education consists in revealing much better the consumers' preferences for the value of university programs. The running of this system in higher education creates the link between producer and consumer, offering to the consumer the possibility to pay through the voucher the university that can best ensure the accomplishing of its preferences. [3]

## 5. Granting loans for students

Once it is understood that investment in education should be viewed like any other investment, it was stated the idea that there is no reason why the society should be required to pay all educational expenses for an individual. Given the fact that higher education graduates are better paid in the employment market than those without higher education, they can afford to allocate some of their additional income to pay the loans used to finance their studies.

Practice shows that there are three main types of loans:

- *Commercial loans* - works like any normal bank loan. Interest rates are evolving considering the market conditions, while repayment periods are fixed. The main disadvantage of this method is that it is very risky for both those who grants the loan and for those who take it. Firstly, the student can not specify when he/she will be able to repay the loan as long as he/she depends on a future conjuncture of the labor market, and secondly we do not know for sure if the student will be able to finish the university. As a result of these issues, in general, the banks hardly grant such loans if they are not guaranteed by the government, and when they do so, they have high interest rates. Another version practiced is to grant loans for relatively short periods of time, which are returned at the end of each period.

- *Public programs for education loans* – the public intervention in granting the loans

may take the form of subsidies, which allow lenders to charge reduced interest rates and to have grace periods, or may take the form of guaranteeing the loan by the state.

- *Loans with repayment based on income* - the uncertainty regarding future income obtained in the labor market causes that some potential students to give up to school. To prevent this situation there have been developed certain types of insurance against the risk of not achieving a level of income able to make education a profitable investment. Such insurance may be purchased under a loan scheme whereby the credit return is based on the debtor's current income. Thus, amounts paid in the account of the loan granted and the time period in which the loan is returned may increase or decrease depending on income earned by the person who has taken the loan. There are two major disadvantages: one is called "moral hazard" and refers to the fact that the return of loan is based on debtor's conscience - they are likely to accept low incomes or not employment, and this leads to recording of losses following to be paid from public money, the other disadvantage is called „opposite selection” and refers to the fact that those students who expect higher incomes will prefer to obtain loans from banks or will be supported by their families, and this way of loan will be chosen only by those who do not expect to obtain higher incomes, which will generate another source of losses to be supported from the budget. [7]

The model introduced in Australia in 1989, called the *Higher Education Contribution Scheme* has attracted the attention of the academic world. That consists in the fact that fees charged are relatively high, but payments can be delayed by students who can not support that fees after graduation. Thus, the former student starts to pay the fees when his/her income reaches at least the average income level in the given economy. Students who do not want to postpone paying the fees can pay them at the beginning of each academic year, enjoying a 25% discount. So far, the model has been successful and, contrary to all forecasts, did not result in fewer students.

This model has been adopted since 2001 also in Scotland, where the Parliament has decided to separate the higher education, in terms of its financing, from the rest of the UK. [6]

## 6. Services offered by universities

This method provides an increasing part of resources needed by institutions of higher education. In North American universities 20% of revenues is coming this way, whether public or private universities. Also in Europe began to take shape clearer and clearer the entrepreneurship in universities, encouraging the diversification of financing sources and reducing the dependence on public funds. There have been created new entities, professionally conducted, operating on a commercial logic similar to that of corporations with which they come into contact. These entities are designed to exploit the results of research taking place at the university and to offer a wide range of training courses to those interested.

Another way to obtain financial resources is the export of educational programs. Thus, many U.S. universities, or from UK and Australia, are opening branches in Asia and Central and Eastern Europe.

## 7. Financing coming from business environment

It is a way in which companies can participate in financial supporting for higher education. In this respect the law should be constructed so as to encourage the donors offering them various advantages. An interesting example in this respect is France where the state can waive the fee for education of 5% which must be paid by all companies if they donate the same amount of money to freely chosen educational institutions and from which they can get various services in return.

[5]

## 8. Donations, sponsorships

Individual or corporate philanthropy flourishes only in an appropriate environment created by a favorable tax system and a national tradition in terms of local solidarity. Without these coordinates even the best organized campaigns to raise funds for education will.

## 9. References

[1] Brock-Utne, B., "The Global Forces Affecting the Education sector Today – The Universities in Europe as an Example", *Higher Education in Europe*, vol. XXVII, nos. 3, 2002, pp. 283 – 289

[2] Chevaillier, T. and Eicher, J.C, "Higher Education Funding: A Decade of Changes", *Higher Education in Europe*, vol. XXVII, nos. 1-2, 2002, pp. 89 – 99

[3] Clark, B.R., "Creating Entrepreneurial Universities: Organizational Pathways of Transformation", Oxford, New York: International Association of Universities and Pergamon, 1998

[4] Delanty, G., "The Idea of University in the Global Era: From Knowledge as an End to the End of Knowledge", *Social Epistemology* 12, 1998, pp. 3 - 25

[5] Eicher, J.C. and Chevaillier, T., "Rethinking of Post-Compulsory Education", *Higher Education in Europe*, vol. XXVII, nos. 1-2, 2002, pp. 69 - 87

[6] Johnstone, D.B., "Responses to Austerity: The Imperatives and Limitations of Revenue Diversification in Higher Education", Buffalo: State University of New York at Buffalo, 2001

[7] Mora, J.G., "Enseignement Supérieur: Equité Relative au Financement et à l'Accès", *Enseignement Supérieur en Europe*, vol. XXII, no. 2, 1997, pp. 42 -55

[8] Scott, P., "Reflections on the Reform of Higher Education in Central and Eastern Europe", *Higher Education in Europe*, vol. XXVII, nos. 1-2, 2002, pp. 137 - 145

## The Role of EU funds for Agriculture and Rural Development in the Global Economic Crisis

ISTUDOR Nicolae

MANOLE Victor

IRIMESCU Achim

*Academy of Economic Studies, Bucharest*

### Abstract

*With the current global economic crisis, European preaccession and structural funds allocated by the European Union (which were and are quite consistent for Romania) may represent significant financial support for the acceding countries and those that joined in 2004 and 2007 to provide resources in order to support investments aimed at contributing to raising living standards in rural areas.*

*However very importantly is that these funds to be accessed at a high rate because the history proves that few countries could fully access the pre-accession funds (Czech Republic is a good example) and structural funds (Spain and Portugal are positive examples).*

*An important factor in accessing European funds is the operation of advisory structures (public and private) to advise the potential beneficiaries of such funds, both in preparing investment projects and implementation.*

**Key words:** access, users, consulting, economic crisis, rural development, European funds, investment projects

**JEL classification:** F15, O1

### 1. Introduction

On the food products market, the inflationary pressures are rising based on the global agricultural problems since some years ago, including drought and population growth have added new pressures on prices. Consequently, the inflationary trend is likely to continue indefinitely in the market for these products. Companies that produce agro-food products have faced in recent years increases the cost of raw materials, and that these increases will not affect their earnings were

transferred to these increases to customers through selling price increases.

The inflation of agro-food prices is a constant concern worldwide that affects all segments of the population. Consumers and producers around the world are facing higher prices for basic foods. Moreover, food is the most important component of a basket of consumer spending and an important part of family farms.

At the same time, inflation generally creates a very volatile and difficult environment, but an environment where there are opportunities for investors. A solution for an investor would approach if „you can not beat them then you should join them”. If agro-food prices had an upward trend of increasing commodity prices, why not invest in the issuing of these products? Economic organizations profile should invest in equipment and thus to benefit from agro-food price increases.

Moreover, global food demand has increased for vegetables, dairy products, fruits and high value meat. It is difficult for a small or medium size firm to benefit from this trend. However, given the emergence of food price inflation and the current financial crisis we expect a steep banks reluctant to finance such investments, which will have negative consequences for farmers and food companies, which will be difficult advantageous to access credit.

A good result can be achieved only when entrepreneurs are faced with budget constraints that limit their performance. To increase production, in terms of quantity and quality, agro-food producers must renew existing facilities, introduce new technologies, all encompassing, but substantial investment.

However, businesses must allocate financial resources for obtaining information, purchasing inputs and marketing products. On the other hand, improved technology will improve farmers' access to raw materials and

will help to improve productivity and quality of finished products. It should be noted that private investment would be made not only in agriculture but also in warehouses, processing industry and retail.

## **2. Accessing EU funds - solution for crisis**

A viable solution to address problems facing Romanian agriculture, deepened further in the context of the current situation in financial markets can be mutual funds for financing agriculture and rural development.

As such, particular attention should be paid to promoting a balanced rural development program to all regions of our country in a rural development concept which refers to economic and social integration of Romanian villages, while ensuring a favorable environment for attracting foreign capital favorable terms, to support investment and development programs to agricultural production. Special attention should be paid to the implementation of community programs, projects undertaken by the World Bank and other foreign-funded programs.

Moreover, through the European Agricultural Fund for Rural Development (EAFRD), Romania has allocated 8.022 billion Euro, which adds about 2 billion Euro national cofinancing, provided the state budget. For 2007-2013, through the National Rural Development Programme (NRDP) appropriate measures are undertaken priorities grouped into four:

- *Increased competitiveness of agriculture and forestry (Axis 1)* - total funds allocated for 2007-2013 - Euro 3,967,311,581, of which 3,173,849,264 EAFRD contribution in the amount of Euro

- *Improving the environment and the countryside (Axis 2)* - total funds allocated for 2007-2013 - Euro 2,293,413,375, of which EAFRD contribution in the amount of 1,880,598,967 euros

- *Quality of life in rural areas and diversify the rural economy (Axis 3)* - total funds allocated for 2007-2013 - EAFRD contribution of EUR 2,473,739,880 - 1,978,991,904 Euro

- *LEADER Axis (Axis 4)* - total funds allocated for 2007-2013 - 235,074,871 euros, of which EAFRD contribution in the amount of 188,059,896 euros.

The program includes significant funding for invest in farms, processing units and processing agricultural products, investment in non-agricultural activities, tourism and the establishment of microenterprises. To be eligible for an investment made by the EAFRD should be located in Romania, which can be carried out in compliance with the law, economic activities within the following areas: crop production and / or animal health and forestry, processing industrial agricultural and forestry products.

However, although the National Rural Development Program is intended as a continuation of the program SAPARD pre-accession instrument to address the modernization and restructuring the agrifood sector, compared with it, NRDP is a program that provides increased opportunities. First, the rural development sector allocations are more generous forms of support are more diversified and there are several categories of beneficiaries. In the same direction is expanded eligible investment, the degree of flexibility is increased, and implementation procedures are much simplified.

## **3. The stage of accessing the European funds for rural development**

Until April 30, 2010, for measures launched nationally 21 185 projects were submitted in accordance with a published value of approximately 10 billion, which represents the entire amount allocated for rural development Romania, 2007-2013.

Several sessions were organized for the launched measures, which included a total of 12,405 projects worth about 2 billion. Since they have contracted a total of 9267 public projects worth about 1.8 billion euros, which represents approximately 32.7% of net amount allocated for measures in the implementation period and about 18% of the total amount spent on whole programming period (data is centralized in Table. 1).

At first glance it seems that Romania is somehow in trouble in terms of accessing European funds for agriculture and rural development, since more than two years after accession and starting (theoretical) implementation of sectoral operational programs, country Our failed to access than 3% of the amount allocated by the EU (as shown in Table No data. 2).

Masura	Suma Alocata	Proiecte depuse		Proiecte selectate		Contracte/decizii de finantare incheiate		Grad de accesare %
		Nr.	Valoarea publica	Nr	Valoarea publica	Nr	Valoarea publica	
112 – Instalarea tinerilor fermieri	337.221.484	3363	72.302.466	2802	60.187.513	507	10.187.035	3,00
121 – Modernizarea expl. Agricole	991.827.895	4529	1.524.435.558	1591	570042735	1526	528.310.624	53,3
123 – Cresterea valorii adaugate a produselor agricole si silvice	1.071.174.126	606	622.775.395	412	410.849.258	374	355.649.950	33,2
141 – Sprijin pentru fermele de semi-subsistenta	476.077.390	6517	48.877.500	6262	46.965.000	6146	46.095.000	9,7
142 – Infiintarea grupurilor de producatori	138.855.905	8	1.386.650	3	91.712	3	91.712	0,06
312 – Sprijin pentru micro-intreprinderi	383.429.681	2200	336.494.853	442	66.355.739	106	15.715.499	4,1
313 – Incurajarea activ. Turistice	544.222.774	811	142.801.410	491	90.420.849	203	37.474.827	6,9
322 – Renovarea satelor	1.546.087.425	3039	7.429.244.322	291	823.838.490	291	800.797.642	51,79
431.1	14.161.138	112	4.920.162	111	4.827.533	111	4.827.472	
<b>TOTAL</b>	<b>5.509.057.818</b>	<b>21.185</b>	<b>10.183.238.316</b>	<b>12.405</b>	<b>2.073.578.829</b>	<b>9267</b>	<b>1.799.149.761</b>	<b>32,7</b>

*Table 1  
The degree of accessing the European funds for agriculture and rural development on 24/04/2010*

*Table 2  
The degree of accessing the European funds at December 31, 2009*

Program Operational	1. Fond	31 decembrie 2009										
		2. Total fonduri UE alocate 2007-2013 (Euro)	2 bis. Total fonduri UE alocate 2007-2009 (Euro)	3. Avansuri (Euro)	4. Raportul intre avansuri si total fonduri UE alocate	4 bis. Proiecte aprobate (Euro)*	4 bis2. Raportul intre valoarea proiectelor aprobate si alocarea UE	5. Valoarea UE alocata contractelor de finantare semnate (Euro)**	6. Raportul intre valoarea UE alocata contractelor de finantare semnate si total fonduri UE alocate	7. Valoarea cheltuielilor declarate la CE (Euro) - 15.12.2009 -	8. Raportul intre valoarea cheltuielilor declarate la CE si total fonduri UE alocate 2007-2013	9. Raportul intre valoarea cheltuielilor declarate la CE si total fonduri UE alocate 2007-2009
Total	Toate fondurile	19.213.036.712	5.642.733.423	1.827.459.649	9,5%	5.709.079.165	29,7%	3.118.946.160	16,2%	163.537.935	0,9%	2,9%
Total	FC	6.552.423.028	1.941.868.766	688.004.418	10,5%	907.005.234	13,8%	907.005.234	13,8%	40.574.858	0,6%	2,1%
Total	FEDR	8.976.466.066	2.616.007.033	807.881.946	9,0%	2.112.247.750	23,5%	1.640.477.692	18,3%	113.045.650	1,3%	4,3%
Total	FSE	3.684.147.618	1.084.857.624	331.573.285	9,0%	2.689.826.181	73,0%	571.463.234	15,5%	9.917.427	0,3%	0,9%
Programul Operational Sectorial Dezvoltarea Resurselor Umane	FSE	3.476.144.996	995.700.446	312.853.049	9,0%	2.647.894.586	76,2%	536.593.373	15,4%	9.868.293	0,3%	1,0%
Programul Operational Sectorial Dezvoltarea Capacitatii Administrative	FSE	208.002.622	89.157.178	18.720.236	9,0%	41.931.595	20,2%	34.869.861	16,8%	49.134	0,0%	0,1%
Programul Operational Regional	FEDR	3.726.021.762	1.175.429.871	335.341.959	9,0%	1.139.078.890	30,6%	1.012.491.541	27,2%	23.208.706	0,6%	2,0%
Programul Operational Sectorial Cresterea Competitivitatii Economice	FEDR	2.554.222.109	730.266.902	229.879.990	9,0%	585.077.991	22,9%	457.964.196	17,9%	87.093.311	3,4%	11,9%
Total		4.565.937.295	1.307.638.271	460.083.433	10,1%	377.108.524	8,3%	165.333.281	3,6%	31.204.466	0,7%	2,4%
Programul Operational Sectorial Transport	FC	3.276.605.085	971.271.375	344.043.534	10,5%	121.248.414	3,7%	121.248.414	3,7%	31.177.489	1,0%	3,2%
	FEDR	1.289.332.210	336.366.896	116.039.899	9,0%	255.860.110	19,8%	44.084.867	3,4%	26.977	0,0%	0,0%
Programul Operational Sectorial Mediu	Total	4.512.470.130	1.288.182.545	455.259.581	10,1%	892.924.565	19,8%	889.233.255	19,7%	11.727.128	0,3%	0,9%
	FC	3.275.817.943	970.597.391	343.960.884	10,5%	785.756.820	24,0%	785.756.820	24,0%	9.397.389	0,3%	1,0%
	FEDR	1.236.652.195	317.585.154	111.298.697	9,0%	107.167.745	8,7%	103.476.435	8,4%	2.329.760	0,2%	0,7%
Programul Operational Asistenta Tehnica	FEDR	170.237.790	56.358.210	15.321.401	9,0%	25.063.214	14,7%	22.460.653	13,2%	386.896	0,2%	0,7%

\* Proiecte aprobate de către AM

\*\* Contracte/decizii de finantare cu beneficiarii, ca urmare a aprobării de către AM/OI

However we should notice the large number of projects submitted for the National Program for Rural Development that ensures a good rate of projects accessed till now (almost all the amount allocated) that stands over the level of the SAPARD Programme (preaccession programme) and the other operational programmes.

It noted that progress in accessing European funds for agriculture and rural development is due on one hand, pursuit, in good condition, a pre-program (SAPARD), and, on the other hand, firms experience advice of our country in developing and implementing projects with European funding. The same can be said of other operational programs that have great difficulties in accessing these funds, levels of access are located at less than 5% of the amounts.

If Romania is maintaining its constant rhythm in accessing the European funds for agriculture and rural development we can say that will not have problems in accessing European funds for agriculture and rural development funds and will contribute to balanced sustainable development of rural.

#### 4. Conclusions

In conclusion, we can say that Romania is benefiting of a quite generous financial scenario for Agriculture and Rural Development (and beyond), the amounts allocated are over 10 billion euros, representing approximately 33% of the total EU funds allocated our country for 2007-2013 (these falling to around 30 billion euros). But it is very important to follow the allocation and effective utilization of these funds to ensure balanced and sustainable development of rural Romanian.

For this, we need awareness and involvement of all leaders and participants from/to the management of EU funds, both

public authorities to coordinate operational programs and consulting firms, that the recipients of such funds.

In this respect, public authorities responsible for managing European funds are designed to ensure equitable distribution of these funds, to contribute to balanced development of rural and track the effectiveness of their use in order to achieve impact indicators listed in the programming document.

The consulting firms with responsibility to base investment projects to help enhance their success and project beneficiaries (investors in rural areas) to scrupulously examine whether any investment that contributes to economic efficiency and to raise rural living.

Also, consulting firms must be involved throughout the whole project implementation, until receipt by the beneficiary of the final installment of funds from the paying agencies, including consultancy targeting beneficiaries for obtaining funds necessary for the cofinancing.

#### 5. References

- [1] Istudor, N (coord) (2008) – *Compatibilizarea organizațiilor economice cu profil agroalimentar din România cu cerințele sanitare, sanitar-veterinare și de mediu ale Uniunii Europene*. Bucharest: ASE Publishing.
- [2] Istudor, N (2006) – *Dezvoltarea rurală și regională a României în perspectiva integrării în UE*. Bucharest: ASE Publishing.
- [3] Otiman, P (2006) – *Dezvoltarea rurală durabilă în România*. Bucharest: The Academy of Romania Publishing.
- [4] Zahiu, L. (coord) (2006) – *Agricultura Uniunii Europene sub impactul Politicii Agricole Comune*. Bucharest: CERES Publishing.
- [5] MADR (2007) – *Planul Național Strategic pentru Dezvoltare Rurală*. Bucharest.

# The Sustainability of the European Model of Development Facing the Challenges of the New Era

KARDOS Mihaela

„Petru Maior” University of Targu Mures

mihaela\_kardos@yahoo.com

## Abstract

*During its existence, EU has developed a socio-economic model defined in terms of responsibility, regulation and redistribution, aiming to provide for all member states both economic growth and social cohesion.*

*Although we could identify more types of models within member states in accordance to the European diversity, there is one European model of development defined through certain common characteristics such as: specific institutions and decision-making processes, sectoral common policies, a single market, the four fundamental freedoms and a focus on the issues imposed by the knowledge based society.*

*EU experience has demonstrated that its socio-economic model brings more benefits in terms of market opportunities, work force and technology transfer, but currently, due to the problems brought by the global economic crisis and the challenges of the new type of society we are heading to, many questions raise regarding the sustainability of this model and its capacity to continue to be a source of growth and prosperity for all member states, many of them following it as a way to overpass their underdevelopment issues.*

*At present, EU is still looking for the proper instruments to provide its competitiveness, fully supporting the principle of solidarity.*

**Key words:** European model, fundamental freedoms, economic integration

**JEL classification:** F15

## 1. The specificity of the European model

Although the European Union is diverse in many respects, globally, we can speak about the existence of socio-economic model applicable to all Member States, a model

describing the European experience, in its attempt to simultaneously promote economic growth and social cohesion.

The fundamental idea of the model is that economic and social progress must go "hand in hand." In a vast literature, the model is presented as one incorporating certain characteristics (institutions, values) inherent in the Member States that are perceived as a way of regulating society and economy.

One of the latest approaches sees it as a European society model or, otherwise expressed, an economic and social model, as long as models and reforms are related not only to social issues, but also to regulatory incentives and the innovation system.

Pragmatically, we can define the European model in terms of responsibility, regulation and redistribution: [1]

- Responsibility: for the individual welfare, protection against poverty, support in case of sickness, disability, unemployment or old age, while promoting and ensuring an efficient system of education and health;
- Regulations: institutionalized labour relations, economic environment governed by social partners, market regulation;
- Redistribution: through financial support and social services for all groups.

These three characteristics reflect the fact that the European model is more than a social model in strict sense, because it affects production, employment and productivity and therefore growth and competitiveness, as well as all other economic policy objectives.

Furthermore, the European model influences social relations, behaviours, learning, knowledge creation and its diffusion. Thus we speak about a social-economic model. [2]

The European model has evolved from a spontaneous market to a regulated one, focusing on the need to solve development issues by reporting equally to both economic efficiency and social equity. The European model of integration is the countries' reaction

to globalization, following the failure of national policies during global crisis. In this respect, it is interesting to watch how the European model is able to minimize for member countries, the negative effects of the present economic and financial crisis.

This model promoting a sustainable society is based on creating a knowledge society, on reaching the completion of internal market and promoting competition, on creating a labour market responsive to economic change, and also on matching economic policies with the natural environment.

Although within the European model framework, social systems differ relatively, we can talk about the coexistence of four distinct groups of countries with relatively similar social practices, which justify the presence in economic literature of the following European models of society: [3]

- The Scandinavian model, often called the Nordic model, characterized by a system of monitoring labour market, in order to keep unemployment at a reasonable rate, a very well developed and financed social protection system;
- The Anglo-Saxon or the liberal model, characterized by increased market competition and modest social protection, in a changing labour market;
- The Continental model characterized by massive involvement of banking system in financing medium and long term projects, a more stable labour market and a greater focus given to the social protection system;
- The Mediterranean model, characterized by an effective system of monitoring and controlling unemployment, but also a defective social security system.

More recently, to all these could be added the so-called model of "catching-up", specific to new member states.

According to this typology, the European Union has no wish to have a single model of development, considering that their diversity does not lead to lower integration benefits, but rather enhances them.

However, we can speak of a European model as there is a common vision of how society should be organized. European Union has brought for half a century not only peace, but also economic and social progress.

## 2. Defining elements of the European model

A market-oriented vision does not mean abandoning what is specific to European values, but rather using market forces to preserve the values, by encouraging innovation and creating wealth to provide financing for equality, health, social cohesion and common security. [4]

To manage the global and regional challenges, to manage space and time and to minimize the democratic deficit, European Union should have modern, responsive, transparent and credible institutions, effective sectoral policies and appropriate responses to society stimuli and strategic vision.

Being an advanced form of integration, European Union shows that institutional harmonization becomes insufficient, requiring the necessity of transferring decision-making abilities from national institutions to the Union's.

EU beneficially uses a specific hierarchy in cooperation policies, such as information, consulting, coordination, unification and harmonization.

Complex objectives are achieved with greater benefits than costs. Benefits arise from a better allocation of production factors, from stabilization policies of economic growth and equitable redistribution of income. In this context, the European specialized institutions have a special role, directly contributing to favourable effects of activity in various economic and social areas.

The EU governance system has seen many developments in various plans. European Union has become an actor with a high degree of complexity, as the increasing impact of its policies has attracted more and more governmental and non-governmental participants in the process of policy formulation. Also, EU has become a multi-faceted process, as a growing number of responsibilities were established and this portfolio is impossible to be accomplished without decision-making procedures, within the framework of a flexibility principle.

The limit of policies, topics or themes addressed is broader than ever. National policies and European policies are intrinsically linked. National political actors operate at European level and European policies and procedures have a direct impact on national political scenes.



The four fundamental freedoms (of goods, persons, services and capital) are today the focal point of EU policies. European agenda is dominated by the continuation of the institutional reform and by the reducing the so-called democratic deficit, introducing the euro, the common agricultural policy reform, defining EU's global role, including the impact of enlargement, transatlantic dialogue, relations with neighbouring countries. The current situation has added a new task, which seems to be the first priority, namely finding successful solutions to overcome the problems of economic crisis.

That EU has become a global player, with clear political expression of identity, interests and capabilities, is already a reality that can be proven through its impact on contemporary developments in European and international political and economic scene.

At the basement of the whole European construction is found the willingness to work together for common interests. These led to the belief that in some areas better results may be obtained at European level than at national level, generating common policies developed and adopted by the Community institutions, applicable throughout the Union.

Often, these policies respond to one of the fundamental principles of European construction, that of solidarity and cohesion. The existence of common policies confers a unique feature for EU because it demonstrates the acceptance to surrender a part of Member States' sovereignty to European institutions.

Common policies support both political and economic integration, the deepening of the integration process. Gradually, passing through the customs union, single market and the Economic and Monetary Union, the deepening of the integration process opens member states' economies to trade and international competition.

In 1957, the EEC Treaty was limited to establishing three joint policies: agricultural policy, transport policy and trade policy. Thirty years later, the Single Act has added five new areas: monetary, social, environmental, economic and social cohesion and research and development policies. The Maastricht Treaty brought new competences, increasing to 25 the number of intervention areas.

Within European policies, a special role has the regional development policy, basically an element of the European model of

development. Regional development policy seeks to achieve a certain inter-regional equity, by eliminating some unwanted side effects of development.

The traditional objective of the regional development policy is to reduce regional disparities and achieve a relative balance between economic and social development of various areas.

Currently, it is considered that another important objective is to facilitate structural and regional adjustments. Globalization, rapid technological progress and profound geopolitical changes are factors involving the disappearance of whole sectors of economic activity. This kind of effect may affect negatively some regions.

Studies state that times when economic growth went by itself and when regional policy had only to steer this growth are now obsolete. Economic policy is called to promote economic growth by promoting competitiveness and regional capacity of self-development.

EU also brings benefits by integrating national labour and capital markets, leading to significant welfare gains for participating countries. Integration of national markets energises considerable intra-industry trade by exploiting economies of scale, diversifying consumption patterns and a gradual adaptation of EU standards, encouraging uniform community industrial practices.

Single market mechanisms of goods, services and production factors favour the reducing of costs in both private and public sectors, increase the overall efficiency by sectoral restructuring and ensuring a more competitive economic and organizational environment.

EU facilitates for firms increased opportunities for collaboration with partners from other countries in scientific research, technological development and introduction of technical progress. In this respect, management skills are enhanced, know-how transfer is emphasized, as well as a qualified workforce.

### **3. New challenges for the European model**

Today, after the progress recorded in the '90s - a return to price stability and fiscal consolidation - Europe is still struggling in the trap of slow growth and high expenses.

Moreover, a sharp economic recession has been recorded in all countries, whether well or poorly developed, as a consequence of the global economic crisis.

Therefore, the European model is forced to find as quickly as possible the answers the most important problems that threaten the Community economy and to face the challenges of globalization, which expose Member States to structural adjustment process in their economies.

Not all Member States are in an optimal position, while the current crisis raises new problems, besides those regarding the evolution to knowledge society, sustainable development, global integration processes, aging of population, slow economic growth and high unemployment, technological transformation and structural economic changes. [5]

Member States (both old and new) aim to redefine and implement a European social model, while retaining elements of social protection, but in a new modernized approach, adapted to the new economic requirements.

Until recently, the strategic goal was to make EU the most competitive and dynamic knowledge based economy, capable of sustainable economic growth, with increased opportunities to create more and better jobs and greater social cohesion. This objective continues to be a concern for European decision-makers, although on short term, EU seeks to mobilize forces to overcome crisis problems.

A major element is to make the economy-environment relationship a positive one. The key is to create a new technological basis by improving natural productivity of products, longer life products, recycling and improved technological processes.[6]

This new technology will generate, in addition to substantially improved environmental benefits, secondary effects for EU: regarding competitiveness, improvement of economic power through optimum use of resources and regarding strategic terms, decreasing EU dependence on the rest of the world due to the decrease in imports of raw materials. The second key element relates to the implementation of market research results into market innovations.

From social perspective, the model faces the challenges of demographic changes in the meaning of population aging, supplemented by extensive changes in the cultural, social,

relational nature of the family and work organization.

Solutions aim education for all, lifelong learning and even the proper management of migration issues. Labour market situation of young people is another challenge as they are among the most vulnerable groups on labour market. Key issues refer to the need to improve levels of education and training (qualification), to adopt a new attitude towards training, in the meaning of lifelong learning, security reform and social inclusion.

The first issues are related to human capital and are clearly oriented to labour market supply. Regarding social protection, the emphasis is on sustainability of pension and labour payment, as well as on social inclusion. It actually insists on individual ability to meet the challenges and survive in a competitive economy, a risk that was some time ago a social one, but today has become an individual one.

The existence of a reduced rate of growth in the EU (on average 2-3%), until the installation of the global financial crisis effects, which marked the inflection point to a downward trend, shows that economic prosperity can not have as fundamental source income redistribution between citizens, but rather providing the emergence of a competitive environment to ensure appropriate incentives in the process of saving and favourable conditions for entrepreneurship.

The key is to determine companies to anticipate changes, rather than to determine them to manage the consequences, which must be based on synergies of policy, legal, contractual and financial instruments.

Last, but not least, the question regarding the balance between security and flexibility is important, in the sense of finding a socially acceptable balance between the needs of businesses and long-term goal of human and social development.

The European institutional model is currently under extensive pressure to change the welfare system, with that of private property order and economic prosperity. It is increasingly recognized that maintaining the current arrangement of the welfare state becomes increasingly more expensive for European economies budgets.

These specific items suggest the need for configuring a new European model that combines welfare and sustainability, on one

hand and efficiency and economic incentives on the other hand.

The reformed European model supposes promoting mobility and supporting in finding employment, incentives for returning to work, creating jobs in new companies, services, flexibility as a strategy for firms and as a right for employees, but also focus on new technologies, fiscal prudence, fundamentals such as research and education, strengthened competition.

When it comes to modernizing the model we should bear in mind that individual's chances of post-industrial economy depend on knowledge-intensive learning skills and human capital accumulation. Thus, social policy is about to become a productive resource to determine people to succeed in the market. But, in the same time we must not forget about the demand and support an active macroeconomic policy as a third pillar of the economic and social model. [7]

Currently, however, EU is facing an unprecedented situation of economic crisis, which marked the strongest economic slowdown in recent history. Recovery is now the watchword at European level, which meant accelerating expenses in 2009 and 2010, to support the economy. For EU to withstand crisis pressures, cohesion must be maintained internally. This is not very easy, especially as long as, besides the uncertain political situation dramatic economic and financial problems appear. Still, issues raised by the Lisbon Treaty remain on the agenda.

The problem is to find the formula in which the 27 Member States are able to join forces,

so EU is able to exert a lasting influence in defining new rules for financial markets and economy. Expectations are even higher, since leaving the situation is uncertain. EU decided to allocate large sums to most affected states, to avoid weakening their economic capacity.

Solidarity, no matter how expensive, remains the best solution. Global crisis has changed Europe and European Union can not succeed unless carries out its economic, social and political problems. It is today still looking for levers to keep a balance.

#### 4. References

- [1] Aiginger K., Guger A.; „The European Social Model: from an alleged barrier to a competitive advantage”, *Progressive Politics*, vol. 4.3, September 2005
- [2] Aiginger K., Guger A.; „The European Socio-Economic Model, Differences to the USA and Changes over Time”, *WIFO Working Papers*, Nr. 266, December 2005
- [3] Amable B.; „The Diversity of Modern Capitalism”, Oxford University Press, 2003
- [4] Ciucur D. et. al.; „Economie”, Editura Tribuna Economică, Bucharest, 2004
- [5] Guger A. et. al.; „European Socio-Economic Models: Experiences and Reform Perspectives”, Annex 3 – EUROFRAME-EFN, Report, Autumn 2007
- [6] Strongylis G.; „European Union: a new economic development model”, European Commission, 2006
- [7] Blanchard O.; „Is There a Viable European Social and Economic Model?”, MIT, Department of Economics, Working Paper 06-21, July 11, 2006

## Community Legislation and the Incrimination of Acts

LĂMĂȘANU Daniela Iuliana  
"Stefan cel Mare" University of Suceava,  
lamasanud@yahoo.com

### Abstract

*Since Romania joined the European Union, the courts are faced with the application of the Community law to the cases to be deduced by the judgement. If in civil and commercial fields the situations are somewhat clarified in terms of the priority application of the Community law, in criminal cases arise difficult situations because in the incrimination field the EU Member States retained their sovereignty.*

**Key words:** criminal law, European integration, Court of Justice, criminal reform.

**JEL classification:** K14

### 1. Introduction

The European Union established an independent legal order, which was regarded as an expression of a great sense of values, impregnated by an European law community.[1,2,3,] The unity of the European law and the diversity of national contexts involves the application of the Community law in the Member States conditioned by the compliance with the features of each national legal system, although the EU rules tend to be made nationally with an identical content and with equal effectiveness. It would seem, at a first glance, that the treaty of Rome by which was founded the European Community (EC) does not contain dispositions with criminal implications for the Member States. On the contrary, the treaty shows that the Member States do not to abdicate from their sovereignty by it in any form, as regards the incrimination and the punishment of acts which they consider as dangerous for their national law. On this line of thinking also lie the decisions of the Community Court of Justice that underline that, in principle, the criminal law and the criminal procedure remain a matter for the Member states. Such a conclusion is natural if we consider the main economic objectives the achievement of which

is aimed by establishing the European Community, namely to achieve a common market, an economic and monetary union to facilitate a harmonious and balanced development of economic activities, of their sustainable non-inflationary growth, of achieving a high level of employment and social protection, all these in order to increase the living standards and the quality of life, the economic and social cohesion and the solidarity of European countries.

These tasks entrusted to the Community are carried out by the work of EU institutions, namely the European Parliament, the Council, Commission, Court of Justice and Court of Auditors.

After Romania joined the European Union, the transfer of sovereignty of national legal order to the Community legal order, of rights and corresponding obligations of the Treaty, results in limiting the sovereign rights of Romania and the integration of the Romanian legal system in the Community legal order which becomes a complement and at the same time, a measure of national law. According to article 148, second paragraph, of the Constitution of Romania, as a result of the accession to the European Union, the provisions of treaties constituting the European Union and other binding community regulations shall take precedence over contrary provisions of domestic laws, in compliance with the Act of Accession.

In view of the Treaty, the European Community would not be entitled to intervene in the internal activity of the Member States only if and insofar as the designed objectives could not be achieved by these countries in a satisfactory manner and, conversely, could be better achieved at the Community level due to the dimensions or effects of designed actions (subsidiarity principle). In the latter case, the European Union normatively acts by the adopting by Community institutions of regulations and directives, decisions, recommendations or approvals. The regulation has general application; it is binding in all its

elements and directly applicable in all Member States. The directive is mandatory for each Member State as regards the result to be achieved, the national authorities keeping full freedom of choice of form and means necessary to achieve the result. The decision is binding, but only for those whom it is addressed. Recommendations and opinions are not binding.

Therefore, the Community rules aim in particular an economic problem, that is the areas likely to meet the guidelines of the Community, namely: the establishment of stable prices, the development of healthy public finances and monetary conditions and a stable balance of payments. A second conclusion is that the Community legislation, within its intervention limits, is compulsory (except recommendations and opinions) for the Member States, it takes precedence over national law of Member States of the Community.

## **2. Incrimination in the internal law of community prohibitions**

1. The European Community was not granted, by the Treaty, the attribute to develop normative acts of criminal nature, that is to incriminate the acts that would undermine the EU's economic system and provide the possibility of penalties for such acts. This does not mean, of course, that in certain respects, the community legislation has no contact with the criminal law. For instance, referring to Article 64 of the Treaty of Rome, we note that the text includes some requirements that the Romanian law enshrines too. Thus, it is provided that in the scope of the Treaty all discriminations based on nationality are prohibited. The same idea also appears in article 46 second paragraph of the Treaty which provides for the abolition, between workers of the Member States, of all discriminations based on nationality as regards employment, remuneration and other conditions of work. On the same line are also located certain provisions of Romanian legislation. We would firstly note the Romanian Constitution which enshrines in the article 16 the principle of equal rights for citizens and the elimination of any privileges and discriminations. The same principle is expressed in article 4 and 6 of the Constitution. The Romanian criminal law (art. 247 of the Criminal Code) also incriminates

the civil servant's act who in the performance of his official duties restricts the rights of a person on grounds of nationality, race, sex, religion. Elsewhere (article 317 of the Criminal Code) is sanctioned the chauvinistic nationalist propaganda, the stirring of racial or national hatred. The mentioned texts protect the citizens' equality before the law in relation to all fields, implicitly in the field of labour relations.

2. But the implications of the community legislation on domestic criminal law could not be assessed only with reference to the general constitutional framework and to the framework contained in the internal criminal law, framework capable, as shown, to allow satisfying the principle of European Community. The problem is how the current system of criminality and punishment prescribed in the national law will be able to meet more specific requirements of Community law, and possibly in what direction we should proceed to refine it in relation to these requirements.

## **3. Extra-criminal community provisions with impact on criminal prohibition**

The Treaty of Rome, though, as we noted, considers the criminal legislation as the attribute of sovereign Member States, this does not exclude the fact that the Treaty, allowing a certain amount of freedoms, both in terms of movement of people and goods, to prohibit, by implication, any measures which would have the effect of restricting these freedoms. Therefore, whenever the liberties established by the Community legislation are in contrast to some prohibitions under domestic criminal law, for example in the regulation of economic or customs relations or the trade of products or goods, the last shall be cancelled, giving priority to Community law and identifying ways and solutions by which the criminal law does not oppose the freedoms enshrined in the Treaty.

How is justified, in relation to the internal law, this priority of the Community law? In this respect, the experience of French law is interesting. Faced with situations where the domestic criminal law should give way to Community regulations, the Criminal Chamber of the French Court of Cassation established the principle that the Community law takes precedence over the criminal law, citing in support of this conclusion of principle

article 55 of the French Constitution according to which the treaties have a higher authority than rules of internal law.

Although there were some reserves [4], the French Court of Cassation has maintained its position of principle. Moreover, in the Western criminal doctrine became major the opinion according to which whenever the community legislation would allow for certain activities to be conducted on the territory of member states, although, by definition, on the territory of some of them this act would be impermissible and prosecuted by law, the Community law, under its priority over the national law, will eliminate the existence of the incrimination rule under national law. In this respect, the EC Court of Justice, by a decision of March 9, 1978 (Simmenthal case) decided that the judge is obliged to apply the Community regulations, eventually dropping to apply the domestic law if it contradicts the EU law, even without waiting, through legislation, to repeal the rule which opposes to the Community norm. It was accepted that can be retained the guilt for those who do not comply with the norms of the Rome Treaty on the competition, even if there is no provision in the domestic law.

In this regard, they stressed that as far as the community legislation is interfering with the criminal law in the way of description of the act prohibited by law, the rule of Community law assumes the role of technical norm, helping to clarify the content of such incrimination. For instance, the dispositions of Article 85 and the following of the Treaty, relating to competition, will serve, inevitably, as technical rules to clarify the concept of unfair competition, even if the national criminal law would not refer explicitly to the provisions of the Treaty. Also, it was accepted that the exercise of a right recognized by the Community law may be a cause for removing the existence of the infringement provided in the domestic law.[5,6] In such cases, the problem arises from the verification by the judicial body, in every criminal case which refers to situations also covered in the Community legislation, if the national law does not contradict the EU law, case in which it will be given priority to the Community law despite the provisions of the national law and even before its repeal. In this regard, in the practice of French courts rising an issue if the judge can rule to determine whether the criminal law is not contrary to a provision of the Community law, it was decided

affirmatively, in that the judge may make such an assessment and he does not apply the internal standard if it is incompatible with the Community law. If the judge does not refer to this incompatibility, the Court of Justice of European communities will intervene. This appeal to the Court of Justice is optional when the issue arises in the first instance and is mandatory when raised before the Court of Cassation. The referral to the Court of Justice is not necessary if it has already answered the same questions, or if the national law was unlawful in relation to the international law.[4,5,6] It is also very interesting another case handled by the French courts: some people sent food to Serbia and Montenegro despite the international embargoes decided by the United Nations Security Council and endorsed by a decision of the Council. As a result, the transport of food to these countries being suspended, any operation carried out in breach of these rules became illegal, constituting an infringement of smuggling. However, the Lyon Court of Appeal acquitted the offenders, holding that the prosecution against them is not legally supported. The customs administration, interested in maintaining the legal classification for confiscating the goods which made the object of the contraband, disputed the solution of the Court of Appeal, arguing that the acts constitute the crime of smuggling because they violate the embargo and the suspension of transport to the listed countries.

The French Court of Cassation, by the decision of 18 May 1998, did not endorse this point of view. In its view, the Community rules restricting the trade relations with Serbia and Montenegro were not followed by internal criminal law provisions prohibiting the operations above. As such, the effectuated transports can not be considered unlawful and classified as contraband. There could not exist, says the Court, an infringement in this case, without taking into account the nature and character of the suspension measure ordered by the previously established embargo. According to the Court, it would have to be a national provision providing for the effects of this embargo. The provisions of EU Council, although superior to the internal rules, can not substitute the domestic legislation in the above listed situations.[7]

1. In what directions could be identified some implications of the community law on the national criminal legislation? In the French

doctrine was made the finding that although the community legislation may not actually include criminality, such competence only being of national law, there are recent incriminations that were introduced as a result of the community directives. That would be the case of Law of July 13, 1983 on the professional equality between men and women developed as a result of Directive 76/207 of 14 February 1976 on the equal treatment between men and women as regards the access to employment, to vocational training, promotion and working conditions (law provides criminal penalties for violations). Also as a result of the EU directives (the 4th directive of the European Community Council on annual accounts of companies from July 25, 1979) were adopted new incriminations on the compliance of accounting rules by the law of April 30, 1983 and the Decree of 30 November 1983.

Some other time, the Community legislation is considered applicable in the internal law without the need for the existence of a certain law or decree for their introduction in the national legislation. Such an application is made either by attributing through the national law a criminal penalty to the Community regulation, either by replacing the community regulation to the text of the domestic criminal law which provided a criminal penalty. In this regard is cited the decision of October 22, 1970 of the Court which made the application of the Community legislation no. 24 instead of the national provisions. Likewise, by the decision of June, 23, 1977 and January 4, 1982 was made the application of Community rules in place of internal rules concerning the wine. Also, in relation to drivers' working time and sea fishing, the Community regulations have been criminally punished through the internal texts which they replaced.[4 p. 13] Moreover, the French Court of Cassation refers frequently to the Community texts, even if they were introduced, in the above listed ways, in the internal law, after the acts alleged to the offender, or they were never formally introduced. We believe that these regulations are not subject to the rule of retroactivity of criminal law only if it is more favourable, but they are anytime retroactive, whether favourable or not, just as the interpretative criminal laws. No less shocking is that in these cases, the criminal law applied by the court was not that which would result from a national legal text, but from a rule of

Community law which was not always presented to the citizens through publication in the Official Gazette. In this regard, the French authors wonder if we can speak of a presumption of knowledge of criminal law.

2. If from the examples above results, undoubtedly, a direct influence of the Community legislation on the domestic criminal provisions, the French authors also emphasized a possible indirect influence which this legislation exerts, in that the EU principles may make ineffective the national criminal rules where the latter are incompatible with the Community law.

Such an influence was obvious, especially in two directions, namely the freedom of competition and the freedom to exercise a profession. Under the first part, the Community rules are likely to paralyze any measure restricting the quantity of import products, and other measures with equivalent effect (such measures violating the freedom of competition). For instance, following an interpretative decision of the Court of Justice of the European communities, in that food for calves should enjoy free movement between Member States, just as dairy products, price bottlenecks which were preventing the circulation of these products have been removed.[4 p. 13] Similarly, the European Court of Justice of the European communities held the French law on advertising alcoholic drinks as being contrary to the free movement of goods.

Drawing some conclusions from these Community rules for the criminal justice activity, the Criminal Chamber of the French Court of Cassation, by a decision of 16 June 1983 asked the judges to determine whether the provisions of national criminal law include discriminations in terms of marketing drinks compared with competing products from other countries with comparable features. As a result, the Court of Cassation rejected those repressive measures ordered by the lower courts in this respect, even if there was no danger of a discrimination, as reprisal, on the exported French national products.

According to article 36 of the Treaty of Rome, the Member States may provide restrictive regulations if they are justified on grounds of public morality, protection of health and life of humans or animals or for needs to protect the vegetation, protection of national heritage, or for protection of industrial property and trade, provided that such

restrictions do not affect intra-Community trade. Applying these provisions, the French Court of Cassation justified some restrictions introduced in the French law. Thus, by a decision of 17 February 1988, it justified the prohibition of trading tools designed to detect some devices used by the police or the gendarmerie, arguing that such restrictions are imposed by public order and they do not favour the selling of French products of this kind. Similarly, the prohibition to work on Sunday (Art. 221-5 of the Labour Code); it had been motivated that it may not constitute a quantitative restriction on imports, because that rule is established in the interest of workers and does not affect in any way the exchange between the Member states. All by a similar reasoning, because the measure does not affect the inter-European exchanges, it was disposed the maintaining of the conviction of a restaurant owner for lack of respect for the French language in the name of dishes and drinks offered to the clients.

The second part of the indirect influence of the community law on the domestic law concerns the right to exercise a certain profession likely to affect the free movement of goods. In this regard, the French Court of Cassation, by a decision of February 22, 1990, decided that the national provisions on the obligation of doctors to use certain devices do not oppose the community law and do not hinder the free movement of goods, for article 52 of the Rome Treaty allows each Member State to determine for its own citizens the conditions for the exercise of self-employment or for setting up a business. A similar solution was adopted on October 23, 1990 on the business of hairdressing.

3. It is also interesting to follow the influence of the Community law over criminal penalties of the national law. In this regard, in the French doctrine are cited the cases in which, following the decision in principle of the Court of Justice of the European communities, the French court was directed to amend the interpretation and application of domestic criminal law in customs offences.

Under the Treaty of Rome, goods from a third country, after the customs duties have been paid, are free to circulate in a member state, being assimilated to the goods originating from a Member State. In the case in which we talked about the importation to France of such goods on which duties were collected by another Member State of the

Community, the French authorities, noting that the import was based on misrepresentations of origin of goods, ordered the criminal accountability and a severe punishment of the importer. The Court of Justice of the European community, by the decision of 15 December 1976, criticized this solution indicating that Member States could not claim to the importer than a declaration of origin of the product, as he knows it or he may know it. Any omissions or inaccuracies in such a declaration, even if objectionable, could not be punished so severely, as the French courts did, applying a disproportionate punishment compared to the nature of the offence and its character of violation of administrative nature. Such arguments were repeated by the Court of Justice (Rivoira Business, March 28, 1979), which led to the establishment of a settled jurisprudence within the meaning of coercing the national courts to give priority to the provisions of "community legislation and to bring amendments to the legal classification of facts or to reduce the applied criminal penalties".[4 p.18] Being placed on this position, the French Court of Cassation (decision of December 5, 1983) dismissed the appeal of the customs administration and maintained the solution of the acquit of the importer who has made an inaccurate declaration of the origin of goods, also stating that the penalty with applied fine for an import of goods without customs declaration is not disproportionate to the more administrative nature of the infringement. By another decision, the Court of Cassation decided that the above solutions will not work in case of imports of goods based on fraud or prohibited goods. It is interesting to note that under the influence of the community legislation the French legislator repealed the provisions of Article 369-2 of the Customs Code, repealing interpreted by the Court of Cassation as having the significance of a change in the probation in this matter, being possible a simple evidence of good faith. By such a proof is removed the criminal liability of the importer working just as a justificatory fact; in this way, the bad faith became, by default, a constituent of the infringement.[4 p.19]

Regarding the influence of legislation on criminal sanctions is also held the repeated appeal of the Court of Justice of European communities for applying economically proportional sanctions.[8 p.149] This appeal was followed by the French courts, which, in



cases of import of goods under a false declaration of origin, considered there can be applied only a fine according to art. 410 of the Customs Code. This rule does not apply to illicit drug trafficking, a matter in which, motivates the French Court of Cassation, even the Court of Justice of the European communities decided that appropriate sanctions should be applied to the serious threat that have such acts. Following these indications of moderation in applying criminal penalties in economic and customs matters, the French legislator replaced the fixed fine penalty with relatively determined penalties (Law of December 21, 1977) and later (Act of July 8, 1987) has limited the fine to the amount of 2 times the value of imported goods in case of contraband or import or export without a declaration of origin. Also, by another law was stressed that the size of the penalty in these areas must be compared to the gravity of committed violations (Law of September 20, 1986).

#### 4. References

- [1] Marin Voicu, *Introducere în dreptul european*, Judicial Universe, Bucharest, 2007
- [2] Ioana Eleonora Rusu, Gilbert Gornig, *Dreptul Uniunii Europene*, third edition, C.H.Beck Publishing House, Bucharest, 2009
- [3] Octavian Manolache, *Drept comunitar*, fourth edition, All Beck Publishing House, Bucharest, 2004.
- [4] Bernard Bouloc, *Droit communautaire et droit penal interne*, "Problemes actuels de science criminelle", no.VI,1993, p, 10.
- [5] Giovanni. Fiandaca, Enzo Musca, *Diritto penale*, Cedam, Milano, 1992,
- [6] Gaston. Stefani; Georges. Levasseur; Bernard. Bouloc, „*Droit penal general*”, Dalloz, Paris, 1995
- [7] Bernard. Bouloc, "Revue de science criminelle et de droit penal compare", no. 2, 1999,
- [8] V. Biancarelli, *Les principes generaux du droit communautaire applicables en matiere penale*, "Revue de science criminelle el de droit penal compare", no. 1, 1987,
- [9] George Antoniu, *Legislația comunitară și legea penală*, Crminal Law Magazine, no. 2/2000, p. 15.

## Financial Interests of the European Union and their Criminal Protection

LĂMĂȘANU Daniela Iuliana  
"Stefan cel Mare" University of Suceava,  
lamananud@yahoo.com

### Abstract

*The EU constitution with broad objectives in the economic, social, justice and home affairs fields involved a considerable effort of the member states in financial, legislative and institutional terms. To these is added a categorical imperative, namely, to defend the EU financial interests against the frauds that can be committed at the institutional level to the detriment of the budget. In such conditions, the member states should create an appropriate legal and institutional framework to protect EU budget against possible frauds.*

**Key words:** European Union, EU financial interests, criminal protection of EU financial interests

**JEL classification:** K14

### 1. Introduction

A serious problem the EU is facing is that of frauds committed to the detriment of the Union budget, which is defined by experts as the practical expression of the common heritage of citizens of the Union and as the decisive instrument of European policy.

The acts by which the Union budget is hijacked are particularly dangerous, not only by the amount of damages, but also by the impressive degree of organization of such acts. Many investigations carried out in this regard have shown that the EU budget is hijacked, both at the level of incomes and expenditures, which reflects the fact that this budget is supplied with amounts which are smaller than those normally expected to enter, and the expenditure shows that some amounts awarded as grants and aids by the community bodies often come to take other routes than those consistent with the purposes for which they were granted and the Union's interests.

The activity to combat and prevent such acts is extremely cumbersome and difficult

due to the limited powers of judicial bodies, to the reduced power at national borders and to the differences in legal regulation of acts by which the EU budget is hijacked.

As the Common Market is in expansion (that is the achievement of free movement of goods, persons and services) favourable conditions are created for the perpetration of fraud, breaches of the law. In such case, we found that the persistence of legal borders, that is of obstacles in an unitary super-state repression is disastrous, creating very favourable conditions to offenders (for whom are created real havens for immunity) and very dangerous for the Community legal order.

### 2. Internal legislative measures taken to combat frauds

It is known that at the European level was also tried the development of common rules to punish fraud against EU budget. A very important step in this regard was the development by experts from the European Union of a body of rules (*Corpus Juris*) with criminal nature, which would be approved by the European Parliament and applied in all member states of the Union.[1,2,3,4] The prevention and punishment of corruption acts, as well as of the acts affecting the financial interests of European organizations is a constant concern of them, contained in numerous documents, such as *the Criminal Law Convention on Corruption*, Council of Europe, ratified by Romania by Law no. 27/2001 or *the Convention on the Protection of the European Communities' financial interests* and its additional Protocols, established pursuant to Article K.3 of the Treaty on European Union. This concern is determined both by the need to improve the criminal law on preventing and combating corruption and by the proliferation of corruption, a phenomenon which occurs in Romania too.

The modification and completion of Law no. 78/2000 for preventing, discovering and sanctioning the corruption acts followed, on one hand, the completion of the legal framework in the field with new incriminations and, on the other hand, the widening of the sphere of the active subject of criminal corruption in some categories of persons referred to in the Criminal Law Convention on Corruption and in the Convention on the protection of EU financial interests and its additional Protocols. In the section "Crimes against the EU's financial interests" are incriminated acts such as: the use or production of false, inaccurate or incomplete documents or declarations, resulting in falsely obtaining funding from the general budget of the European Union or from budgets managed by them or on their behalf or that results in the illegal diminution of resources in these budgets. It is also incriminated the failure, with science, to provide data required by law to obtain funds from the general budget of the European Union or from budgets managed by them or on their behalf, if the act results in unfairly obtaining such funds or the illegal diminution of resources of those budgets, as well as the change, without observing the legal provisions, of the destination of funds from the general budget of the European Union or budgets managed by them or on their behalf.

However, by the newly introduced Section of Law No.78/2000 is incriminated the negligence in service of the leaders of economic agents resulting in an offence against the EU's financial interests or an offence of corruption or money laundered by people who are their subordinates and act on behalf of economic agents.

As regards the protection of the financial interests of EU, the legislation has been enhanced by the Government Ordinance no. 79/2003 concerning the control and recovery of Community funds and related misused co-financing funds, but also by Law no. 161/2003, which amended Law no. 78/2000.

Law no. 177/2003 for ensuring the funds necessary to discount the costs incurred by developing feasibility studies for the SAPARD Programme, Law no. 179/2003 regarding the co-finance of the non-refundable financial assistance allocated to Romania by the EU through the Instrument for Structural Policies of pre-adhesion for environmental projects, the Emergency Ordinance no. 26/2003 to ratify

the Annual Financing Agreement of 2002 between the Government of Romania and the European Commission on the Special Accession Programme for Agriculture and Rural Development, are all normative acts in support of more efficient running of the funds.

### 3. Measures adopted at EU level

To prevent the commission of frauds, each Member State shall take the necessary measures to prevent persons with leading positions in economic agents or any other person with decision-making or control power within them to be declared legally criminally responsible in accordance with the principles of its domestic law, when committed frauds against EU financial interests.

Any Member State shall take the necessary measures to establish its jurisdiction over such acts of misconduct incriminated by national laws. Also, any Member State which, under its laws, does not extradite its citizens, must take the necessary measures to comply with the Convention on the protection of EU financial interests, to establish its jurisdiction in matters of incriminated acts. If a fraud is a crime and concerns at least two Member States, they will cooperate effectively for inquiry, prosecution and penalty provision, with the aid of the legal assistance, extradition, transfer of criminal pursuers, the enforcement of judgments rendered in another Member State.

The European Court of Justice has jurisdiction for all the disputes between the Member States concerning the interpretation or application of the Convention. The Commission for preventing the frauds may refer the Court in some cases.

The frauds against the EU's financial interests are a considerable risk, being required an effective protection of them. The Commission proposes a directive on the criminal protection of the Communities' financial interests which aims to harmonize the national criminal laws. The Community institutions, as well as the Member States recognize the importance of an effective protection of EU financial interests.

To more effectively combat frauds and other illegal activities affecting these interests, the Member States, as referred to, have signed a *Convention on the protection of the European Communities' financial interests* of 26 July 1995, with a number of additional protocols, which provide measures which aim,

in particular, to harmonize the national criminal laws. As these legal instruments were not always ratified by the Member States, the Commission presented a proposal for a directive based on the new Article 20 of the EU Treaty introduced by the Amsterdam Treaty, a proposal which sets much of the provisions of those instruments.

The frauds affecting the EU financial interests are reflected both in terms of costs and profits.

According to the EU rules, is considered to be a fraud any international act or omission on:

- the use and presentation of false, incorrect or incomplete statements or documents
- the non-transmission of an information by violation of a specific obligation
- the diversion of legally acquired funds for other purposes than they were granted for.

The protection of the European Union's financial interests is also made by introducing legislation and administrative laws. In order to protect the financial interests of the European Union was adopted a provision on administrative measures and penalties for infringements of Community law.

It constitutes a disorder of administrative law any breach of a provision of Community law resulting from an act or omission of an economic operator which causes or will cause an injury in the general budget of the European Union or in the budgets managed by it, or by reducing or even suppressing the profits from its own resources collected directly on behalf of Communities, or by unlawful expenditures. The operators are natural or legal persons and

other entities for which the national law recognizes the legal capacity and which have committed irregularities.

The fight against frauds at the EU level is supported by the existence of action plans. Such an action plan may involve:

- a global legislative anti-fraud policy: the evolution of the regulatory device towards efficiency and consistency
- a new conception of cooperation: participation and understanding the national and community authorities
- an inter-institutional approach to prevent and combat corruption
- an improvement of the criminal-judicial dimension: adapting the legal and judicial framework for protection of EU financial interests.

#### 4. References

- [1].George Antoniu, *Protecția penală a intereselor financiare ale comunităților europene*, RDP no. 2/2002; *Dreptul penal și integrarea europeană*, RDP no. 3/2001; *Ocrotirea procesual penală a intereselor financiare ale Uniunii Europene*, RDP no. 4/2001,
- [2].Constantin Butiuc, *Legea penală română și dreptul comunitar*, RDP no. 4/2001,;
- [3].Dorin Ciuncan, *Procurorul european antifraudă*, RDP no. 4/2003;
- [4].Vasile Păvăleanu, *Spațiul judiciar european*, RDP no. 2/2004
- [5]. Florian Gabriel Bucur, *Ocrotirea penală a intereselor financiare ale Uniunii Europene*, RDP no. 1/2010

# Art and Science in Management Projects to Increase Employees' and Society Adaptability Established through Sector Operational Program of Human Resources Development

MITRAN Paula Cornelia  
BEBEȘELEA Mihaela  
„Spiru Haret” University of Constanta  
mitran\_paula\_cornelia@yahoo.com  
mihaelabebeselea@yahoo.com

## Abstract

*Elaborated in the, and in agreement with Priorities National Strategic Framework, the Sector context of national Developing Plan 2007-2013 Operational Program of Human Resources Development (SOP HRD) is an important instrument to sustain the economic development and the cultural structural changes.*

*Moreover, investments in human capital will complete and will confer support for work productivity growth on long term.*

*A qualified labor force, with a high quality level, having the capacity to adapt to new technologies and to needs of market changes is essential for a competitive and dynamic economy.*

*Romania will promote active policies on labor market for the augmentation of the adaptability and flexible security of the workforce.*

*The achievement of a higher participation level is predicted on the labor market as the basis of an economy funded on knowledge. In this context the project manager role achieves new values and dimensions, making the project leadership and leading of man art and science towards perfection. culture becomes an important component and resource of organizational culture.*

**Key words:** relevance, durable development, equality of chances, value added

**JEL classification:** F15

## 1. Introduction

Social European Fund (SEF – set up in 1958) is the fundamental instrument through which the European Union finances the strategic objectives of the occupation policy. For 50 years SEF has invested in programs dedicated to increase the degree of employment in the states members of the EU.

SEF intervention in Romania will support the achievement of the overall objective and of the specific objectives in the human resources development field, bringing its genuine contribution to the implementation of the European Employment and Integration Strategy.

In this respect, the main objective of SOP HRD is human capital development and the competitiveness increase through correlation of education and teaching along life with the labor market and providing improved opportunities for future participation in a modern, flexible labor market to include 1650000 persons [6].

Limiting to such type of framework, the main objective of Priority Axis 3 project, “Increasing adaptability of employees and enterprises”, consists in creating new entrepreneurial experiences through the development of competences and abilities needed to assure people’s adaptability from target groups (entrepreneurs, people who wish to start an independent activity) to labor market and creating a permanent balance between work and family.

The specific objective, identified from the specific objectives SOP HRD, consists in developing personal and professional competences (adaptability, private initiative,

communication, team work, entrepreneurial abilities, competitive spirit) through initiation, counseling, assistance and continuous training in business management and organizational culture. This type of project, through the objectives announced, through the support given to target groups, brings its contribution to the main specific objectives of Priority Axis 3 “Increasing adaptability of employees and enterprises” through: promotion of entrepreneurial culture and social responsibility, increase of social adaptability, of professional skills, organizational culture development and perfecting methods of work organization.

## 2. Materials and Methods

In the context in which Romania adhered to EU in 2007, the Romanian development national policy will get closer and closer to the community's policies, objectives, principles and regulations in this field in order to assure a social-economic development “European” type and a reduction, as fast as possible, of significant differences to the European Union [1].

The implementation and development of some projects in human resources development field imply consideration to certain criteria widely available and adaptation to the national and European legislation.

To meet the relevance criterion, the project must be built taking into consideration Community's law provisions in the field.

Therefore, the project has to bring its contribution to the achievement of Lisbon Strategy objective, because it will include as objective, full employment, reintegration on labor market of inactive population, of the unemployed and particularly of unemployed young people.

Professional continuous training is a prerequisite for the development of future human capital performance. The project will meet the European Employment Strategy, integrated in the Lisbon Strategy, whereas it aims increase of employment degree through development of new business or independent activities improving quality of human resources [10], [11].

This type of project must meet terms of Integrated Guidelines for Economic Growth and Employment.

Thus, directions for such a project consist in promoting employees and enterprises adaptability, increasing investment in human capital through training, adapted to labor market requirements [5].

Project must meet Community Strategic Orientations regarding Cohesion 2007-2013 because it will bring its contribution through development of new business, to economic growth, wealth and more and better jobs [9].

The project will be compiled taking in consideration the development objectives established by national programming documents and plans of action in the human resources development field.

The project will be consonant with National Strategic Reference Framework 2007-2013 NSRF and simultaneously with OFP DHR because through the activities performed this type of project will support the training system to improve people's quality through the increase of this system adaptability in order to provide the knowledge and the skills needed for a modern economy in development [4].

The engine of such economy is the investment in human capital too.

Priority Axis 3 “Increase of employees and enterprises adaptability” contributes to the achievement of strategic objectives of NSRF, meaning superior skills and management capacity improved.

The project will meet the National Reform requests meaning that through the project priorities are established for reforms and improvement of quality and management, achieving a flexible labor market, improving enterprises and employees' adaptability, managing natural resources, preserving biodiversity and reducing pollution [7].

European Social Fund is an important financing source for activities destined for development of employment capacity and human resources, inside an inclusive society, non-discriminatory, that promotes equal chances.

Balanced participation of women and men in all life's social, political and economic spheres is more than necessary to obtain durable competitiveness and development and to obtain and consolidate a genuine democracy.

For real equality to be a *fait accompli*, it is necessary not only an improvement of legislation meaning the integration of equality principle, but especially a change of attitudes and behaviors, of life styles and social

structures that stop women to freely develop their personality and their active participation in all life's economic-social and political spheres.

Beginning from these objectives, the project will seek identifying, informing and attracting entrepreneurs and persons who wish to initiate an independent activity, in the professional and personal training program by promoting un-discrimination principle and offering big chances to social inclusion.

This type of project must respect the gender equality principle, promoting equal treatment for men and women without making any difference, exclusion, restriction or preference, regardless of race, nationality, ethnicity, language, religion, social status, belief, gender, sexual orientation, age, handicap, not contagious chronic illness, HIV Infection, belonging to disadvantaged categories [6].

The project must offer the same opportunities and chances for both young people, experienced entrepreneurs and unemployed looking for jobs, who are free to develop personal skills, for both men and women.

As strategy, integrating approach, is used and gives decisive factors an important role for project's implementation, especially to promote equal relationships between women and men for values given to "women's work" and "men's work" to be the same.

An important objective is to merge the family and professional lives, which is a difficult thing in practice.

### 3. Results and discussions

Participation to the achievement of some projects needs an interdisciplinary collaboration inside a management system.

As a result, managers' possibilities in response to extern environment evolutions are limited by its intern capacities which at their turn, depend on scientific and cultural accumulations of the subdivisions that form it.

Managerial culture important component and resource of organizational culture will be strongly oriented to achievement of project's objectives, acting as a modeling mechanism of the influences of exogenous and endogenous variables that affects the organization.

In fact, managerial culture will follow in these projects beside scientific strictness, the integration of staff decisions and actions

according to the estimated objectives, creating and developing models of organizational behavior, promoting certain managerial styles and practicing some type of leadership.

The content and the methods of manifestation of managerial culture are strongly marked by managers' personality, actually being a custom culture.

In developing a project that pictures the increase of employees and enterprises adaptability, completion, synergy and deep connection to economic documents and national policies, strategies, plans are sought, including:

a. National Research, Development and Innovation Strategy 2007 -2013 (RDI).

One of strategic objectives consists in the increase of Romanian economic competitiveness through innovation with impact to economic agents and knowledge transfer to economic practice [8].

In this way, you can achieve specific objectives of the strategy: to double the share of innovative companies, the increase of private expenses with research, stimulating private involvement to RDI, including increased capacity for innovation, technology development and assimilation of technologic research results into production, development of public-private partnership, simplified access for innovative companies to financing schemes RDI.

Through continuous training and assistance and assistance and counseling program of existing entrepreneurs and those who wish initiate a business, facilitation of partnerships between business environment and the research one is stimulated, in order to spread expertise in eco-innovative technologies and the transfer of good practice in energy and environment field to improve quality of life.

b. National Developing Plan for 2007-2013 (NDP) which is a reflection of development needs in Romania, to reduce as fast as possible, existing disparities to EU [1].

NDP Strategy 2007-2013 is based on both community strategic orientations regarding cohesion, and on priorities of Lisbon Agenda and on objectives from Goteborg, especially increase of competitiveness improvement and more efficient use of local human capital (full employment) and durable environmental protection.

National development priorities include reducing development disparities between

regions of the country which is achieved through the development of partnership, collaborations in entrepreneurial culture field.

Regional development policy is one of the most important policies and most complex of the European Union status arising from the fact that, through its objective of reducing economic and social existing disparities between different regions in Europe, acting on some significant fields for development, like economic growth and SME sector, transport, agriculture, urban development, environment protection, employment and professional training, education, gender equality etc.

Conceived as a policy of solidarity at European regional policy is mainly based on financial solidarity, meaning on redistribution of one part of community budget achieved through contribution Member States to regions and groups less prosper.

In Romania, the regional development policy began to take shape once with the operation of Phare in 1996.

Regional development *acquis* does not define how to create specific structures for the implementation of Community requirements just mentions these and leaves this in charge of Romania.

Thus, although the Community *acquis* should not be translated, Romania must create an appropriate legislative framework to enable implementation of provisions specific to the field [2];

c. National Strategic Reference Framework 2007-2013 is a strategic document that establishes intervention priorities of Structural and Cohesion Funds, representing simultaneously global strategy of their use and different Operational Programs symbolize the instruments used for the achievement of different provisions of NSRF.

Among these priorities there is the development and more efficient use of human capital, increase of competitiveness of Romanian economy on long term.

The project will be designed such a way to help achieve these priorities.

d. Strategy to strengthen excellence in scientific research -strategic objective is the development and promotion of scientific research, so in 2013 to classify the top places of the country in the internal hierarchies (classification NURC) and the top 500 places in the world (Shanghai classification) [8].

In line with research priorities formulated in the European Framework Programs FP6 and 7,

in full accordance with established research priority fields in the country, taking into account human possibilities, the following priority areas can be proposed: technologies of information society, durable development: economic, social and ecological; governance in a society of knowledge; quality of life; values and social-human behaviors; social cohesion; fields involving small and middle enterprises.

From scientific research objectives we mention: durable development and quality of education and employment.

Project will develop and complete projects under SOP HRD by: special training programs to achieve entrepreneurial abilities of existing entrepreneurs and of persons who wish to start an independent activity, special programs of business training, assistance and counseling programs for categories mentioned.

Romania has recently developed entrepreneurship and therefore there are still lot of things to do to expand and to stimulate private sector.

Implementation projects for operational programs seek development of entrepreneurial spirit to improve managerial skills in business activities.

Training will be provided to companies so that they could more efficiently manage change, economic restructuring, development of trade to diminish social expenses and to facilitate adaptation.

Both senior and middle managers will benefit of trainings in areas such: marketing methods, intensive staff training to achieve entrepreneurial knowledge, diversification of production, the use of ICT in productive processes, the new quality management system and the promotion of innovation, training for EU legislation regarding health and safety at work, organizational management and restructuring.

Operations financed by ESF will also support innovative forms of work organization, including health and safety at work and diversification of contractual relations and work relations to improve quality and work productivity.

However, within this priority Axis, specific professional training will be provided, seeking to improve specialists' skills in specific fields that use advanced technology.

Development of partnerships will be beneficial for promotion of new methods and



models that lead to change of organization and present and traditional attitudes.

In an era of globalization, science and art of leading will unite for development and progress, both nationally and internationally.

#### 4. Conclusions

Human resources development will focus on investment increase in education and training, integration and maintenance on labor market of more employees, increasing job offer, adaptability improvement of workers and entrepreneurs, promotion of social inclusion and vulnerable groups.

Solid actions which will be promoted will target the development of new professions and professional standards in education, promotion of entrepreneurial culture, consolidation of partnerships with social partners, promotion of continuous professional training, promotion of active measures of employment, fight with hidden unemployment.

Participation of long term unemployed people will intensify on labor market and will be supported by durable communities through promotion of social economy.

#### 5. References

- [1] Ionescu, R., "Link between National Development Plan 2007-2013 and Structural Funds", in Annals of "Dunărea de Jos" University, Galați, Fascicle XXII Law and Public Administration, Galați, University Press, I<sup>st</sup>, no. 1-2007, pp. 73-79.
- [2] Mihăilă, D., Implications of implementing European legislation on management of regional development, Doctoral thesis, Galați, 2009.
- [3] Nicolescu, O., Verboncu, I., *Management*, Edition II reviewed and added, Publishing House Economic, Bucharest, 1997.
- [4]. \*\*\* Ministry of Economy and Finance - National Strategic Reference Framework (NSRF) 2007-2013.
- [5]. \*\*\* Ministry of Labor, Family and Equality of chances – Integrated Guidelines for Economic Growth and Employment (2005-2008).
- [6]. \*\*\* Ministry of Labor, Family and Equality of chances – Sector Operational Program for Human Resources Development ( SOP HRD).
- [7]. \*\*\* Ministry of Public Finances (coordinator) –National Development Plan (NDP) 2007-2013.
- [8]. \*\*\* National Strategy for Research, Development and Innovation 2007-2013 (RDI)
- [9]. \*\*\*Community Strategic Guidelines on Cohesion 2007-2013.
- [10]. \*\*\* Lisbon Strategy, reviewed.
- [11]. \*\*\* European Employment Strategy.

## EU Budget – An Economic Integration Support

ORAC Madalina  
MIHAI Constantin  
BUJDOVEANU Aurica

*The Academy of Economic Sciences, Bucharest*

### Abstract

*It is very difficult to calculate net financial benefits that a state derives from its membership of the EU, because other important advantages related to the domestic market (economies of scale, increased competition), the development of external relations development funds, security and justice are not considered. It should also be taken into consideration the redistributive function of the Community budget, which is based on the principle of EU solidarity.*

*International crisis cut Romania's high economic growth in recent years. It has highlighted major weaknesses of the local economy, which were reflected by large structural budget deficits (over 5% of GDP during 2006-2008) and external imbalances by two digits (remember that structural imbalance is obscured by an economic growth above potential, which brings only temporary additional budgetary receipts).*

**Key words:** European budget, resources, member states, European Commission

**JEL classification:** H61, H69

### 1. Introduction

EU budget reflect the current EU priorities and policies of each year. It is the act that authorizes the funding of all Community activities and their related operations.

The resources related to finance these budgets come from each Member States contributions. European Council had an important role in ensuring the budget management.

In accordance with Financial Regulations in 2002, the budget can be defined as "the instrument that, for each financial year in part, forecasts and allows all revenue and expenditure considered necessary for the EU".

The EU budget allows observation of every year community priorities and policy guidelines.

Its evolution over time reflects the successive transformations of European construction. In 1970, the Community budget was 3.6 billion ECU (from January 1, 1999, 1 ECU = 1 euro) and consisted almost entirely of funds for expenses related to the CAP (Common Agricultural Policy).

Today, the EU budget is approximately 100 billion and is covering all Community policies: the common agricultural policy, regional development policy, policies on research, education, and training, international cooperation actions.

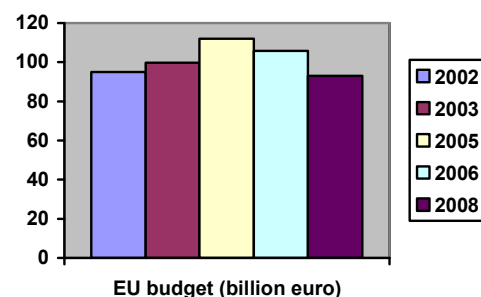
Since 1998, the Union's annual budget is set in accordance with a medium term financial plan, which defines the annual limits of the Community expenditure.

In 1999, during the negotiations of "Agenda 2000", related to the future EU priorities, there were established and adopted guidelines of budgetary policy for a period of 7 years, between 2000 and 2006. This budget outlook over several years is taken both by the EU Council and European Parliament.

The financial perspectives for the 2000 – 2006 periods have included credits for the enlargement of the Union.

The EU Budget also has an important redistributive function, by transferring funds from rich to poor regions in order to achieve convergence (structural policy).

Figure 1: Evolution budget U.E. (billion €)



The UE Budget is often misunderstood. Important as absolute value (over 100 billion per year), this is reduced when expressed as a percentage of total EU public expenditure (under 2,5%).

The budget has provoked periodic political crises, but also functioned as a catalyst for development of the EU. During this period, the budget increased in real terms, but its size relative to GDP has declined, despite the enlargement of the Union and the assumed new political responsibilities.

The own EU resources were introduced in 1970, in order to finance the joint costs, to ensure the independence and identity of the EU to the Member States.

The own EU resources are defined as "income taxes irrevocably earmarked to Community to fund its budget and automatically balance it, without the necessity of any other decision from the national authorities" (European Commission, 2001).

The total EU income must be equal to total expenditures and to meet legal limits agreed, which is currently 1.31% of GNI (gross national income) for commitment and 1.24% of EU GNI for payment.

The main source of financing the EU budget is a resource based on gross national product of Member States. It has come to exceed other sources, like customs duties and agricultural levies ("traditional own resources") and a resource based on the value added tax.

In 2013, the GNI resource will represent 74% of EU funding, compared with 13% coming from customs and agricultural duties and 12% from the VAT-based resource.

The EU budget funding sources and mechanisms should provide a more adequate funding of EU policies. These should be assessed on the basis of agreed principles, such as economic efficiency, equity, stability, visibility and simplicity, effectiveness of administrative costs, financial autonomy and sufficiency.

Therefore, Member States often tend to judge European policies and initiatives in terms of profit in relation to national contributions, instead of first assess the total value of carrying out certain policies at European level. General composition of the own resources system will be an important factor to be considered during the review.

Corrections on income levels, including the UK correction - which is, in particular, the

repayment of a proportion of 66% of the difference between contributions based on GNI and VAT paid by the United Kingdom on the state budget and revenue - lump sums paid to Netherlands and Sweden, reduced VAT rates for the Netherlands, Sweden, Germany and Austria, and a flat rate of 25% retention of traditional own resources for the State that collects them.

Budgetary funds are used to finance all EU policies in the respective budget year.

The EU Budget reflected the key stages of European integration. Developments such as the single market, enlargement, developing a global vision on Europe, have required each time, changing the pattern of EU expenditure.

The EU expenditure profile has changed considerably over time: traditionally, most of the EU budget was concentrated on a relatively small number of policy areas.

However, both within and outside these areas, spending priorities and policy objectives pursued have evolved.

Budget structure and its size have met a continuous modifying trend:

- at the beginning of the integration process, each of the three European Communities had a specific budget. The first budget of the European Economic Community (EEC) was very small, covering only administrative costs;

- in 1965, payments for the Common Agricultural Policy (CAP) absorbed 35.7% of the budget and increased to 70.8% in 1985. In the first financial year of the 1988-1992, CAP expenditure represented 60.7% of the budget. By 2013, the share of traditional CAP spending (excluding rural development) will decrease to half (32%), following a reduction in real terms occurred in the current funding period;

- only 6% of the EU budget was spent on cohesion policy in 1965, a share which has seen only a mild increase in the 1980s (10.8% in 1985).

Single European Act put an emphasis on economic and social cohesion and was followed by a significant increase in expenditure on cohesion. The amount devoted to structural measures already risen to 17.2% in 1988 and will represent 35.7% of EU budget in 2013, with at least two-thirds for competitiveness, growth and jobs;

- funding for other policies (in particular, competitiveness, external actions and rural development) was initially very limited. In the

first financial framework, only 7.3% of the budget was restricted to those areas. However, the new emphasis on development and competitiveness will lead to an increased share of these policies by 26% in 2013, of which 10.2% for competitiveness, 6.3% for external actions and 7.3% for rural development. Spending policies for the period 2007-2013 have new priority objectives for growth and jobs, and new policy directions such as freedom, security and justice. Meanwhile, the decision to conduct a review confirmed the necessity of a more fundamental assessment, able to provide a long term proposal for the next financial framework and the future beyond.

## **2. The EU Budget for the 2007-2013 Horizon**

Financial perspectives for 2007-2013 have been reduced from eight to five chapters. This makes the system more rigid and allows a more efficient use of available resources.

During 2007-2013, the budget revenues will be 1025 billion Euros and will cover the following objectives:

- sustainable growth: this heading includes structural funds, research and education, with a budget of 382 billion Euros for 7 years. It aims to two components: efficiency and cohesion, linked to economic growth and employment use factor;
- conservation and managing of natural resources: it is financing the common agricultural policy and environmental policy, with a budget of 371 billion Euros;
- citizenship, freedom, security and justice: 10.7 billion Euros are intended for activities related to justice and internal affairs. This amount will cover programs that encourage European citizenship, such as exchanges between young people, town twinning and European dimension of media and culture;
- The EU, as a global actor: 49.5 billion Euros will be allocated for different actions in favor of developing countries, promoting human rights, foreign policy and security policy and support for developing of neighboring countries;
- administration (including translation services) will receive 49.8 billion Euros, that is 5.75% of the total budget.

The breakdown by years of the 2007-2013 financial perspective is presented in Table 1.

In recent years the EU has accelerated the pace of change, while developing a policy agenda toward the future, which will determine the main priorities of the Union for the next decade and beyond in the future.

It is possible to outline the new policy challenges that could have a significant impact on the direction in which the Union shall conduct work in the future.

- the competition for resources and markets became more intense. The economic balance of power changes. The opening of new markets creates enormous opportunities for many Europeans, but will test at the same time, Europe's capacity to adapt to the structural change and manage their social consequences;
- the globalization is stimulating scientific and technological development, which gives the European dimension a greater importance in promoting awareness, mobility, competitiveness and innovation. The EU can help harness the benefits offered by its continental size to promote excellence and convert it into growth;
- the transformation into a knowledge economy and services is as profound as the earlier shift from agriculture to industry. This is changing the nature of work. Information technology and personal skills are particularly sought. Too many young people - one in six - give up too early in school, while even more do not have the basic skills necessary for the knowledge economy;
- current levels of birth rates will change the structure and balance of our societies, raising important issues both in terms of economic efficiency and intergenerational equity;
- Europe's solidarity and commitment to social justice is an important dimension of the European way of life in a globalized world;
- the impact of climate change on environment and European society has become a central element of the European agenda, forcing policy makers to reflect on the most appropriate response to use policy instruments available to EU;
- globalization has led to the need for Europe to have an effective presence in the world in order to spread its interests and values successfully.

### 3. Conclusions

Both the budget and in other respects, European action should provide clear additional benefits compared with action by individual Member States in order to develop policies that promote the common European interest.

The 2007-2013 financial perspective was adopted in December 2005. The budgetary procedures remained, however, still difficult. This is the reason why the European

Commission asked an independent panel of experts to find simplifying solutions. The Expert Group recommended "a radical restructuring of the EU budget in order to cover the development agenda under the Lisbon objectives. The simplifying of the budgetary procedures would represent a significant contribution to the EU operation in a crucial moment of its evolution.

*Table 1. Financial Perspective 2007-2013 (billion €)*

Commitments for payments and direct aid payments	2007	2008	2009	2010	2011	2012	2013
Sustainable Development	58735	61875	64895	67350	69795	72865	75950
Natural Resources Management	57180	57900	58115	57980	57850	57825	57805
Nationality Freedom	2570	2935	3235	3530	3835	4145	4455
EU global player	11280	12115	12885	13720	14495	15115	15740
Administration	3675	3815	3950	4090	4225	4365	4500
Compensation	0,120	0,060	0,060	0	0	0	0
<b>Total</b>	<b>133560</b>	<b>138700</b>	<b>143140</b>	<b>146670</b>	<b>150200</b>	<b>154315</b>	<b>158450</b>

### 4. References

- [1] \*\*\*,Financial Perspective 2007-2013, CADREFIN 268, 15915/05, Council of the European Union, Brussels, 19 December 2005.  
[2] Sapir A., Aghion P., Bertola G., Hellwig M.,

- Pisani-Ferry J.,Rosati D., Vinals J., Wallace H., An Agenda for a Growing Europe. Making the E.U. Economic System Deliver, Report of the Independent High-Level Study Group, 2003.

## Corporate Social Responsibility - The Romanian Case Study

PINTEA Mirela

NISTOR Ioan

„Babeş-Bolyai” University of Cluj-Napoca

mirela.pintea@econ.ubbcluj.ro

ioan.nistor@econ.ubbcluj.ro

### Abstract

*Although the concept of CSR is gaining ground in European businesses, there are big differences among countries members of European Union. These differences refer to the approach regarding CSR and its implementation in companies. Central and Eastern Europe has a legacy of institutional and economic development different from that in Western Europe. For some countries, like Romania, CSR is a new problem.*

*Although CSR is present in Romanian business society, it has been imposed rather as a fashion, than as a result of a real need of Romanian society. In this context we can say that only the multinational corporations really posse the necessary abilities.*

**Key words:** corporate social responsibility, globalization

**JEL classification:** F02

### 1. Introduction

In the context of globalization, the expansion of multinational companies on developing country markets have witnessed a shift of center of gravity of the economy and society from state to private sector particularly multinational corporations. But their power has become huge but in the same time it increased its impact on society. In these circumstances the range of responsibilities that a multinational company has, have diversified and expanded.

Accelerated social and economic transformations at the global level subject companies to permanent necessity to change their business model, the mode of thinking, attitudes, and patterns of interaction with stakeholders. The time when companies built their business solely around the needs and expectations of consumers has gone. Today,

companies are challenged to answer through performance that reflects the values, interests and expectations of society. Social responsibility has become a vital part of healthy development strategy, for long term, of any organization.

Theme of corporate social responsibility has become true size only to the early 90s, with a significant acceleration to 2000. The debate on corporate social responsibility concept integrates the global debate on the future of the planet (regarding aspects such as economic, social and environment) around the concept of "sustainable development" formalized the 1992 UN Summit in Rio. The theme of sustainable development was started in 1970 along with the publication of the first Club of Rome report entitled "The Limits of Growth". In Brundtland report (1987), sustainable development is defined as: "the current generation capacity to meet the needs of the present without compromising the ability of future generations to meet their own needs".

The CRS represents the microeconomic dimension of the macroeconomic concept of sustainable development. In another interpretation, CRS can be perceived as an integral part of the sustainable development concept, a contribution to the business environment in achieving sustainable development objectives. World Congress on Sustainable Development defines corporate responsibility as "the company's commitment to contribute to sustainable economic development, participated together with employees, their families, local community and society at large to improve quality of life."

### 2. Literature review of the "Corporate Social Responsibility" concept

Internationally, corporate social responsibility (CSR) has become the topic of research since the 1940s, then evolved as a consequence of movement for rights (the '60s)

and expanded as a result of the general crisis of the welfare state, also shown more visible since the first "oil shock" (1973-1974). With the entry of companies in the post-industrial era, Western governments are pressed to reduce involvement in social welfare activities and to re-define its philosophy of providing it.

The term CSR has a long history. The notion first emerged in one form or another in writings dating back to the 1950s, mainly emanating from the USA [3]. The first academic debates on corporate social responsibility took place at the beginning of the 50's. Initially under the term of "social responsibility" it was referring at the expectations of the society from the business environment and at the ethical obligations of the company towards the society. Howard Bower, the "father" of CSR defined Corporate Social Responsibility as "the obligations of businessman to follow those policies, to take those decisions or to follow those directions that are agreed in terms of values and objectives by our society" [2].

During the decades that have followed there has been a significant increase in the efforts to formalize and conceptualize the idea. Early definitions emphasized the importance of relating business 'responsibility' to 'power'. Later, in the 1970s, a 'stakeholder approach' emerged that highlights the importance of balancing the multiplicity of interests represented by internal and external constituent groups and individuals. In the 70's the line of scientific research has moved towards the capacity of the companies to answer to environment requirements. With the name of "social responsibility of the company" it was stated the issue of the way in which and with what consequences the companies should or can adapt to the needs of society. In the same time the concept of "social performance of a company" has developed.

During the 1980s the focus shifted from developing new and revised definitions to further research on CSR, resulting in a splintering of writings and the emergence of a range of alternative concepts and themes. Clearly the use of the term CSR has not diminished but its core concerns have been recast into alternative theories, concepts models, and themes [20].

In the 80' and 90's the stakeholder theory brought an important contribution regarding the speech of CSR. It changed Friedman's (1970) stakeholder paradigm that considered

maximization of financial results towards shareholders is the greater social responsibility of a company. The company citizenship ([12], [8]) is related to the theory of the social contract ([14], [6]) through which a company belongs rather to the community in which activates than to some persons, so it becomes an extension of it, it becomes a "citizen" of the community and in this sense it has some rights and obligations towards the society in general, and that community specially.

Although the concept has been developed since the early 1970s, there is no single, commonly accepted definition of "Corporate Social Responsibility" (CSR). There are different perceptions of the concept among the private sector, governments and civil society organizations. Depending on the perspective, CSR may cover [19]:

- a) A company running its business responsibly in relation to internal stakeholders (shareholders, employees, customers and suppliers);
- b) The role of business in relationship to the state, locally and nationally, as well as to inter-state institutions or standards;
- c) Business performance as a responsible member of the society in which it operates and the global community.

According to the mentioned authors the first perspective includes ensuring good corporate governance, product responsibility, employment conditions, workers rights, training and education. The second includes corporate compliance with relevant legislation, and the company's responsibility as a taxpayer, ensuring that the state can function effectively. The third perspective is multilayered and may involve the company's relations with the people and environment in the communities in which it operates, and those to which it exports. All the concerns and problems that are associated with the CSR concept, as it has been stated before, have a global dimension. In fact, an increasing number of European companies, and not only, develops their activities in several other countries, obtaining profits as a result of these markets openings.

### **3. Corporate Social Responsibility in Romania**

In this study we try to analyze how CSR is evolving in national context, starting from the

imperative of Europeanization, the compatibility between modern development models and national contexts, such as an explanation of corporate social responsibility in post-communist Romania. The question is, indeed, companies in Romania assume voluntarily, responsibilities towards the community, beyond what is covered by law, as happens in countries with economies strengthened and functional democracy. In the CSR approach we start from the premise that it appears in a society with a proper way of modernization [17].

CSR is a reality in the Romanian business society, only that it was imported from the U.S. and Europe and it has imposed more as a fashion than as a result of awareness of the need for CSR. In Romania and in other countries of Central and Eastern Europe, CSR is still in stage of imitating the Western model of CSR. It can be a powerful tool for social development only if it answers to needs of social groups in these countries [17].

Unlike the U.S. and Western Europe, CSR, CSR in Romania is at the crossroads of Europeanization and modernity. That multidimensional process of Europeanization contributes to the emergence of new understandings, the original explanation of key domestic social issues such as for example analysis of the impact of European action on domestic contexts [13].

CSR Europeanization in Romania takes place by adapting CSR programs adopted by the European Commission. They are focused on providing social, economic and environmental benefits. If in Western countries CSR aims actions without no state involvement in Romania CSR falls, often in the State actions, particularly in operations for supporting the disadvantaged social groups, groups neglected by the multinationals because of low income (they aren't their customers). It is important that European institutions to understand that the Europeanization of Romanian society can be beneficial for both Romanian and for all Europeans only if they meet real needs of Romanians.

In the process of Europeanization an important role is attributed to multinational companies, owners of industry and natural resources of Romania ([15], [17]). Regarding corporate social responsibility in combination with Europeanization some authors stress the idea that there is an inconsistency between

Europeanization and domestic circumstances, which has as a result the pressure from the European Union on the Romanian society to adapt the European norms. The difference between the model of Europeanization through innovation and model of Europeanization through imitation [18] is found in the application of CSR. Aligning CSR to the internal needs and requirements depends on the Europeanization degree of society, manifested in the compatibility between the interests of multinational corporations and Romanian social and institutional Europeanized structures [17].

CSR comes in Romania from a mature capitalist economy, developed organically over several centuries, and applies to a society seeking to resume the thread progress towards a capitalist economy, existing before 1948, the year of nationalization, from time to philanthropic initiatives of Romanian capitalists. CSR operations reflect the type of capitalism introduced in post-communist Romania. Capitalism is considered one of the drivers of change of modern type. Consequently, modernity and capitalism have been accepted as a way of evolution of Romanian society.

Romanian economy is in an ongoing transformation process starting with 1990. This involves changes of legislation, institutions, human perceptions of economic activity and productivity in order to fulfill the challenges of the: (i) transition period, during 1990-2003; (ii) emerging market, during 2004-2006, and emerging country, since 2007. Also, transformation process have gained another status in the context of the evolution of relationships between Romania and European Union (EU) from a candidate country, in 1997, to an acceding country, in December 2004, and a EU member state, in January 2007. This new status in 2007 indicates that Romania fulfills political, economic and institutional criteria and implements the *acquis*. As a result, Romanian has an administrative capacity to transpose European Community legislation into national legislation, to implement it and to effectively enforce it through appropriate administrative and judicial structures. Therefore, Romanian economy must face new challenges imposed by the EU member state status.

In Romania, the concept of CSR has been imposed since 1990 when there appeared NGOs, especially those focused on



humanitarian goals with assistance from international public and private institutions [11], conclusion that brings in relief the specificity of CSR in Romania, because it did not appear as an action resulting from the Romanian context, but as an initiative taken and adapted from abroad, multinationals interested in promoting their strategies in all countries where they have extended their activities.

Most Romanian ministries have special departments to introduce measures CSR and promoting initiatives to change laws according to the principles of social responsibility [11]. The question is whether this large number of institutions has the material and human resources to organize activities for the implementation of corporate social responsibility. Ministry of Labour, Social Solidarity and Family, Ministry of Economy, Ministry of Agriculture, Forestry and Rural Development, Ministry of Health, Ministry of Environment have such kind of departments but taking into consideration the particular features of Romanian society, they are more bureaucratic forms without an appropriate background. Their establishment has been under pressure from the European Union, as happened with many of the new institutions emerged after 1990.

In the process of modernizing, the Romanian society, as we mentioned above, has known the phenomenon of form without substance caused by transplantation of capitalist institutions in a traditional and patriarchal national context. Most Romanian sociological doctrines argued Romania's modernization directly related and necessary to capitalist development [10].

Like other new practices introduced after 1990, CSR applies more due to the need of synchronization with the spirit of time than as real necessity derived from cultural and historical contexts of the local society. Only 5% of companies in Romania have an annual budget for donations and 25% of them are trying to have a charity scheme (Source: Am Cham - The American Chamber of Commerce in Romania [11]).

In Romania have begun to appear more and more companies of corporate social responsibility. One of the main reasons for these changes could be the appearance on the Romanian market of the multinational companies with a tradition in social responsibility. The appearance in Romania of

the concept of CSR has as main cause the economic development and the appearance of some multinational companies that exercised some pressures even on the local ones to create a corporate reputation and image.

The companies with the major involvement in projects of social responsibility remain the international companies; those with Romanian capital haven't got yet this preoccupation. One of the elements regarding CSR that is missing in Romania is the informations from the market regarding the impact of CSR on the consumers and on the society. One of the reasons for this is the fact that for the Romanian public CSR is a relatively new subject.

CSR initially emerged in the Romanian business environment through the multinational companies, such as Lafarge, Coca-Cola, Holcim, Carpatcement, Zentiva, Orange, Vodafone, Petrom-OMV, which are still its main promoters at the national level. As previously declared, like any other imported concept, subject to a need of accelerated assimilation, CSR in Romania was initially imposed more as a fashion rather than the result of the full awareness of all the stakeholders' needs [5].

The most important categories of CSR projects carried out by companies in Romania in 2007-2008 period refer to the following social implication areas [1]: *Environmental protection; Social issues; Civic behavior; Human rights; Health; Education; Art and culture; Sport.*

Recent studies regarding Romania (V. Chisu INCSMPS 2008) revealed that corporate social responsibility (CRS) does not only mean fulfilling a duty towards the society, but on the contrary, it is a new style of doing business, integrated into the company's culture at all of its levels. The above mentioned study shows that only 17% of companies in Romania, with more than ten employees have a clear strategy for future development of CSR activities. According to the study 12% of companies have drawn up a report on the activities and programs of CRS domain and 7% out of these have drawn up an annually report and only 5% occasionally.

There appear two directions Romanian CSR. First is the option to get involved, because this is your company's vision, is a cause in which the organization believes, the second would be that a company has no credibility as long as it is pure marketing and it

gets involved in social causes to earn at the chapter "image".

CSR in Romania could be reduced to some coherent initiatives, attempting to earn an extra image capital of the company through social involvement, and a lack of awareness and involvement from civil society, that doesn't notify itself, that is not capable, yet to sanction companies' foul actions.

Corporate social responsibility can make a decisive contribution to social inclusion and integration of labor markets, poverty reduction and the achievement of any other objectives. Also it needs to be stressed the importance that social responsibility can have in terms of Romania's EU integration. Thus, CSR may be for Romania more than a solid base for implementation of the Lisbon strategy.

#### 4. Conclusions

The CSR initiatives once present only in Western Europe are now part of the day by day activities of the companies also acting in the Romanian business environment. Companies in EU are supported in their socially responsible activities by the national public policies; meanwhile this type of support is rather insignificant in Romania. The good part is that also the companies in Romania begin to realize the great strategic potential of developing social actions.

Corporate social responsibility is today part of the strategic approach of the companies that are acting in the Romanian business environment. CSR policies were first launched in Romania in early '90, rather as a fashionable corporate behavior or as an extent of the European policies. Later on they became part of the companies' strategies. From the early beginning, CSR was seen not as mandated by law or imposed by external forces, but undertaken by the companies "in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business". Although CSR is an area still at the beginning of the road in Romania, this concept is increasingly present among the national business environment.

In Romania, the challenge is to encourage people to realize that social responsibility is not only an image building instrument, but an essential element of success in the long term, which is directly related to the social and environment performance of the community.

CSR will become an organic reality in Romania only if the shares of companies, especially the multinationals will adapt to the requirements of the Romanians in their approaches by freely assuming these actions and not only for publicity. In other words, multinationals will apply the same moral criteria as support of CSR as in their countries of origin. This will be realized when the Europeanization of Romanian society will enter into the depths of all its components [17].

#### 5. Acknowledgments

The authors wish to thank for the financial support provided from the program co-financed by THE SECTORAL OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT, Contract **POSDRU 6/1.5/S/3** – "DOCTORAL STUDIES, A MAJOR FACTOR IN THE DEVELOPMENT OF SOCIO-ECONOMIC AND HUMANISTIC STUDIES".

#### 6. References

- [1] Ardelean A., "CSR – Tot mai verde", BIZ Magazine, No. 170, 2008, pp. 21;
- [2] Bowen H., "Towards social responsibility of businessman", New York, Harper and Row, 1953, <http://www.bsr.org>;
- [3] Ardelean A., "CSR – Tot mai verde", BIZ Magazine, No. 170, 2008, pp. 21;
- [4] Bowen H., "Towards social responsibility of businessman", New York, Harper and Row, 1953, <http://www.bsr.org>;
- [5] Carroll, A. B., "Corporate social responsibility", Business and Society, 38[3], 1999, p. 268-295;
- [6] Dahlsrud A., "How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions", Corporate Social Responsibility and Environmental Management. Published online in Wiley InterScience ([www.interscience.wiley.com](http://www.interscience.wiley.com));
- [7] Dinilă A., "Responsabilitatea socială în România – de unde și încotro?", [www.responsabilitatesociala.ro](http://www.responsabilitatesociala.ro), 2006;
- [8] Donaldson T., Dunfee T.W., "Thies that bind", Boston, Harvard Business School Press, 1999;
- [9] Friedman, M., "The Social Responsibility of Business Is to Increase its Profits", New York Times, 1970, p. 122-126;
- [10] Habisch, A. and Wegner, M., "Germany: Overcoming the Heritage of Corporatism" in Springer Verlag, 2005;

- [11] Habisch, A., "Corporate Citizenship – Gesellschaftliches Engagement von Unternehmen in Deutschland", Berlin/Heidelberg, 2003;
- [12] Larionescu M., "Istoria sociologiei românești", Editura Universităţii, Bucharest, 2007;
- [13] Mandl I., Dorr A. (2007), *CSR and Competitiveness European SMEs' Good Practice Consolidated European Report*, Austrian Institute for SME Research;
- [14] McIntosh, M., "Raising A Ladder To The Moon: The Complexities of Corporate Responsibility", Palgrave Macmillan, London, 2003;
- [15] Radaelli C. M., "Europeanisation: Solution or problem?", European Integration online Papers (EIoP) Vol. 8, Nr 16, 2004;
- [16] Rawls J., "A theory of justice", Cambridge, The Belknap Press of Harvard University Press, 1999;
- [17] Schifirne C., "From Romanian Indigenous Modernization to Europeanization". In: Dobrescu Paul; Ţăranu Andrei; Bărgăoanu Alina (eds.), Proceedings of the Globalization and Policies of Development. International Conference 2007, Editura Comunicare.ro, Bucharest, 2007, pp. 133-138;
- [18] Schifirne C., "Formele fără fond, un brand românesc", Editura Comunicare.ro, Bucharest, 2007;
- [19] Larionescu M., "Istoria sociologiei românești", Editura Universităţii, Bucharest, 2007;
- [20] Mandl I., Dorr A. (2007), *CSR and Competitiveness European SMEs' Good Practice Consolidated European Report*, Austrian Institute for SME Research;
- [21] McIntosh, M., "Raising A Ladder To The Moon: The Complexities of Corporate Responsibility", Palgrave Macmillan, London, 2003;
- [22] Radaelli C. M., "Europeanisation: Solution or problem?", European Integration online Papers (EIoP) Vol. 8, Nr 16, 2004;
- [23] Rawls J., "A theory of justice", Cambridge, The Belknap Press of Harvard University Press, 1999;
- [24] Schifirne C., "From Romanian Indigenous Modernization to Europeanization". In: Dobrescu Paul; Ţăranu Andrei; Bărgăoanu Alina (eds.), Proceedings of the Globalization and Policies of Development. International Conference 2007, Editura Comunicare.ro, Bucharest, 2007, pp. 133-138;
- [25] Schifirne C., "Formele fără fond, un brand românesc", Editura Comunicare.ro, Bucharest, 2007;
- [26] Trondal J., "Two Worlds of Europeanisation – Unpacking Models of Government Innovation and Transgovernmental Imitation", European Integration online Papers (EIoP) Vol. 9, 2005;
- [27] Tureac C. E. et al., "Corporate Social Responsibility and Sustainable Development", Acta Universitatis Danubius, Oeconomica, No1, 2009;
- [28] Welford, R., "Corporate Social Responsibility in Europe and Asia: Critical Elements and Best Practice", Journal of Corporate Citizenship, Issue 13, 2004

## Greece, the Head of the Iceberg

PRICOPI Alexandra  
CROITORU Elena Lucia  
*Romanian-American University of Bucharest*  
*pricopi.alexandra@yahoo.com*  
*lucia.croitoru@yahoo.com*

### Abstract

*About 12 years ago, some expert argue that the euro is the last big mistake of the European political class. The benefits are smaller than disadvantages. Free movement of people, goods and services is perfectly possible in a market without a single currency unit. Currency risk must be accepted as acceptable are the differences in productivity, efficiency, but also the mentality or culture. We are not all alike. Accepting diversity does not mean impossible coexistence, but just being realistic.*

**Key words:** economic crisis, economic and monetary union, economic model

**JEL classification:** F15

### 1. Introduction

History of Greek past five decades is the most eventful in Europe, no other country on the continent has experienced so much political instability, military governments, expulsions on political, refugees and triumphant return in a short time.

Papandreu political dynasties and Karamanlis made the law of 50 years in Greece, a country that was born thousands of years ago the word democracy. Papandreu and Karamanlis are Greek names for Kennedy resonance for Americans or for Peron Argentina.

Greek governments over the past 50 years: 1955 - 1963 Constantinos Karamanlis (right policy); 1963 - 1965 George Papandreu (political center); 1965 - 1967 political instability; 1967 - 1974 military dictatorship; 1974 - 1980 Constantinos Karamanlis (right policy); 1980 - 1981 George Rallis (political right); 1981 - 1989 Andreas Papandreu (left politics); 1990 - 1993 Constantinos Mitsotakis (political right); 1993 - 1996 Andreas

Papandreu (left politics); 1996 - 2004 Constantinos Simitis (left politics); 2004 - 2009 Costas Karamalins (political right); 2009 George Papandreu (left politics).

The current crisis in Greece is different from the worst financial crises that have occurred in recent decades, such as in Argentina (2001), Russia (1998) and Mexico (1994) and Asia (1997), given that Hellenes part of a system that lets them provide few levers with which to recover and the situation.

The most important difference is that "Greece could not use tools to adjust the imbalance as part of the Economic and Monetary Union (EMU). The state can not use that as monetary policy or exchange rate. Moreover, the crisis is not only Greece and EMU proves weakness," said Daniel Daianu, professor of economics and former finance minister. "Steps for building the European Monetary Union have been taken wrongly from the outset, given that one needs money and a central bank, but also a cash shortage of the euro area," said U.S. investor Hungarian origin George Soros in an editorial published in the Financial Times business daily.

Treasury is required to constantly collect taxes from taxpayers, but to be used in times of crisis.

When the financial system is in danger of collapse, the central bank can provide liquidity, but only one can handle cash solvency issues," said American billionaire, became famous in the early 90s when he won one billion dollars betting on the collapse of sterling.

Soros quotes on the editorial Otmar Issing, former chief economist of the European Central Bank (ECB), which said the eurozone was originally desired to become a monetary union, and not a policy.

Issing, one of the fathers of the euro, admits he was among those who believed that "the foundations for a stable and monetary

union without political consensus is that like putting cart before the horse."

The 2008 economic turmoil highlighted errors made by European authorities regarding the creation of the euro after euro zone members were forced to save their own banking sectors. Greek debt crisis brought the situation to a climax, however, that if countries that use the common currency fail to pass, the euro could become just a memory.

Greece, Spain and other countries in the euro area have lost, with entry into monetary union and the possibility to devalue the national currency, one of the most important instruments through which could reduce the mountains of debt in that struggle. In this situation, these countries currently face difficulties in trying to pay their rising debt, burdening them.

Most vulnerable countries in Europe are Greece - whose debt is estimated by the European Commission to almost 120% of GDP this year - Ireland and Portugal. In Spain, when the crisis began debt-GDP ratio was below 40%. For 2010 the situation is expected to get worse, and debt to rise to 66% of GDP, and in 2011 the ratio to be 74%.

In terms of share of interest expenses to revenue, Greece lies the worst problem compared with other states in Europe. Thus, 15.1% of 2010 budget revenues will go to interest payments, up from 10.3% in 2006.

## **2. The significance of greek crises and the future of european state**

With a record budget deficit, which exceeds more than four times the target imposed by the EU, the second largest public debt as a ratio of GDP in Europe, with false statistics and soda picture scandal hiding debts by banks Wall Street Greek situation worsens from day to day.

I think it is clear that Greece has not done your homework. If you look at solidarity, we have rules in Europe are very clear. We usually 3% and the Treaty and the Stability and Growth Pact has been interpreted so that if not fulfilled, you must do your homework to return to a position of public finances sustainable. If not do that, there is no exit clause, so nobody has to pay for the sins of others. It's like the Greeks would have it all to a party in the last 10 years, while the Dutch and Germans took a sober support. You can now ask the Dutch and Germans to pay for

that party which lasted 10 years. Sure, there must be solidarity. This is what happened. We ECB and everybody says: 'Yes, we'll help', but it is moral and just and should be. You said, standing on a chair, '3% must be respected. " Nobody has respected that percentage. Countries like Spain, which met 3%, are also now in hard situations. Obviously, these rules are not sufficient to have an economic coordination within the EU. Of course, Germany it goes well, but Germany has a well with deflation of wages and benefits of internal markets. One of the objectives of the Stability Pact was to ensure some convergence between the economies of the region. We can not have a single currency and economy very divergent.

What I saw and observed is that the first 10 years of euro area ended with a more divergent in the eurozone economies. So the Stability and Growth Pact has not borne fruit. All eyes are glued on Greece, and not just because of the difficult economic situation, but also because new scandal involving the Greek State. Earlier this year, authorities in Brussels have launched charges that Greece has forged over many years of statistical data. The European Commission announced that both the budget deficit figures, and those relating to public debt situation presented in a better light than in reality. European authorities announced they will launch an investigation in this regard to clarify the situation.

Before the waters calm down, but a new storm broke. Greece emerged that use derivatives to hide the real value of budget deficit. "Shortly after joining the eurozone Greek State appealed to Goldman Sachs to get \$ 1 billion through a debt swap of 10 billion dollars," said Christoforos Sardelis, head of the Public Debt Management Agency to time.

The main problem is that most of these products are and are sold and transferred by U.S. investment banks, which have been extremely proactive in ensuring that there is no real market vision and with compensation within the EU. And now one of our states pays for it. It is unfair that Greece, the Greek people, the effort to ask him his government and Goldman Sachs to continue to sell CDS Europe.

### 3. The radiography of Greek economy

Increasing taxes on fuel will contribute significantly to revenues chapter within a few weeks. This year the measure is expected to bring additional revenue of 1 billion euros, 0.4% of GDP.

Improve mechanism for collecting taxes, which last year was on the brink of collapse.

Reducing the total amount of public sector wages by 10%. Freezing salaries for those working in government agencies and reducing allocations.

Amid uncertainties surrounding the way in which Greece and the EU will provide support, the euro continued to depreciate. The Athens government must act against time to thank and European partners and to demonstrate that you can control the reins of their economies. But given that Greece's problems come from the very basic structure of the economy, which is one of the most closed in Europe, with one of the lowest levels of FDI per capita on the continent, which the government has announced so far will have effect only in the short term. However, to get rid of debt in May, the Greek cabinet decided to sell part of stakes it owns in various companies, but excluded the possible sale of the islands home.

The state hopes to raise around 2.5 billion euros, or 1% of gross domestic product, selling of the shares of the company OPAP betting, but also some Airbus A430 before it holds air operator Olympic Airlines be privatized.

Even if the amount would be close is an infinitesimal fraction of Greece's 300 billion debt, the approach could convince financial markets that Athens made serious efforts in the direction of balancing public finances.

Privatisation Plan sounds great in theory. If they sold all the assets of state, maybe the Acropolis, is likely to meet targets agreed by Government," said Constantine Michalos., president of the Chamber of Commerce and Industry of Athens.

"However, considering current market developments, the government will be forced to sell cheap. Because we must acknowledge not only Greece is facing recession, but worldwide," according to Michalos. Using financial institutions under the control of Germany and France would allow states to bypass the regulations that prohibit

governments hold debt securities issued by other states, according to close sources. In Germany, the KfW banking group could be one of the institutions used to buy bonds issued by Greece. Such a sale could be completed with the efforts by Greece and the European Union which aim to reduce the budget deficit.

Value of debt securities that could be sold by Greece, under the new plan, could amount to 20-30 billion euros, the sum required by Greece to pay debt in spring. Reuters columnist: "Greece should be allowed to go bankrupt, to be an example."

"Europe should stretch a helping hand to avoid widespread problems of Greece to other countries and especially to the banking system," warned Josef Ackermann, chief executive of Germany's biggest lender Deutsche Bank. "We must help the country to avoid the effects of contagion. In conclusion, should put out small flames before they spread," said Ackermann. German lenders risk losing billions of euros if Greece enter default, which is why any support is imperative. "If we can not stabilize the situation, then the next problem we face will be at banks," the banker from Deutsche Bank. German banks were to September 30 last year in Greece exposure of 43.2 billion dollars (31.3 billion).

The solution is, politically impossible to put into practice at present, because Germany does not want to become "deep pocket" in which partner problems in the euro area to call every time. We have to find another way through that Greece receives emergency aid, but Spain, Italy, Portugal and Ireland, countries that represent a very large portion of the euro area to be supported like this, will remain an urgent issue for European authorities .

Most Germans believe that Greece should be removed from the euro area if necessary, over two thirds opposing the idea that the German government to get involved in supporting the Greek economy by providing loans billion. According to Emnid poll conducted for the German publication Bild am Sonntag, 53% of Germans surveyed believe that, if necessary, Greece should be removed from the euro area.

"We didn't ask for money from the Germans, French, Italian or other contributors. What we want is political support but to end speculation and slander

against Greece," Papandreou said at a cabinet meeting that he leads.

He added that Greece needs time to implement programs that could regain credibility within creditors. Greek prime minister's comments trying to calm everyone down after public opinion in Germany, but also from other Northern European countries showed reluctance in terms of financial support to Greece.

According to a survey of journal Dutch De Telegraaf, 92% of Dutch want Greece to leave the monetary union.

#### 4. Greece fears UE gifts

Germany, the State initially opposed the idea of helping Greece, with the largest European economies, France, Spain and Italy are countries that will contribute with the largest amount in loans given to Greece. Western European states have their own interests that make them jump in aid to Greece and help to pay their debts on time, and among them is included the strong exposure to banks from countries like France and Germany.

Combined exposure of banks in Germany and France only in Greece is 119 billion dollars (86.6 billion euros), but if you analyze the situation in Greece and all other euro area countries vulnerable - such as Portugal, Spain and Ireland - increased exposure to over 900 billion dollars.

Together, the banking sectors in France and Germany, (the strongest European economy) "lead burden" which represents half of the total exposure of European banks in these countries

European countries and the IMF agreed to provide Greece, a financial package worth 45 billion euros, money given to an interest rate below the market, but over the IMF. This trial aims to help state and restore confidence in the euro.

If Greece decides to access these funds, the largest amount would come from Germany, followed by France, Spain and Italy. Each member of the euro area is offering money to Greece according to the share that National Bank of each country participated in the capital of the European Central Bank.

#### 5. Conclusions

Earlier this year, all Europe looked to Greece with some envy. Worst case scenario

of the European Commission stated that Greece will be this year growth 0.3% forecast that excludes the possibility of recession.

Weapon with which Greece has fought against crisis meanwhile returned against her, for which today's European Union is looking with concern at the country's economy. Known for its highly developed economy, Greece has benefited from the advantage of a business environment quite animated, which led to unemployment at a reduced rate.

Crisis in Greece deepens every day, despite rescue plans. The IMF specialists painstakingly worked in collaboration with local authorities. Greece believes now only in tears (to remember part of the title of the movie), especially after investors demand higher yields for bonds issued throughout the State. How should Greece pay so much money? Their debt is 330 billion. In May have a maturity of 20 billion. In autumn, tens of billions. An alternative: to leave the Eurozone and take back their drachma. Then pay the debt in drachma and make their monetary policy as they want. That would be a slap on everything that is called the EU construction.

Today we must accept the reality that European monetary union is precarious as long as there are differences in mentality, culture, economic behavior, level of development of each member of it. Europe must show it can not find a solution for Greece but for herself. Otherwise failure of either country will happen one way or another. Same contagion. Today we must accept the reality that European monetary union is precarious as long as there are differences in mentality, culture, economic behavior, level of development of each member of it.

Europe must show it can not find a solution for Greece but for herself. Otherwise failure of either country will happen one way or another. The least bad solution for Greece is declared insolvency, reducing its debt to creditors in more than one third of the current, accompanied by exit from the euro area. So Greece could expect a decent growth in mid-2011. Although I think the solution of dependency on a foreign currency by virtue of forcing governments powerless to restructure costs, however, became acute in this case, it does not work.

For the moment it is Greece who is caught in the middle, but Spain, Portugal, Italy are

not far at all so...all of these countries could  
become a new Greece.

## **6. References**

[www.gksoft.com](http://www.gksoft.com)  
[www.diplomatie.gouv.fr/en/](http://www.diplomatie.gouv.fr/en/)  
[www.oecd.org](http://www.oecd.org)  
[www.euractiv.com](http://www.euractiv.com)

[www.economist.com](http://www.economist.com)  
[www.europa.eu](http://www.europa.eu)  
[www.euobserver.com](http://www.euobserver.com)  
[www.ft.com](http://www.ft.com)  
[www.cnn.com](http://www.cnn.com)  
[www.uk.reuters.com](http://www.uk.reuters.com)  
[www.banknews.ro](http://www.banknews.ro)  
[www.epp.eurostat.ec.europa.eu](http://www.epp.eurostat.ec.europa.eu)  
[www.news.bbc.co.uk](http://www.news.bbc.co.uk)



## Considerations Regarding the Coordination of Pension Funds of the Member States of EU

RISTI Lucia,  
CUC Lavinia,  
PANTEA Mioara  
*University „Aurel Vlaicu” of Arad*  
*lucia\_risti@yahoo.com*

### Abstract

*The compulsory contributions for social security represent the group of revenues with the highest weight in the GDP of EU and determined the accentuation of fiscal pressure in the last decades. The relative level of contributions differs from a member state to another because of the conceptions and different historical traditions regarding the social security policies and funding sources.*

*The factors that determined the general increase of the weight of contributions for social security are the tendency of increasing the weight of old age population, increasing the expenses with the health care, the policies of insurances of pensions that do not correspond any more to the new demographic and economic realities.*

*The systems of insurances of pensions based on the support by the active generation by the payment of contributions, pensions for the inactive generation that cannot be supported any more, because the ratio between the number of population payer of contributions and the number of population beneficiary of pensions has worsened. The solution is to go to pension funds fully funded, a generation creates its own pension fund during its active life.*

**Key words:** social security contributions, pension pillars, fiscal coordination

**JEL classification:** H30

### 1. Introduction

The compulsory contributions for the social security systems, pensions, unemployment, persons with disability, and other forms of social security have 15,1% of GDP of EU (2007, by European Tax Handbook), more

than the weight of direct or indirect taxes and even with a tendency of growth in the last years.

Just like direct and indirect taxes, between the member states there are great differences from this point of view: 19,2% of GDP in France, 18,9% in Netherlands and Germany, 1,7% in Denmark, 4,6% in Ireland and 6,7% in Great Britain, in 2007, according to European Tax Handbook.

On average, 55% of the compulsory social contributions are paid by employers, 33% by employees and 12% by freelancers.

From this perspective too, the differences are great, so the biggest contributions paid by employers are in Sweden (80%) and the lowest are in Denmark (24%), and the highest contributions paid by the employees are in Netherlands (61%) and the lowest are in Spain and Sweden (17%), according to the same source.

The differences mentioned above are caused by the different conceptions of governments to approach social issues and some relate to the historical traditions of the states.

### 2. Theoretical Fundaments

The increase of the weight of contributions for social security in the GDP of the member states is determined by:

- a) The increase of the weight of the average age of population of EU states (over 65 years old);
- b) Increase of expenses with the health care following medical technologies and new medication;
- c) Social security policies, especially in the field of insurances of pensions;

The tendency manifested in EU is of growth of weight of populated aged 65 and over, from 23% in 1995 to 40% in 2025, due to the extension of the average life duration and

reduction of birth in member states, so the active population compared to the retired persons will be reduced from 4:1 to 2:1 or even 1:1 in some states.

The increase of expenses for health are determined by the increase of medical technologies, expenses for new medication, and due to diseases that require longer treatments and the increase of the weight of old age population that requires costly medical care.

The social security policies in EU are more generous than in United States of America and Japan and the retirement of categories of persons before the limit of age, determined by the restructuring of some economic sectors.

The pressure for the growth of contributions for social security comes from the field of insurances of pensions where the current systems do not correspond to the demographic and economic realities.

The evolution of insurances for old age had the following stages:

- In preindustrial society, the family with many children and the charity actions were the support of old age people;

- In the period of industrialization social security systems were created by the contributions of employers and employees, called „Pay-as-you-go” (PAYG), respectively: the active generation supports the pensions for the inactive generation. In this period the ratio between the active population and the inactive population was favourable to active population so the level of social contributions was relatively low.

### 3. Method and Results

In these conditions, the answer to the increasing cost of the present system of pensions is the passage to the system that each generation creates its own pension fund by one's own financial contributions done during one's life. Such systems are already developed in Great Britain, United States and some countries of Europe.

Such systems in the beginning period, determine high costs because the contribution must insure the retired persons and assure one's own fund for future years when the active employee retires.

The present system PAYG cannot be fully replaced because it must assure a minimal social security for the old age persons who did

not have the possibility to participate but to this pension system (PAYG).

Now the states of EU assured a pension system based on three pillars:

- Pillar 1 – the public pension system that is compulsory for all the employees or the resident population (PAYG). The system assures a minimal protection by maximal ceiling at the revenue for which contributions are calculated and for pensions.

- Pillar 2 – private pension systems fully funded, established between an employer and an employee or as a result of an individual or collective contract between an employer and an employee. The participation of employees to the private pension fund is compulsory. These funds fructify the contributions of employers and employees by investments in financial assets observing the rules of financial prudence, etc. These pensions complete the pension of the public pension system.

- Pillar 3 – individual pension plans (supplementary) that take the form of contracts concluded voluntarily by persons with life insurance companies and other financial institutions.

In EU states, the second pillar of the pension systems – private pension funds – reached in 1999, 2000 billion euro, 25% of GDP of EU and will be 5000 billion euro in 2010 and it is estimated that 25% of the active population of EU is integrated in this system.

But the system is differently developed in the EU states. Denmark, Ireland, and Great Britain have a much better development of this system. For example, in Great Britain, the private pension funds represented 95% of GDP in 1999, while in France and Spain, which are at the beginning of this system, it represents only 5% of GDP in France and 2% in Spain.

In Romania, although the conception was elaborated for the passage to the pension systems on the three pillars, now, the pillars 2 and 3 are blocked and only the public pension system functions.

### 4. Discussions

If regarding the first pension pillar, the public pillar, there are no special problems, the social contributions of pensions are deductible fiscally at national employees and the employees who have their origin in another state, in the private pension system there are serious fiscal obstacles in the transborder activity of these funds and in the free

circulation of the workforce. The same unfavourable aspects are valid for the supplementary pension funds.

The most obvious fiscal obstacles in transborder activity of private pension funds refer to the taxation of contributions to pension funds, revenues from capital realized by the pension funds by the investments done (interests, dividends, gain of capital) and the pensions paid by the pension funds by :

- Non-acceptance of deduction from the taxable personal income of contributions to the pension funds that are in other states;
- Does not exonerate from taxation the revenues from capital realized by the investment funds from other member states.

These obstacles have the following consequences:

- Prevent the European citizens from continuing participation (by contributions) to the pension fund from the member state of origin, from the moment he moves to another state;
- The person cannot transfer the cumulated pension fund from a member state to the pension fund from another member state;
- A person from a member state does not have the right to participate to a pension fund from any other member state;
- The transnational companies are obliged to create pension funds in each member state in which they have employees;
- The decisions of the pension funds to invest the financial resources in other member states are distorted by the different fiscal regimes applied to the revenues from capital;
- There is the risk of double taxation of pension and the risk of total non-taxation because of different fiscal regimes of the pension funds, for example:

\*11 states apply a fiscal regime of the type E.E.I., the exemption from taxation of contributions to the pension funds, the exemption from taxation of revenues from capital realized by pension funds and taxation of pensions;

\*3 states - Denmark, Italy and Sweden practice a fiscal system type E.T.T., the exemption from taxation of contributions and the taxation of revenues from capital and pensions;

\*Germany and Luxemburg have a fiscal regime type T.E.E., by taxation of contributions and exemption from taxation of revenues from capital and pensions.

The situation is more complicated for some states that give exemptions from taxation to contributions, establish ceilings for these deductions, etc.

European Commission was informed of these obstacles and in February 2001 adopted a strategy that provides for the following years the following:

- If a member state accepts the deduction from the taxable revenues of contributions to the resident pension funds, it must accept the deduction of contributions to pension funds from other member states;
- The employees of a multinational company should have the possibility to participate to only one pension fund founded by the company, irrespective of the member state in which they carry out their activity. The pension received by an employee who retires will be subject to the fiscal regime from the state of residence of the retired;
- The judicial regime E.E.T., already practiced in 11 states should be extended to all EU states, which reduces the revenues from taxes in exchange of higher taxes in the future from pensions. The Commission of EU does not have the intention to harmonize the fiscal regimes regarding the pension fund, so the EU states have the possibility by bilateral agreements to avoid the situations of double taxation or non-taxation;
- The coordination at EU level of rules of prudence and financial supervision of financial investments from the pension funds so that they function in conditions of maximal security.

## 5. Conclusions

- In the member states, pension systems function, based on three pillars: pillar 1 – public pension system in which participate obligatorily all employees (or residents); pillar 2 – private pension funds, fully funded, created by companies for their own employees, based on obligatory contributions; pillar 3 – funds for supplementary pensions with voluntary participation;
- The functionality of the unique market for transborder activities of private pension funds is not full, because of the fiscal obstacles and therefore, the free circulation of the workforce in EU is affected;
- The fiscal obstacles refer to different regimes of taxation of contributions to the private pension funds, revenues from capital

(interests, dividends, gains of capital) realized by these funds and to paid pensions, depending on the place where the fund is created in the resident state or in another member state;

- The solutions for the elimination of these fiscal obstacles aim at: each member state should give an equal fiscal treatment for the contributions and revenues from capital, irrespective of the place in which is the residence of a private pension fund; giving the right to each person to participate in any private pension fund in EU; the possibility that transnational companies create a single private pension fund for their employees anywhere in the member states; on long term, the passage of the member states to the fiscal regime that is dominant at the moment, based on non-taxation of contributions and revenues from capital of the pension funds and the taxation of pensions;

- Reduction of the risk of tax evasion and system errors in the management of these

funds can be done by mutual exchange of information between the member states and by adopting common standards at the level of EU, of prudence and financial supervision.

## 6. References

- [1] Dăianu D., Vrânceanu R., „*România și Uniunea Europeană*” (“Romania and European Union”), Editura Polirom, București, 2002;
- [2] Stolojan T., Tatarcan R., „*Integrarea și politica fiscală europeană*” (“*Integration and European fiscal policy*”), Editura Infomarket, Brașov, 2000;
- [3] Experts I. Pascal, Ș. Diaconu, C. Vrabie, N. Fabian, „*Impozitare*” (“Taxation”), Centrul de Resurse juridice- Centre for Legal Resources, București, 2002;
- [4] European Tax Handbook, 2007

## Controversies Regarding the Necessity of an Integrated Supervision for the EU-27 Financial Markets

SARGU Alina Camelia

„Alexandru Ioan Cuza” University of Iași, Doctoral School of Economics

s\_alina\_camelia@yahoo.com

### Abstract

*As the European financial markets suffered substantial structural changes in the least decades, under the influence of the financial innovation process, the question regarding the efficiency of an integrated supervision model rather than a specialised one becomes more challenging. The aim of this paper is to provide an overview of the different models used by each European Union member states, underlining in this way the current state of the supervision integration in the EU-27 and the controversies regarding the necessity of an integrated supervision system for the national financial markets. Thus, the paper compares the pros and cons arguments regarding the adoption of an integrated model for financial supervision. Overall the study highlights that although, in general, a specific model for financial supervision is adopted taking into consideration the political, historical and structural aspects of the financial systems, in recent years a trend for integration has become very visible.*

**Key words:** Integrated financial supervision model, specialised financial supervision model, European financial markets

**JEL classification:** F36 - Financial Aspects of Economic Integration

### 1. Introduction

The processes of integration, globalization, liberalisation and deregulation represent the main factors that have accelerated the structural changes of the financial markets in the last years. As a natural consequence of these processes the products and services offered on these markets have been developed in an accelerated way, exceeding

geographical and sector boundaries. Thus, new way of financial investment have appeared, the number of non-banking financial intermediaries has risen and the products offered have become more sophisticated, which has lead to the creation of large financial conglomerates – institutions that are offering financial services from at least two different categories: like banking, investment and/or insurances. As a result of this, *the supervision and regulatory models used had to adapt to the fast paced development and the complexity that financial innovation has brought to these markets* [3], *in order to ensure the stability of the national financial systems, taking into consideration the fact that cross-border transactions and intermediation had enhanced the risk for contagion* [4], *as the sub-prime lending crisis had confirmed in the recent events that have unfolded.* Therefore, the current economies and the modern society that is served by them need regulations, as free markets are not the synonym for non-regulated markets. Thus, solid and efficient regulations must exist in order to prevent free markets abuses to cause high prejudices, directly or indirectly, to the economy or to the society in general.

### 2. The necessity for the creation of an efficient financial supervision structure at EU level

In the last decade, the quest for the development of an adequate financial regulatory and supervision structure at EU level which will handle the European financial markets has been an increasingly important issue, a proof in this way being the large number of academic studies on this field. There are many studies which have focused on the prudential supervision and the role of the central banks in this matter (see [9], [17], [13], [18], [16]). Other studies have focused on the analysis of capital markets supervision and its centralisation - as centralised structures are considered in this case more transparent than local ones – either at national or European level, taking into consideration the development of a European SEC (see [15], [1], [11],

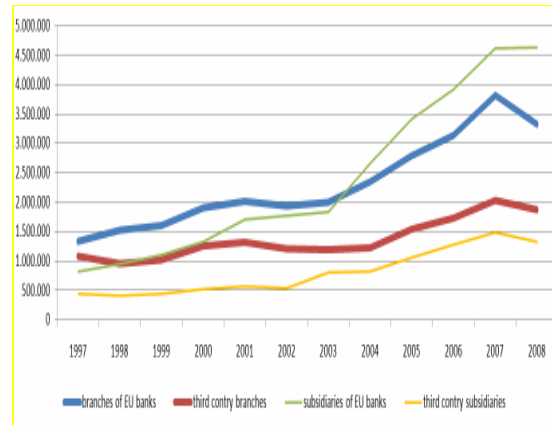
[8], [6]). Nevertheless, many studies have focused on the analysis of the changes that have occurred at national level, underling the process of transition from specialised supervision and regulatory systems to a partially or even fully integrated model that covers the entire financial market (see [4], [2], [10], [12]).

Therefore, *as a result of the enhancement in the degree of European financial market integration* (which has accelerated as a result of the adoption by several countries of the single European currency) *and the raise in number and importance of financial institutions which are active in more than one European state* (the development of financial conglomerates), in addition to *the continuous development of supervision and regulatory institutions*, both at national and European level, the problem of an efficient regulatory and supervision system in the European Union has become a very important issue.

In the 21<sup>st</sup> century, there are two trends that must be taken into account when it comes to the devising of the European financial supervision structure.

*The first trend is represented by the internationalisation and especially the integration of the European financial market as a whole.* In the European Union there are a growing number of financial institutions that have fully integrated cross-border activities which include single products or even common trading platforms. According to the European Central Bank there are 46 groups that hold approximately 68% of the total European banking assets [5]. From these, 16 have at least 25% of their assets in other European Union countries and are present in at least six European banking markets (see the figure below). As a response to the market-led developments, the European Union political commitment on the matter and the European directives that regulate the financial sector, the financial institutions have reorganised their business and operational set-up.

Figure 1. Total assets of foreign branches and subsidisers in EU-27 countries



Source: Own simulation based on data provided by ECB (<http://sdw.ecb.europa.eu/>)

As a result of these transformations some of the business functions of the pan-European financial institutions have been centralised, such as the risk, liquidity or capital management functions, regardless of the legal statue of the group's components (branches or subsidiaries). The direct consequence for the prudential supervision process is the diminishing of its relevance when it takes into consideration only local, isolated components of a pan-European financial group. *A more efficient approach would be represented by an integrated prudential supervision model which would take into consideration the whole group rather than its individual components.*

Beside these aspects it should be noted that the pan-European financial market infrastructure is becoming more integrated: the clearing and settlement systems as well as the stock exchanges have developed an integrated European business model. Also European payment infrastructure is expanding in size and coverage, especially with the implementation of the SEPA project. All these changes suggest the fact that the pan-European financial institutions will have a determine effect on the stability of the European financial market and as such, their activity must be supervised and regulated in accordance with their status.

*The second trend is represented by the convergence of the financial market segments.* Because of the financial innovation process the differences between the financial market segments have become blurred. As a result of this, the necessities for a single financial rulebook have become more stringent than ever. In general if the different segments of the financial market provide different services and products, then a specialised

form of supervision and regulation does not affect the stability of the system. The development of “allfinanz” or “bancassurance” conglomerates does not necessarily imply the necessity of a unitary supervision and regulatory entity, but in a market dominated by these types of financial institutions such a matter is more than obvious. Thus, the argument in favour for a unitary, integrated supervision and regulatory entity for the financial market lies in the fact that the segments of the financial markets are converging, offering similar content.

In this context, it has become necessary the development of specialised structures at European level for the prevention and also for the management of crisis. Both types of structures, especially the one dedicated to the management of the crisis, need the full backing and collaboration of institutions like central banks and the institutions delegated with the supervision and regulation of capital markets and assurance companies at European level.

### 3. The advantages and disadvantages of integrated versus specialized supervision

With regard to the two methods of supervision used for the financial markets, *the integrated model* and *the specialized model*, there are numerous controversies regarding their usage, in both cases existing pro and con arguments.

The most important *advantages that the integrated model of supervision and regulation brings* are: *better adaptation to the current structure of the financial systems* - the old financial systems were created in certain historical periods, in which the general architecture of the financial sector was more simple, while now, because of the globalisation process and the integration of the financial markets, the financial conglomerates are under the supervision of several institutions as they provide multiple services and products, thus, being necessary a more integrated approach in order for the process to be efficient [19]; *competitive neutrality* - as the supervision and regulatory systems become integrated will prevent the risk that a financial conglomerate will move its services and products to areas where they

feel the supervision process is less strict in order to commit frauds or to gain unjustified competitive advantages. Moreover, an integrated supervision may prevent regulatory arbitrage and ensure a level playing field; *the covering of the “gray areas”* - as supervisions and regulations become centralised the loopholes that permit the appearances of non-regulated areas will stop, especially in the case where the legislation is not explicit about the way a certain financial product or service should be supervised.

There are also several *drawbacks regarding an integrated model of supervision and regulation* of the European financial markets: *unclear objectives* - if the objectives are not clearly specified the integrated model for supervision could prove to be more ineffective than the specialised supervision approach, mainly because the adoption of a wide range of objectives (that may vary from the stability of the banking sector to the protection of the clients of the insurance companies or pension funds) could facilitate the development of divergent paths between them [20]; *limited synergies* - the much anticipated synergies may not appear if the regulations regarding the banking sector, the insurance sector and the one for the capital markets are not harmonised before they are integrated into one structure, making their coordination more difficult and leading even to *diseconomies of scale*.

### 4. Comparative overview of the existing supervisory schemes at the European level

The countries from the European Union have chosen different models for their financial supervision depending on their own necessities. Thus, after 1990, *most of the developed countries have adopted an integrated model for the supervision and regulation* of their financial sector, *this trend becoming more obvious in the present*. This decision has been taken as a result of the development of very sophisticated financial systems, where the number of supervising entities was large and their connection in order to assure a balanced economic system have been proven to be too difficult.

Table 1. Models of supervision in Banking, Securities and Insurance sectors in EU-15

Country	Banking sec	Securities sec	Insurance sec	Model
Austria	U, CB	U	U	Integ.
Belgium	U	U	U	Integ.
Denmark	U	U	U	Integ.



Country	Banking sec	Securities sec	Insurance sec	Model
Finland	SA-B, S	SA-B, S	SA-I	Spec.
France	CB	CB, SA-S	AS-I	Spec.
Germany	U, CB	U	U	Integ.
Greece	CB	SA-S	SA-I	Spec.
Ireland	CB	CB	CB	Integ.
Italy	CB, SA-S	CB, SA-S	SA-I	Spec.
Luxemburg	SA-B, S	SA-B, S	AS-I	Spec.
Netherlands	CB, SA-S	SA-S	CB, SA-I	Spec.
Portugal	CB	CB, SA-S	AS-I	Spec.
Spain	CB	CB, SA-S	AS-I	Spec.
Sweden	U	U	U	Integ.
United King	U	U	U	Integ.

**Legend:** U - Unified supervision for all sectors; SA-B – Supervision authority for the banking sector; SA-S – Supervision authority for the securities sector; SA-I - Supervision authority for the insurance sector; CB – Central bank; Integ. – Integrated model; Spec. – Specialised model

**Source:** our elaboration based on information’s from documents and websites of the main supervisory authorities.

In the case of the EU-15 countries the fact that some of them haven’t adopted the integrated supervision and regulatory approach do not emphasise the existence of a lesser developed financial sector, but *the existence of a more traditional and rigid financial system.*

This un-uniform structure of the supervision systems appears also in *the case of the new member states* (see table below).

*Table 2. Models of supervision in Banking, Securities and Insurance sectors in EU New Member States*

Country	Banking sec	Securities sec	Insurance sec	Model
Bulgaria	CB	SA-S, I	SA-S, I	Spec.
Czech Republic	CB	CB	CB	Integ.
Cyprus	CB	SA-S	SA-I	Spec.
Estonia	U	U	U	Integ.
Latvia	U	U	U	Integ.
Lithuania	CB	SA-S	SA-S	Spec.
Malta	U	U	U	Integ.
Poland	U	U	U	Integ.
Romania	CB	SA-S	SA-I	Spec.
Slovakia	CB	SA-S, I	SA-S, I	Spec.
Slovenia	CB	CB, SA-S	SA-I	Spec.
Hungary	U	U	U	Integ.

**Legend:** U- Unified supervision for all sectors; SA-B – Supervision authority for the banking sector; SA-S – Supervision authority for the securities sector; SA-I - Supervision authority for the insurance sector; CB – Central bank; Integ. – Integrated model; Spec. – Specialised model

**Source:** our elaboration based on information’s from documents and websites of the main supervisory authorities.

As we can note from the table there are yet several new member states that still use the sector supervision model, one of which is Romania. This is mainly because the financial systems from these states are not

that complex, some of their financial sub-systems being not that evolved and having a low level of credibility. Thus, we can conclude that *the supervision model is chosen also based on the financial system architecture from each state, besides political, historical and path dependence factors.*

Another remarkable aspect is represented by the fact that almost half of the European Union members have a fully integrated or semi-integrated supervision system (a single entity supervises two market segments e.g. in Finland and Luxemburg the same entity is supervising both the banking and the capital market, while in Bulgaria the assurance and the capital market have a sole supervisor), *the major trend being, as we can see, toward an integrated supervision system.*

## 5. Conclusions

In conclusion, *the tendency to integrate the supervision and regulatory powers regarding the financial market in a single entity at national level must not necessary imply that there must be a single supervision and regulatory entity at European level.*

The minimal conditions which must be fulfilled in order to optimize the European cross-border financial flows supervision refers to the existence of a single European rulebook and a unified supervision of the financial groups – two key elements for the creation of the common European financial market. On the one side, *a single European rulebook* would allow companies to compete on the basis of the same rules in all the 27 member countries of the European Union and reduce compliance costs and moreover would diminish the possibility of regulatory arbitrage. On the other side, the creation of *one integrated EU supervisory framework*, can provide a strong supervision of the cross-border financial institutions and also facilitate access to information’s needed in an effective supervisory activity. In order to achieve all this, the creation of a supra-national entity at European level which would ensure the supervision and the regulation of the financial sector, is not an obvious necessity. A more “soft approach” can be used, like the creation of a network of supervisors, which will be engaged both in micro and macro prudential supervision, like the one suggested by the De Larosiere report.

Conclusively, if the European financial market would be successfully regulated through the Lamfalussy procedure (European Commission, 2001), then *the necessity for an integrated*



*supervision system* will be obvious, or, in the case of the countries with a specialised model, *a tightening of the collaboration between the different authorities* (supervision entities for the assurance, capital and banking market) will become evident.

## 6. Acknowledgements

I hereby acknowledge the support of the "Alexandru Ioan Cuza" University of Iasi, in the development of this article through the grant POSDRU/88/1.5/S/47646, entitled "Studii doctorale: portal spre o carieră de excelență în cercetare și societatea cunoașterii", co-financed through the European Social Fund, within the Sector Operational Programme Human Resources Development 2007-2013.

## 7. References

- [1] Avgerinos, Y., „EU financial supervision revisited: the European securities regulator”, Jean Monnet working paper, No. 7, 2003.
- [2] Čihák M. and R. Podpiera, “Is One Watchdog Better than Three? International Experience with Integrated Financial Sector Supervision,” IMF Working Paper 06/57, 2006.
- [3] Demaestri, E. and F. Guerrero, „The Rationale for Integrating Financial Supervision in Latin America and the Caribbean”, Sustainable Development Department, Technical Papers Series, IFM-135, 2003.
- [4] Di Giorgio, G. and C. Di Noia, „Financial market regulation: the case of Italy and a Proposal for the Euro Area”, in Andenas and Avgerinos (eds), nt. 3, 2003, pp.397-420.
- [5] European Central Bank, “Financial integration in Europe”, Frankfurt, April 2010.
- [6] European Commission, „High-Level Group on Financial Supervision Report” (the so-called Larosiere Report), Brussel, 2009;
- [7] European Commission, „Final Report of the Committee of Wise Men on the Regulation of European Securities Markets” (the so-called Lamfalussy Report), Brussel, 2001;
- [8] Financial Services Committee, ”FSC Report on Financial Supervision” (the so-called Franque Report), Brussel, 2006;
- [9] Goodhart, C., „The Organisational Structure of Banking Supervision”, Financial Stability Institute Occasional Papers 1, Basel, 2000.
- [10] Herring R.J. and J. Carmassi, “The Structure of Cross-Sector Financial Supervision”, Financial Markets, Institutions & Instruments, 17, 2008, pp. 51-76.
- [11] Hertig, G. and R. Lee, „Four Predictions about the Future of EU Securities Regulation”, 3 Journal of Corporate Law Studies, 2003, pp. 359-377;
- [12] Jackson, H. E., „Learning from Eddy: A Meditation Upon Organizational Reform of Financial Supervision in Europe”, Harvard Public Law Working Paper No. 09-17, 2009.
- [13] Kahn, C.M. and J.A.C. Santos, “Allocating Bank Regulatory Powers: Lender of Last Resort, Deposit Insurance, and Supervision,” European Economic Review 49, 2005.
- [14] Kawai, M. and M. Pomerleano, „Regulating Systemic Risk”, ADBI Working Papers, No 189, 2010, pp. 10 -16.
- [15] Lannoo, K., „Does Europe Need an SEC? Securities market regulation in the financial markets in Europe: towards a single regulator?”, Paper prepared for the European Capital Markets Institute, 1999.
- [16] Ojo, M., „Central bank’s role and involvement in bank regulation: Lender of last resort arrangements and the Special Resolution Regime (SRR)”, MPRA Paper from University Library of Munich, Germany, 2009.
- [17] Padoa-Schioppa, T., „Financial supervision: inside or outside central banks”, in: Kremers, J., Shoenmaker, D. and Wierdsma, P. (Eds.), Financial Supervision in Europe, Edward Elgar, Cheltenham, 2003, pp. 160.
- [18] Rosengren, E. S., „Bank Supervision and Central Banking: Understanding Credit During a Time of Financial Turmoil”, 28 Ann. Rev. Banking & Fin. L., 2008, pp. 221.
- [19] Schoenmaker D. and S. Oosterloo, „Cross border issues in European financial supervision”, Brookings-Wharton papers on financial supervision, 2003, pp. 226;
- [20] Wymeersch, E., „The Structure of Financial Supervision in Europe: About Single Financial Supervisors, Twin Peaks and Multiple Financial Supervisors”, European Business Organization Law Review, 8, 2007, pp. 7-8.

## European Statistics and Globalization. Romania's case

SECAREANU Constantin  
*Romanian-American University of Bucharest*  
*constantin.secareanu@yahoo.com*

### Abstract

*In the paper, major tendencies are identified, presently influencing official statistics, as well as concepts, methods and instruments used within the Global Statistical System for the analysis and status forecast and evolution of any statistical agency, at different levels: international, European and national.*

*The development methods of the National Statistical System are highlighted (in an European and international context), in such a way that it meets the requirements of actual challenges and perspective.*

**Key words:** Statistical System, Centralization, decentralisation, deconcentration

**JEL Classification:** E02, K2

### 1. Preliminary considerations

Presently, official statistics is recognised as having a fundamental role in society, at a national level, as well as at a community and international level. Statistical information has become a true public product, through the exponential growth of the number of users of data generated by the statistical system (from the deciders to the entire public opinion), contributing to the creation and spread of informational capacity in society.

At a community and national level, statistics has become, in a measure, greater, an instrument of fundamenting, analysis and evaluation of economic and social politics, of constant monitoring coherent and correlated, of strategic objectives.

In the conditions of an increased diversification from the economic, social, cultural, ethnic, etc point of view, statistics must create a common language for all the entities, through providing information produced, developed and published based on some clear standards of a harmonised metadata

and of a common set of principles, criteria and norms that govern all statistical activity.

Although, a lot of countries – with enough expertise in the field - are making individual efforts to resolve actual problems in the field of statistics, the accomplishment of previous goals requires a much larger dedication, both at the community and national international level.

The accomplishment of these objectives require a concentrated effort of all national statistics, in a much wider frame created by the existence of the European Statistical System and the Global Statistical System.

### 2. The Global Statistical System

The Global Statistical System (GSS) is built based on an official infrastructure, consolidated on three levels: international, community and national.

**A.** At an international level, the Statistics Committee of the United Nations is recognized as the supreme entity in the GSS, with a leading role in managing and developing policies and practices in international statistics. The committee is the “engine” that makes the global system work, ensuring the implementation and development of international statistical standards for creating solutions to the pressing matters existing for national offices of statistics.

Still on the international level, as a direct reaction to the requests of specific statistics, a series of specialized organizations have become a part of the GSS: The Organization of Economic Cooperation and Development, the Global Bank, the International Monetary Fund, the International Office of Work, etc.

Also, the solutions of great problems have necessitated the creation of partnerships such as PARIS 21, the “Partnership in Statistics for Development in the 21<sup>st</sup> century”, where the United Nations, the European Committee, the Organization for Economic Cooperation and Development, the International Monetary Fund and the Global Bank are globalised. The objective of PARIS 21 is the implementation and development of a culture of elaboration of policies in statistics that serve to

improve the governing efficiency in hopes to reduce poverty and accomplishing the Objectives of Development of the Millennium.

Surely, the creation of this structure is a reaction to the fact that the remarkable successes in economic statistics development have been accompanied by slow progress and less spectacular in the field of standards for social statistics.

**B.** At the community's level, supranational structures (organizations) have been created, with attributes in the field of statistics. firstly, there's EUROSTAT (The Office of Statistics of European Communities), that ensure – on one hand – the solving of problems common to all the members of the community (through assistance programs) and – on the other hand – the complementary regulation in the field, in two directions:

- harmonising statistical standards of the European Union with international ones;
- harmonising national statistical standards with the European Union's ones.

As a result, for the good governing of the European Union in the field of statistics, a part of the responsibilities have been transferred from the Member States to Eurostat.

**C.** At the state's level, we meet all the national offices of statistics, the base components of the GSS, of which the quality, promptitude and efficiency of all statistics finally depend on.

The functioning of the Global Statistical System at all three levels is conditioned by at least two factors:

-on one hand, the cooperation and connexions between international and national structures, based on a common terminology of methodologies and instruments developed, to permit the exchange of information;

- on the other hand, the constant hardening of the National Statistics Systems and their dedication to the international problems in the field.

Finally, the Global Statistical System is made whole through the inclusion, along the structures of practical statistics, of academic communities and of research represented by the National Institute of Statistics.

### **3. The actual internal and international context**

The official Romanian statistics had to recover, after 1989, at least two essential handicaps: independence and credibility, both

severely shaken in the 80's. The statisticsman's task was more difficult, as the economic, political and social environment in those years were unfavorable: economic downfall, social movements, syndical withdrawals and political disputes. With all the inherent difficulties, the actions were aimed toward change, for promoting the modern methods of statistical research, for processing and dissemination.

A new legal frame was adopted, where the fundamental principles of the workings of statistics would be found, wholly copied from the Governmental Ordinance nr. 9/1992 and became the value set for the National Institute of Statistics (NIS), through which regaining the respect of different categories of suppliers were sought, as well as benefitting from statistical information and data of the public opinion.

The objectives, measures and actions enterprise were conjugated, concentrated and covered all these aspects:

- the change of concepts, instrument inventory and statistical research methods;
- the professional forming of statistical personnel and the management of human resources;
- the equipment of high performance and the administration of information technology;
- internal and international cooperation.

As a result, we're assisting to – presently – to the creation of a new image of official statistics, a slow, very difficult and sometimes contradictory process, through which statistical information is published through media and is accessible to all users, whatever their revealed tendencies.

Romanian statistics has engaged itself in the process of readapting to the European standards, through the harmonization and progressive integration in the European Statistics System (ESS). Thus, since January 1<sup>st</sup>, 2007, the National Institute of Statistics (NIS) in Romania is the beneficiary of ESS membership, actively participating in the European legislative process and statistics management.

In June 2009, the Parliament approved a new Law of statistics that regulates the organization and function of official statistics in Romania, the creation, development and coordination of the Statistical National System, the current approach of the relationship between producers – dealers – users of statistical data, in conformity to the fundamental principles of official statistics.

In the last decades, theoretical research and managerial practice have intensified and permitted the crystallization of some concepts, methods and

new instruments for analysis and prediction of the status and evolution of a national statistical system.

The starting point, in the present case, is the outlining of the three *major tendencies* identified for every public entity, but that much more for a statistical agency.

**A.** *The first tendency* consists of shifting from focussing managerial preoccupations almost exclusively on the internal situation of the agency, to subordinating the majority of activities to a considerable opening to the exterior, to the environmental factors with important impact.

In our crosshairs we have at least two elements that, presently, can become both opportunities and threats:

1. On one hand, *the satisfaction of the users' necessities* for statistical information (The government, ministries, local authorities, the academic environment and scientific research, the business environment, the press, the overall public, national institutions); their necessities must be identified and studied differentially, for each category separately, then the types of future demands must be anticipated, and the observations made be included in the formulation of priorities in the plans of action; From this point of view, Romanian statistics has to act in more directions:

- satisfaction with the priority of European demands, in the context of a simultaneous increase of the satisfaction degree of statistics data needs of the internal users;
- the implementation of the statistics System of regional development in unison with the adopted administrative, territorial and statistics structures;
- the development of a high quality integrated simultaneous dissemination System, comparative to the best systems;
- the implementation of an opinion surveillance System, of positive or negative comments addressed to the statistic, through research about the opinion and trust that data users invoke in rapport with a series of statistics indicators;
- contracting one of the acute risks, that of the apparition of imbalances between research and new statistical data (more and more numerous) and human and financial resources available, through prioritizing activities in statistics and the optimal allocation of resources.

Within a world of continuous globalization, the public opinion represents a major interest

for national statistics and for the international comparisons. In these conditions, the visibility of statistics and statisticians has risen greatly, simultaneous with the growth of some risks (vulnerabilities), specifically tied to the authority and credibility of statistics, especially regarding the quality if provided information that stands at the base of the decision making process.

2. On the other hand, *the policy toward respondent targets* avoiding the useless delay of data suppliers, through the reduction of "the burden of statistical reports"; Not excluded, should be the possibility that, in the near future, *primary data collection will become the primary threat, if it hasn't become already*. The more and more frequently met phenomenon of the growth of the non-response rate, especially in the case of small enterprises and of the populations' farms, it must be contracted through the improvement and diversification of data sources, through identification and attraction in the international circuit, in greater measure, of administrative complementary data sources.

In this context, of reducing the primary data answering load of dealers and, implicitly, the rise in operativity and quality in statistics at a community level, references to the European approach on statistics are often made. So, the fields where national data are not absolutely necessary, the sampling will be possible at the European Union's level (but not at a national level).

**B.** *The second tendency* identified is derived from the characteristics of the period we live in, when continuity records inflexion points, discontinuities, movements more numerous and accelerated, of changes that know amplitudes and depths previously unreached (from an economic, political and social standpoint). From here results the obligation to raise the decisional reaction time, simultaneously with increasing the flexibility of actions, indispensable in case of unforeseen changes. The reactions of a national statistics system can be very different. The successful passing through a sometimes "turbulent" environment, most of the times "changing" and rarely "stable" are decisively influenced by the general characteristics of the statistic system: Coherence and force, or, oppositely, frailty and continuous pressure.

Counteracting the possible negative effects is done *by creating and actualizing a unified and uncontradictory systematic legal frame* of organization and function of a national statistical system that clarifies a series of problems and permits the overtaking of some dissfunctionalities and the elimination of voids:

1. The subordination/autonomy of the institution demands the existence of an independent statistical leadership (at a central and local level), uninfluenced by political groups.

2. The duration of an agency leadership mandate should not be similar to that of the executive.

Thus, in some EU member states and in the USA, a limited (a number of years time) mandate is practiced, that can be renewed, not affecting the continuity of statistical programs.

3. The national statistical system components, the mechanisms and functional relationships between the primary actors of the system, as well as its slope of coordination and communication between different structures (interinstitutional committees and collaboration conventions); Thus appears the necessity of creating statistical compartments within public institutions' administrations, central and local, as well as other public authorities.

The adoption of a new statistics law, in concordance with the actual state of Romania as a Member State of the European Union consequentially appears as justified, with standards, mission, vision and functions that Romanian statistics proposes to exercise in the context of full integration in the European Statistical System.

As well, in this cadre, statistics will succeed in offering the adequate answers to challenges and ample changes present and in society's perspective, in the context of the economic and financial crisis, globalization, the competitively growing in intensity, the affirmation and development of international society.

C. Finally, *the third identified tendency* is that of *institutionalizing innovation*, finalized through the realization of new statistical research, as well as perfecting the existent research.

This tendency must be encouraged through custom (specific) coordination instruments such as: methodologies, classifications and nomenclatures, statistical registries, information technology, the recruitment and professional personnel training. The crucial instrument for the increase of the innovation capacity is the budget of the agency (including the external unrefundable funds).

In this context we mention the quantification efforts through statistical indicators of problems regarding durable development, rural development, globalization, regional development, competitively, the

interaction of economic development – social development, the environment, etc.

The infusion of technical support, methodological and operational, has given Romanian statistics the possibility of making significant progress and touching, in more domains, the quality and comparability of the solicited data, compatible with that of the other EU member states, data aligned to the international standards.

In the future, actions must be made in the direction of totally implementing the European Code of Good Practice in Statistics and of all the elements of the Management of Total Quality.

#### **4. The centralization and decentralization within national statistical systems**

There's a diversity of statistical systems in the world.

At one extremity there's the *centralized system*, where a single institution (usually an *autonomous* governmental agency) is responsible to the majority of official statistics (Australia, Canada, Mexico); even in this situation, the collection of some statistics lies within the responsibility of other institutions (the agricultural statistics, work statistics, environmental statistics, financial statistics, etc.);

At the other extremity we meet the *decentralized system*, in which numerous statistical agencies are annexed on certain domains (USA). This is *institutional decentralization*, that demands the existence other profiled institutions, outside the agency, for example: demography and population counts, social statistics, external commercial statistics, price statistics, education and health statistics, etc., distinct institutions, that usually don't need the existence of a coordinating authority.

There is, as well, a *territorial (regional) decentralization*, that needs coordination and control from the central statistical agency.

Regarding the role of regional offices, more possible functioning choices:

1. *decentralization*, that presumes a total subordination toward the central agency, the regional office taking on routine duties in the aspect of collecting primary data and eventually disseminating results;

2. *deconcentration*, which is met in at least two situations:

- in the conditions of a risen autonomy of regional offices, a case where *national centers (poles)* can be created, that tend to processing and dissemination of statistics regarding a certain domain, taking on the responsibilities of coordination and control of the central agency.

- in the conditions that the regional offices are in the *subordination of local authorities*; this situation must be avoided, the double subordination not being recommended; domains of local interest can be developed based on partnerships between regional offices of statistics, the local authorities and the economic agents.

## 5. Conclusions

1. No country in the world contains a single institution responsible for collecting and disseminating all official statistics.

2. Usually, national statistical systems aren't entirely centralized or decentralized, mixed statistical systems being often met, with asymmetry toward one or the other extreme alternatives.

3. There is no unique recipe, the final objective being the growth of a complete national statistical system, tight and coherent, comparable with similar systems in the countries of the European Union (with the exception of those in federal government systems).

4. A series of statistical system modifications are presently imposed on the national statistical system, based on a coherent strategy, with clear objectives on a medium and long term, targeting the total integration of Romanian statistics under methodological and quality aspect in the European Statistical System. The massive transfer of good practice in statistics will lead to the creation of a modern statistical system, organized on scientific bases and capable of offering efficiency, quality, promptitude and transparency to the official statistic.

## 6. References

- [1] Secareanu C. , Gruiescu M. – Statistics – concepts, methods and basic techniques. Ed. Enciclopedica, Bucharest, 2007.
- [2] Voineagu V. , Dumitrescu I. , Stefanescu D. – Romanian Statistics on the road to integration in the European Statistical System, The Romanian Statistical Review nr. 1 / 2007.
- [3] Voineagu V. , Stefanescu D. , Dumitrescu I. – Global Statistical System Offensive, The Romanian Statistical Review nr.8 / 2009.
- [4] \*\*\* Statistical Organization Manual, 3<sup>rd</sup> Edition, UN, 2003.

## Single Currency of the European Union

SIMA Isabella  
MARIN Camelia  
POPA Ionela

„Constantin Brâncoveanu” University of Pitești  
i\_onescu@yahoo.com  
cameliamarin81@yahoo.com  
popaionela80@yahoo.com

### Abstract

*The euro is the single currency shared by (currently) 16 of the European Union's Member States, which together make up the euro area.*

*Around 329 million EU citizens now use it as their currency and enjoy its benefits, which will spread even more widely as other EU countries adopt the euro.*

*The process of economic and monetary integration in the EU parallels the history of the Union itself. When the EU was founded in 1957, the Member States concentrated on building a “common market”. However, over time it became clear that closer economic and monetary co-operation was desirable for the internal market to develop and flourish further. But the goal of achieving full EMU and a single currency was not enshrined until the 1992 Maastricht Treaty, which set out the ground rules for its introduction. These say what the objectives of EMU are, who is responsible for what, and what conditions Member States must meet in order to adopt the euro. These conditions are known as the “convergence criteria” and include low and stable inflation, exchange rate stability and sound public finances.*

*In a radical report, the UN Conference on Trade and Development (UNCTAD) has said the system of currencies and capital rules which binds the world economy is not working properly, and was largely responsible for the financial and economic crises.*

*Although a number of countries, including China and Russia, have suggested replacing the dollar as the world's reserve currency.*

**Key words:** economic and monetary union, single currency, common market

**JEL classification:** F15

### 1. Introduction

For the first time since the fall of the Roman Empire most of Europe has a single, common currency. The US dollar faces the first challenge to its hegemony since it displaced the British pound sterling as the world's most important currency after the First World War. However, if the Euro is to assume a wider role it will have to flourish in its own continent and survive challenges to the stability of European economies first.

The European Union was brought into existence by putting the cart before the horse: setting limited but politically attainable targets and timetables, knowing full well that they would not be sufficient and require further steps in due course. But for various reasons the process gradually ground to a halt. The EU is now largely frozen in its present shape.

The same applies to the euro. The crash of 2008 revealed the flaw in its construction when members had to rescue their banking systems independently. The Greek debt crisis brought matters to a climax. If member countries cannot take the next steps forward, the euro may fall apart.

The recent global financial turmoil brought the world to the brink of monetary collapse, and reminded us yet again that the current multicurrency system has excessive risks and costs. The only long term alternative is to deliberately move to a single global currency, managed by a global central bank within a global monetary union, and the time to begin planning is now.

### 2. Euro - project reality

European Economic and Monetary Union (EMU) is an agreement between participating European nations to share a single currency,

the euro, and a single economic policy with a set of conditions of fiscal responsibility.

Currently, there are 27 member states with varying levels of integration in the EMU. Sixteen Member States have adopted the euro: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia and Spain. Three other Member States, Britain, Denmark and Sweden, they weigh on euro adoption plan. Eight Member States, Latvia, Lithuania, Estonia, Poland, Czech Republic, Hungary, Romania and Bulgaria, are in various stages of adopting the euro and most likely will join the euro area over the next ten years[1].

At the outbreak of World War II, most currencies in the industrialized countries were closely similar to U.S. dollars under what was called "gold standard" in the Bretton Woods system. De facto supremacy of the dollar and European currency devaluations has led some European politicians to search for a redress of this unbalance through economic integration between European nations.

Plans for a single European currency began to be outlined since Barre's 1969 report, prepared by the then six member states of the European Economic Community (EEC). This was followed later that year a meeting of heads of state and government in The Hague to plan the creation of economic and monetary union. The process was delayed by the collapse of the Bretton Woods System in 1971 after President Nixon's unilateral decision making inconvertible dollar after gold and oil crisis of 1972. Meanwhile, the EEC has grown now including, as noted above, sixteen states, many of them are reluctant to give up their national currencies.

Currently, European countries participating in the three phases can be integrated economic, historical phases of development corresponding to EMU.

Each state has adopted the new currency on 1 January 2002 must meet "convergence criteria" set out in the Maastricht Treaty. ***The criteria included five requirements:***

- Currencies must stay within the parameters set by the ERM for at least 2 years;
- Long-term interest rates could be higher than 2% of the three best Member States in terms of performance;
- Inflation to be below the reference value (within three years prices may be higher by 1.5% than the best performer);

- State debt should be below 60% of GDP (or be close to this target);
- Budget deficits to below 3%.

The third phase of development may be linked to an EMU member state, which once joined the ERM-II and maintained the convergence criteria for at least two years, and joined the Euro zone.

Name of the euro was formally adopted on December 16, 1995, and entered currency on international markets itself on January 1, 1999, replacing the so-called European currency unit (ECU), and then, on January 1, 2002 was brought into service, replacing the Finally the national currencies of the euro area.

Currently Member States participating in the euro are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. These countries are often called "Euro zone" and "Euro land".

Andorra, Monaco, San Marino and Vatican City also use the euro, although not formally members of the euro, even EU members. Of these, Monaco, San Marino and the Vatican have created their own currency, its own national symbols on the back. Andorra used the French and Spanish coins, since they used the French franc and Spanish peseta as its currency. These countries use the euro due to agreements with EU Member States (Italy where the principality of San Marino and Vatican City, France if Monaco), approved by the EU Council.

Montenegro and Kosovo, who used Mark as their currency, have also adopted the euro, although, unlike the above three countries have not entered into any legal agreement with the EU explicitly enabling this work.

Other places that use the euro are French Overseas Territories: French Guiana, Réunion, Saint Pierre and Miquelon, Guadeloupe, Martinique, Saint Bartholomew, Saint Martin, Mayotte, and Clipperton islands nelocuitele and French Southern and Antarctic Territories, autonomous regions Portuguese Azores and Madeira and the Canary Islands.

From February 2, 2002, the litas (LTL) entered the ERM II exchange rate's being fixed against the euro instead of dollar.

Denmark and the UK have obtained an exemption is not required to adopt the euro and with the so-called clause "opt-out. Sweden has no exception in this regard, but nevertheless decided in 1997 not to join the



euro zone, so it has not made any effort to meet the criteria necessary to have a stable exchange rate. Sweden has been a referendum on the European single currency on 14 September 2003, participants voting against adopting the euro, with 56.1% votes against and 41.8% votes. This decision was taken for a minimum of five years.

In Denmark a referendum on joining the euro took place on September 28, 2000, resulting in a rate of 53.2% against membership.

Making the euro required years of plans and preparations to strike a balance between aesthetics, practical dimensions and security features. From this process emerged seven banknote and eight coins that were put into circulation in January 2002.

All coins have a common (1, 2 and 5 cents: Europe in the World, 10, 20 and 50 cents: Europe as an alliance of states, 1 and 2 euro: Europe without borders) and a specific country to which it is issued by currency (even for Monaco, San Marino and the Vatican have made their own coins). All notes are made after a joint model for the entire euro area. Obviously, all currencies are used in all member countries, such as a coin has the portrait of Juan Carlos circulation not only in Spain but also in Finland, Ireland, etc..

The final date of validity of currencies varies from state to state. The first coin was gone Deutsche Mark (German mark), on December 31, 2001 in a minute, the last coins disappeared on February 28, 2002, once all the coins would have to stop in the respective legal amount. However central banks of the euro area countries will continue to accept old currency notes and coins (e.g. 2012 in France for banknotes).

European currency symbol, €, comes from the initial European continent, and the 2 parallel bars represent stability and security.

Also, each state is entitled to issue an annual € 2 coin, commemorative purpose, but ordinary legal tender.

### **3. Benefits and costs of transition to single currency**

*Euro benefits*[2] are diverse and are felt at different levels, from individuals and businesses and reaching the whole economy.

These include:

- More choice and stable prices for consumers and citizens

- Increased security and more opportunities for businesses and markets
- Stability and Growth
- More integrated financial markets
- A stronger EU presence in the global economy
- Presence of a tangible sign of European identity

The single currency brings a new force and new opportunities arising from integration and economic dimensions of the euro zone single market becomes thus more effective.

The single currency and the euro area mean new opportunities in the global economy. Prudence in managing its business, making the euro an attractive reserve currency for the euro zone countries and ensure a stronger position in the global economy.

Also gives size and prudent management of euro area economic stability, which resists thus better the so-called "shock" external economic, or sudden economic changes that may occur outside the euro area and affect national economies, and price increases oil or the emergence of turbulence on international currency markets. Due to its size and strength, the euro area can also better absorb external shocks without losing jobs and without reducing growth.

Euro status as world currency, plus size and economic strength of the euro area, determined more and more international economic organizations such as the IMF and the G8 to consider the euro area economy an independent entity. This ensures that the European Union a stronger global position.

To benefit from this strong position to contribute effectively to international financial stability, the euro area is expressed increasingly more often as a single voice in important economic forums. This is the result of close coordination between Member States of the euro area and the cooperation between the European Central Bank and European Commission during the international meeting on economic issues.

*Disadvantages (costs)*[3] transition to the single currency could be summarized as follows:

- reduction and elimination of arrears could lead to closure of production capacity whose viability is not possible, which would mean rising unemployment and public spending on the redundant (however lower than maintaining the activity of the viable artificial);

- waiving lever to promote exports through currency depreciation will cause difficulties (reduced price competitiveness) of exporters, especially those that supply, with domestic priority;
- classical and specific channels used for macro underdeveloped countries, economic growth and enhance external competitiveness will not be used (national currency depreciation, increasing budget deficit and public debt, inflation and high interest rates) which will create economic difficulties coping Community rigors unusual;
- up to full monetary and economic stabilization is possible the entry of speculative capital that adversely affect the country's foreign exchange resources;
- the first stage of accession after the prices and rates could increase (especially in public utilities and agro-food products).

Despite the general pessimism on euro costs and risks, it would seem that the question whether the euro benefits exceed its disadvantages, in terms of importance, is a firm yes. This response is primarily due to simple fact that the euro has been introduced. He is no longer a theoretical symbol of unity, a symbol which exists only in the minds of some ambitious politicians.

#### **4. Euro zone crisis and the future enlargement of Euro land**

The crisis that began in Greece culminated in a crisis across the euro area. To answer the question how it came to this impasse is necessary to differentiate the three players who had played an important role in the development of this crisis, namely: Greece, and financial market authorities in Euro land.[4] Greece's role could be summarized in few sentences. Mismanagement and a sense of disappointment emanating from the authorities have made this crisis possible. The Greek government is currently struggling with a huge problem of lack of credibility, making the exit from the crisis is becoming more difficult, because nobody trusts them (government). Any announcement made by Greek government officials about their intentions to redress the budgetary situation will be received with a large dose of skepticism for years to come.

Credit rating agencies have been central to the destabilizing role of financial markets. A stuff you can say about these agencies would

be that they have failed to see near crisis. And even after its emergence, they react in a systematic way too many, so contribute to intensify the crisis. This happened even two years ago, when rating agencies were caught completely unawares by the credit crunch. Repeat that scenario even now in the last few months. Sovereign debt crisis began in Dubai. Fail in a way so shameful as to predict a crisis of sovereign debt, agencies began to seek such frantic and possible seizures. They focused on Greece's target was a natural course. But not limited to Greece only searches. This led to a significant decrease in government bond rates in the countries concerned.

An explosion source level of government debt is unsustainable levels of private debt in the financial crisis. During the boom years, private sector has accumulated many debts. Then came the recession and governments had to collect the shards. They did this in two ways. First, while the economy was dragged into recession decreased revenues and increased government social spending. Secondly, since the part of private debt was guaranteed by the government, he was forced to save his debt to private institutions.

Present due to fear excessive government debt may trigger so-called "Fisher's paradox." As governments are forced by rating agencies to reduce debt levels, future redemption of private debt becomes impossible. The private sector can reduce its debt unless the government is willing to increase their debt. Now forcing the government to reduce debt while the private sector also seeks to reduce its own debt, leading to a dynamic self-defeat, the neither the government nor the private sector and fail to reduce debt. This dynamic also pull the economy down by deflation. This dynamic has been examined by Irving Fischer in 1930 seems to be part of the intellectual tools kit rating agencies. The event was permitted hesitation crisis that came from both the governments of the Euro zone and the European Central Bank (ECB).

Greek debt crisis turned into a setback to the prospects of enlargement of the euro area, highlighting the difficulties of managing an area with a single currency. Politicians will not say so, but only little Estonia is likely to join Euro zone the next 5 years, although "the euro convergence" will remain the central policy anchor for all new East European members of

the European Union. Germany and European Central Bank is determined not to let another into the Euro zone Greece. Polish politicians have understood this and changed their attitude in this regard, saying that Poland will adopt the euro no earlier than 2015.

Analysts expect both the European Commission and European Central Bank is ever stricter application of membership criteria and insists that the first candidate to achieve real and sustainable convergence with the Euro zone. This means to take into account more indicators such as neglected in the past, current account balance and broader measures of competitiveness. When eight Central and Eastern European countries joined in May 2004, along with Cyprus and Malta, a Reuters poll conducted on the 33 economists of Banking, has revealed that they expected that all these states to join Euro zone this year. Their accession treaties obliging them to adopt the euro once they meet criteria on debt, deficit, inflation, interest rate and exchange rate stability. However, only Cyprus, Malta, Slovenia and Slovakia joined the Euro zone which is now 16 members. Lithuania has seen its document application rejected in 2007 after nearly missed both the inflation target.

Estonia has strong chances to gain access to Euro land next year, EU officials said, but the main central European economies is more likely that they will not join before the middle of the decade and possibly well beyond. Iceland comes and knocks at the door looking for news Euro zone rescue its banks after they fell in October 2008, but were told he must first make application to join the European Union. Czech and Polish governments have shown a distant horizon when they approved the euro convergence plans that seem to delay the adoption of the second half of the decade. Poland, which suffered embarrassment last year when he had to jump over an over-optimistic forecast that said it would adopt the euro in 2012, has set a new date, while the Czech Republic now aims for the years 2016 or 2017. Both have floating currencies that have depreciated during the financial crisis, helping them to avoid deep recession that hit the country with the euro exchange rate as reported in Latvia. Poland was one of the EU economy has enjoyed growth in 2009. Public opinion in the former socialist countries has become more sensitive in terms of early adoption of the euro, after an initial enthusiasm in this regard, after the financial

crisis hit. Greece deflation spectrum including sacrifices in wages and pensions and unemployment rates than the euro area do not seem so attractive in this region.

The crisis in Greece has intensified rumors that the EU countries as Romania and Bulgaria, two countries with big problems regarding corruption and organized crime were admitted into this organization too early integrationist.

## **5. Constant struggle between Euro and Dollar**

About this struggle that gives the world between the euro and dollar, which analysts have different opinions that they are divided into two camps: those who favor the rule of the Euro and so fervently believe and those who are of the old dollar? If we do an analysis of the euro share in global foreign exchange reserves for 2009, then surely we tend to believe that the supremacy of the dollar is about to end.

Single European currency continues to increase its attractiveness as a reserve currency to the detriment of the dollar, its share in global foreign exchange reserves climb to 27.5% in mid 2009 from 25.9% in March, showed a report of the International Monetary Fund (IMF), quoted by Bloomberg. Share of U.S. dollar in world currency reserves dropped to 62.5% at the end of June, from 65% to end the first quarter. In contrast, the Sterling rate increased slightly from 4% to 4.3%, as well as share yen, which reached 3.1% from 2.9% in March.

For U.S. currency is the lowest rate as world reserve currency to the euro, in 1999, while the European currency is the highest share after its appearance, informs Tuesday.

World Bank President Robert Zoellick, the United States warned Tuesday not to consider that the dominant role of the dollar as reserve currency is guaranteed forever.

Value of global foreign exchange reserves rose in the second quarter of 2009 to 6.800 billion from 6.500 billion at the end of the first quarter. However, data on the weight of each currency is based on extrapolation of figures available for part of the reserve - about 4000 billion dollars - the conditions under which central banks have no data on the structure of foreign reserves.

But as said, there are voices that are safe that almighty U.S. dollar will not end his

career as an international currency and euro support.

History shows that will not happen, despite the fact that the dollar is vulnerable. Financial supremacy of America in this century resembles the position that Britain occupied a century ago in international finance. Before World War I in August 1914, sterling was the favorite currency in international transactions, as the dollar today, and those who borrowed money at international visitors from London's City to raise capital. At the outbreak of the Great War, Great Britain retained the pound sterling convertibility into gold in order to maintain the credibility of international tender.

Dollar could not beat the British pound for the role of international exchange currency without being on a par with her in the reputation. And the events of August 1914 gave him the chance. Payment habits are changing financial world in the rate at which a glacier melts.

Making Britain - from international creditors in international debtor during the Second World War - gave the dollar a second victory in his fight with pound sterling.

Experience since 1914 shows that a credible alternative can replace a coin long recognized as the international medium of exchange, especially after being weakened by a trade imbalance. Today, the euro - a currency without a country - has a long history behind its credibility. There are sixteen EU countries using the euro as their currency. But these independent political entities committed to the euro can not match the history of American commitment to the dollar.

European Central Bank, founded in 1998, new money manager, has a mandate to maintain price stability so. But the ECB needs time to create a reputable institution that fights inflation. Can not take the shortcut, as did the United States a century ago. So the euro must

earn its reputation crisis by crisis to confront the dominance of the dollar as the favorite currency in international transactions. In short, it is clear that the euro made its place in this period of U.S. trade deficit, but this reflects a decline in the dollar rule pertaining to its development and not a revolutionary change of regime.

What could trigger a deadly assault on the dollar on international markets? While a massive and steep sales dollars by major holders of the currency - for example China - is unlikely, a cataclysmic event, like First World War in 1914, could cause the search for new currency as a means of international exchange. In the modern era of automated payment systems, such twists may come from a terrorist attack that could undermine bank transfer to computer systems in the world system of banks. A catastrophic loss of computer files would surely destroy the credibility of the dollar as the international means of payment.

But what could replace the dollar in such a situation remains to be learned. After all, a loss of electronic files would make the euro as suspicious. Perhaps gold, a depository of value can not be distorted by such maneuvers, will return as the standard currency evaluation. Of course, we can only hope that such a scenario will remain purely speculative.

## 6. References

- [1] <http://www.eu4journalists.eu/index.php>
- [2] Christian N. Chabot - Euro - the European currency ", Ed Theory, Bucharest, 2000, pg.36
- [3] Christian N. Chabot - Euro - the European currency ", Ed Theory, Bucharest, 2000, pg.43
- [4] Paul Grawe - Crisis in the Eurozone and how to deal with it, CEPS - Policy Brief. Thinking ahead for Europe, no. 204/February 2010

## The Quality of the Commercial Services

STANCIU Anca

CONDREA Elena

„Ovidius” University of Constanta

castan22us@yahoo.com

elenacondrea2003@yahoo.com

### Abstract

*The implementation of a quality assurance system (SAQ) in a firm represents at the moment a necessity of the actual development context.*

*Commercial services represent one of the main important components of the quality management systems in the retail activities. The services offered by all types of commerciants in their activities must themselves represent objectives of a quality approach, taking into consideration the customers exigency nowadays. The range of commercial services enregistered an explosive development in the last few years, being permanently adapted to the market demand.*

*A special attention must be given in this respect to the human resources management involved in the quality assurance (AQ) activities, the human vector representing a major important item due to the activities specificity.*

**Key words:** quality management system, commercial services, human resources

**JEL classification:** M59

### 1. Introduction

Businesses have like main resources: capital, physical, and human ones. Companies in global competitor's countries have been forced to develop their competitive edge primarily through the human resource, essential for retail activities. The human resources is the only one that competitors cannot copy, the only one that can synergize, that produce output whose value is greater than the sum of its parts. The objective of big retailers is to serve customers and their own employees. They are learning every day that to satisfy customers, they must first satisfy employees. The role of human beings at work has changed as business and labour have

changed over the years. Skilled craft people prior to the industrialization had a major stake in the quality of their products because their families' lively hoods depended on the sale of the products. They were motivated by pride in their work as well as the need for survival.

Recently, managers have begun to realize that these human resource practices no longer work very well. The new thinking is that:

- people design and improve the process;
- workers who run the process must control it;
- managers must obtain the commitment of people to design, control, and improve processes so that they can remain productive;

Thus, human resource management has shifted from a "control philosophy" to a "commitment philosophy". Studies have shown that such a shift results in higher quality, lower costs, less waste, better utilization, increased capacity, reduced turnover and absenteeism, faster implementation of change, greater human skill development, and better individual self-esteem. However, managers are faced with such new responsibilities as investing extra effort, developing new skills and relationships, coping with higher levels of ambiguity and uncertainty as well as obsolete skills and careers that are casualties of change. Workers also face discomfort caused by changing attitudes and skill requirements and increased responsibility.

Selling is a key element in the retail process. Some retail establishments such as jewellery stores, clothing stores, and hardware stores require a more personalized selling effort than others. A sales force equipped with the necessary selling skills and under competent management is an asset to any store.

### 2. Configuration of retail selling

Retail selling can be divided into two major categories: order-taking and order-getting.

Each of these has a different set of responsibilities and may be suitable for different types of stores.

*Order-Taker* – certain retail outlets require very little in-store personal selling of their products. However, they do require salespeople to take orders from customers. Examples of these include fast-food outlets, catalogue showrooms, gas stations, and grocery stores. The primary function of the order-taker is to take the order and serve the customer with the minimum possible delay. There may also be some opportunities for creative selling. Here, the order-taker can give the customer some guidance.

The order-taker should be courteous and efficient, and have a thorough understanding of store policies and procedures. Other characteristics the order-taker should have are knowledge of the product, tact, and a neat personal appearance.

*Order-Getter* – the order-getter is the salesperson that may need to convince customers to buy. This person is responsible for appraising and greeting the customer, determining the customer's needs, presenting the product, meeting objections and sales resistance, and, finally, closing the sale.

### 3. Requirements for the Effective Retail Salesperson

The requirements for good salespeople include the following categories: personal traits such as judgment, tact, a pleasant personality, a positive attitude, a pleasant appearance, and good personal hygiene, and knowledge of the merchandise, the store's policies and procedures, the competition's products and policies, and consumer behaviour.

- *Personal Traits*
- *Tact*
- *Personality and Attitude*
- *Appearance and Personal Hygiene*
- *Knowledge: Merchandise Knowledge; Store Knowledge; Competitor Knowledge; consumer Knowledge.*

### 4. Performance appraisal

Performance appraisal is an exceedingly difficult HRM (Human Resources Management) activity. Organizations typically

use performance appraisals for a number of reasons:

- Appraisals provide feedback to employees who can then recognize and build on their strengths and work on their weaknesses;
- Appraisals are used to determine salary increases;
- Appraisals identify people for promotion;
- Appraisals are used to deal with human resource legalities. As such, they can provide a paper trail to fight wrongful-discharge suits and act as a formal warning system to marginal employees.

Conventional appraisal processes typically involve a manager or supervisor evaluating the work of a subordinate for a given time period. Steps and characteristics of these processes may include some or all of the following:

- Objectives for a certain period of time are set unilaterally or jointly by the manager with his or her subordinate.
- At the end of the review period, the manager sits down with the subordinate and reviews accomplishments, strengths and weaknesses, and/or personal characteristics of the subordinate related to the job.
- Frequently, the form used for performance rating has 10 to 15 tangible and intangible categories, such as quantity of work, quality of work, works well with others, takes initiative, to be rated on a five-or seven-point scale from "excellent" to "unsatisfactory" or "poor".
- Usually, the manager appraises employees according to ratings distribution, based on company policies, such as "no more than 10 percent of any departments employees, may be rated as excellent" or "merit raises or bonuses will only be paid to employees who are rated as excellent or very good".

• The standard form generally asks the rater to evaluate the rate's capacity to handle greater responsibility and/or readiness for promotion.

• Often, the performance appraisal interview is accompanied by announcements of raises, bonuses, and/or promotions.

Dissatisfaction with conventional performance appraisal systems is common among both managers, who are the appraisers, and workers, who are the appraisees. Many managers are inclined to give higher ratings because of potential negative impacts. Numerous research studies over the past

several decades have pointed out the problems and pitfalls of performance appraisals.

TQM assumes that people want to do better, and will if they are properly motivated and are given the opportunity to participate, along with adequate training and tools. From a shared vision of quality that goes beyond one's own workplace emerges a team concept in which trust, effective communication, and cooperation are necessary to achieve success. Performance appraisals are most effective when they are based on the objectives of the work teams that support the organization. In this respect, they act as a diagnostic tool and review process for individual, team, and organizational development and achievement. The performance appraisal can also be a motivator when it is developed and used by the work team itself. Team efforts are harnessed when team members are empowered to monitor their own workplace activities.

In a TQM culture, quality improvement is one of the major dimensions on which employees are evaluated.

In the spirit of Deming, many companies are replacing performance evaluation altogether with personal planning and development systems.

## **5. Training and education**

Training is one of the largest initial costs in a total quality initiative, and not surprisingly, one in which many companies are reluctant to invest.

Quality and related training and education provide and/or enhance the knowledge and skills employees need to do their jobs effectively and efficiently. Training includes quality awareness, leadership, project management, communications, teamwork, problem solving, interpreting and using data, meeting customer requirements, process analysis, process simplification, waste reduction, cycle time reduction, error-proofing, and other educational issues that affect employee effectiveness, efficiency, and safety. In many cases education also provides job enrichment skills and job rotation that enhance employees' career opportunities. Sometimes, training in basic skills such as reading, writing, language, and basic mathematics is needed for quality and operational performance improvement.

Companies should assess the specific

training needs of different employees. All employees need basic skills and quality orientation. However, advanced topics differ among employee categories and functions.

The leaders in quality (Deming, Juran, Crosby etc.) actively promoted quality training and education. Two of Deming's 14 Points, for example, are devoted to these issues.

The approaches of quality leaders are not based on sophisticated statistics or new technologies. Rather, they are focused on the philosophical importance of quality and simple tools and techniques that are easily applied and understood. Once the basics are in place, more advanced statistical methods can be taught and applied.

Companies committed to TQM invest heavily in training.

Specific approaches vary by company. Most large companies have in-house training staffs with state-of-the-art facilities.

Smaller companies often use outside consultants. The content should be customized to the company's needs; "packaged" seminars are often a waste of time.

Continual reinforcement of lessons learned in training programs is essential. Many companies send employees to courses, but then allow the knowledge to slip away. New knowledge can be reinforced in several ways.

Finally, companies need an approach for evaluating training effectiveness.

## **6. Recognition and reward**

The topic rewards has already been introduced in the context of performance appraisal. Motivation, leadership, performance review, training, and development all ultimately lead to the question of "What's in it for me?" for each individual in every organization. Without willing, sustained individual effort, coordinated team efforts, and the sum total of the individual efforts that meet organizational goals, TQM is an impossible dream. Recognition and rewards should reinforce quality relative to short-term financial considerations. They can be monetary or non-monetary, formal or informal, individual or group. Employees should contribute to the company's performance and recognition approaches. Awards provide a visible means of promoting quality efforts and tell employees that the

organization values their efforts, increasing their motivation to improve. Most importantly, rewards should lead to behaviours that increase customer satisfaction.

Extrinsic and intrinsic rewards are the key to sustained individual efforts. A well-designed pay and benefit system, which is discussed in the next section, can provide excellent extrinsic motivation. Other reward systems are non-monetary.

Certain key practices lead to effective employee recognition and rewards:

- Giving both individual and team awards;
- Involving everyone;
- Tying rewards to quality based on measurable objectives;
- Allowing peers and customers to nominate and recognize superior performance;
- Publicizing extensively;
- Making recognition fun.

## 7. Compensation

Compensation is always a sticky issue and ties closely to subject of motivation. Money is a motivator when people are at the bottom of Maslow's hierarchy. Pay for performance can diminish intrinsic motivation. It causes most employees to believe they are being treated unfairly, and forces managers to deliver negative messages. Eventually, it creates win/lose situations. The objectives of a good compensation system should be to attract, retain, and not demotivate employees. Other objectives include reducing unexplainable variation in pay (think about Deming's principles) and encouraging internal cooperation rather than competition.

Many TQM-focused companies now base compensation on the market rate for an individual with proven capabilities, and then make adjustments as capabilities are increased, along with enhanced responsibilities, seniority, and business result.

One method often used to separate individual compensation from performance appraisal is gain sharing, an approach in which all employees share savings equally.

Finally, in system development and organizational improvement, HRM managers must encourage individual development activities that support and enhance the systems.

## 8. Customer Services

Customer service is one way to keep customers satisfied and have them return to the store. Customer service includes all features, acts, and information that augment the customer's ability to realize the potential value of a core product or service.

A major factor that determines whether customers will return is the level of services provided by the retailer.

While there may be several reasons for this, many retailers are recognizing the need to improve their level of customer services. Others are opting to increase the self-service component of their operations because of increased labor and operation costs.

Retail services can be divided into four categories: courtesies, sales service, support services, and revenue services.

Courtesies include the relationship the customer has with the retail sales clerk. Such things as smiling and saying "thank you" seem obvious but are often neglected by retail employees. A recent survey scored retail clerk courtesy the lowest of the types of retail services. Retailers can improve this aspect of their operations by screening employees, monitoring performance, and by providing incentives to extend courtesies to customers.

Sales services include such things as the quickness with which transactions are completed, sales clerk knowledge, suggestion selling, and the willingness you accept phone orders. These types of services can be provided effectively through increased efforts in the training of employees.

There are also services that can be offered to customers at a minimal charge. Examples are equipment leasing, some financial services, restaurants, alterations, repairs, and government services such as postal services. These are called revenue services. In each case the retailer should assess the extra service on a cost-benefit basis before its implementation. Occasionally customers may expect some of these services to be provided free of charge. Therefore, the retailer needs to be aware of such expectations regarding these extra services.

Support services refer to things the retailer does after the purchase has been made. Examples of support services are extending credit, providing merchandise delivery,



wrapping gifts, and providing a liberal returns policy. Of particular importance to the retailer are the costs of providing these services and the increase in retail patronage those results.

## 9. Conclusions

Motivation and human behaviour are major elements of Deming's Profound Knowledge.

Quality depends on employee commitment at every level of the organization. If employees are not provided with the proper motivating climate to align their efforts to meet organizational goals, the result can be conflict, poor performance, and low quality levels, first of all in case of "first line" human resources, the case of commercial services.

Managers must understand that there is no such thing as an unmotivated employee. The system within which employees work can seriously affect intrinsic motivation.

Although thousands of studies have been performed over the years on human and

animal subjects in attempts to define and refine the concept of motivation, it remains an extremely complex phenomenon that still is not fully understood. This section briefly reviews the major theories, models, and approaches, and their implications to TQM.

## 10. References

- [1] D. Balderson, B. Wesley, A. Wiliam, Retailing in Canada, Prentice Hall, Canada Inc., Scarborough, Ontario, 1993
- [2] J.W. Dean, J.R. Evans, Total Quality Management Organization and Strategy, St. Paul, MN: West Publishing Co, 1994
- [3] D. Evans, The Myth of Customer Service, Canadian Business, 1999
- [4] R. Varley, Retail product management – Buying and merchandising, Routledge, New York, 2002
- [5] M. Visean, Alternative strategice ale firmelor de comert, Editura ASE Bucuresti, 2002

## European Integration Process between Divergent and Convergent Points of View

STANCIU Miltiade  
STOICA Ana Maria

„Spiru Haret” University, Faculty of Marketing and International Business  
miltiade\_stanciu@yahoo.com  
anasta84@yahoo.com

### Abstract

*The current complexity of life, carrying with it direct interdependencies, but also uncertainties of interpretation or misinterpretations, marked the process of European integration. The European Union is currently in an unprecedented stage. The twenty-seven states have generated a specific problem in this game of integration. The disparities between Member States, the fact that the entry into EU structures did not bring about the expected welfare, especially for the former communist countries and the lack of giving hope perspective are all concerns of the European future, of all livings.*

*On the other hand, the European Union, through the institutional framework created by itself, is to help with developing by respecting diversity in the new European world. Without respect for this diversity, integration may become a form without substance largely negating the meaning of life of individuals. Therefore, the sustainability of European construction must be based on spiritual assimilation of integration values, where people, as Europeans, should believe, think, act, live and hope.*

**Key words:** convergence, integration process, institutional framework

**JEL classification:** F15

### 1. Introduction

The integration process involves the development of simultaneous action on two fronts: the increasing interdependence of national economic systems components and the establishment of a set of specific relations between states so that all constituent parts may function consistently and with mutual benefits.

One of the most advanced forms of international economic integration, through the process of its creation, the aimed objectives, the specific mechanisms used, but also through the results that have been achieved so far, is the European Union[1].

However, because of the current complexity of life carrying with it direct interdependencies and uncertainties of both divergence and convergence, the European Union is currently facing up a completely odd phase. The twenty-seven states have resulted in a specific problem in this game of integration. The disparities between Member States, the fact that the entry into EU structures did not bring about the expected welfare, especially for the former communist countries and the lack of giving hope perspective are all concerns of the European future, as a whole.

### 2. Divergent and convergent points of view in terms of EU integration

Meanwhile, the European Union consisting of a human community of states, free peoples and minorities, organized institutionally to mark the spirit of its citizens' life ideals, should aim to control risks arising from natural and social evolution of our microcosm. Among the potential risks arising from integration, John Mc Cormick identifies a seven[2]:

- The loss of sovereignty and national independence.
- The loss of national identity as laws, norms and standards are harmonized.
- The reduced powers for national governments.
- The creation of a new level of impersonal „big government”, situated at Bruxelles, determining a new level of laws and norms.

- Increased competitiveness and loss of jobs because of the elimination of market protection.

- Intense traffic of drogues, crime and illegal immigration due to the elimination of the custom controls.

- Problems regarding controversial situations, such as Common Agricultural Politics.

However, he also mentions certain advantages of integration that, in his opinion, enumerates the following strong points[3]:

- Cooperation reduces the possibility of having wars and conflicts.

- The unique market offers to the European businesses an extended area of consumers.

- Mergers and overtake create European corporations important at the international level supporting The European Union when competing on the world market.

- There is greater liberty regarding the transversal circulation within the European Union.

- The unification of economic and social resources of many member states.

- The member states that work together enjoy new powers and international influences.

- The poorer member states try to „reach” standards at which the more developed states are situated.

- Funds and investments create new opportunities in poorer areas of the European Union.

- Democracy and capitalism are promoted in poorer member states.

Certainly, from the point of view of an analyst who comes from a developed state, the advantages of the EU integration mentioned above may be real. But if the analysis is done by an analyst who comes from the newly integrated countries, ex-communist, the benefits do not seem so obvious. Thus:

- The more developed states do not maintain themselves at the same standards, but evolve, in most cases positive, to the same standards, whereas the poorer countries find it increasingly difficult to keep up with the former one, not to mention reaching their level. (see the last cohesion reports within the European Union). This would require a sustained economic, financial and political effort meant to support the poorest nations in their economic development and actions meant to eliminate all the gaps existing between the

rich states and the poor ones. It is difficult to do it, but not impossible.

- The way of reasoning of the member states enjoy working with new power and global influence can work in two cases: when two rich states are associated or when the association is between a rich state and a poor one. In both cases, the locomotive is a rich country / one of the richest countries. For example, cooperation between Romania and Bulgaria does not equal cooperation between Germany and France.

- Given the changes occurring in the former communist countries but also the crisis generated by one of the most democratic systems in the world, the United States of America, we do not believe that any simple translation (in the duplication of mot a mot) of a system from a developed country to other ex-communist country leads necessarily to favorable results, unless the specific of the particular country is ignored.

- The results of unification are quite often supportive only for certain countries, usually the strongest ones that are the biggest resource consumers. Takeovers and mergers make the less developed countries dispose of their own business that, with the others similar to the former ones underpin the economic success of the country.

- Unfortunately, in military terms, the EU has not acted until now as an united force, see the different responses of the Member States to the conflicts in Iraq or Afghanistan, which generated hilarious and strange situations both within the Union and in relations with third parties. Moreover, the ex-Yugoslav crisis has shown the need for a corps and political institutions that should respond rapidly to regional crises and counter mediation[4].

- There is a significant big gap between the rich countries led by the locomotive pole-Germany, and the poor countries, mostly ex-communist countries, which unfortunately, increases slowly, but continuously.

If we consider the words of Zbigniew Brzezinski, a prominent U.S. political analyst, former advisor to President Carter, which formed the Ten Commandments on the EU developments and investments [5], we can sketch the EU evolution of divergence and convergence:

- For most Europeans, „Europe” is not an object of personal affection. It is more a convenience that a conviction.

- On the global scene, the European Union will not be as America, but more an extended Switzerland.

- Most of Europeans do not react against Americanism as an impulse of unity.

- Integration is essentially a bureaucratic process and it does not mean unification.

- The EU extension is essentially an antagonism from demographic and economic point of views.

- The European Union needs to extend from demographic and economic point of views.

- From the political point of view, it is not functional to have an internal federal center of the states that do external policy in a European Union consisting of more than 21 states.

- It is more likely that a slow extension on the one hand, and a bureaucratic integration, on the other hand, may generate a Europe united from the economic point of view, but only confederated one, from the political point of view.

- The European Union is unlikely to acquire a autonomous military capacity.

- The European Union will be, thus, a new type of organization of global influence, firstly economic and financial.

Without doubt, there are situations generating hopes for the future European Union such as the dimension of the social assistant that characterizes the European model and differentiates it from the dominant ones existing in the USA, Japon, India and China. At the same time, Europeans have a common vision on world organization, significantly different from the solitary way of making decisions within the Yellow Oval Room and prefer a collective decision within certain international institutions. The way in which Europe managed to overpass its historical past full of wars through supranational forms of cooperation strengthened the Europeans' belief that, at the international level, it is necessary to accept mutually a limit of state sovereignty in terms of making use of force.

Regarding the common commercial politics of the EU, the USA and certain representatives of the American corporations accused the former one to be the Europe fortress because of its refusal to reduce the subventions for agriculture. For example, at a negotiation meeting of the World Trade Organization that started in 2001, in Doha, Qatar and finished

in 2003, at Cancun, Mexico, the European representatives were accused by the poor countries that the former ones protect farmers by export subventions provided in accordance with the Common Agricultural Policy, subventions that made them more productive and more competitive, as well as the dumping of cheap products existing on the markets of the poor countries which undermined the efforts and the chances of the local farmers. A year later, in 2004, at Geneva, The European Union and the United States of America agreed on diminishing the subventions in exchange of some facilitations of the penetration on the less developed countries, which had been requested by the EU for a long time. A month before the conclusions of negotiations, some representatives of the EU and the USA met to set up their positions.

### 3. Instead of conclusions

Thus, Europe is still in need of significant quantity of labour at the institutional level to assure the irreversibility of its effective integration from the economic point of view. At the inferior level, as unique market, the integration is probably irreversible. But this thing is not still possible in case of the development of a unique extended economic space [6].

After 18 years of working in one of the European institutions, the European Parliament, Steven McGiffen asserts that the integrationist project is only serving the interests of multinational corporations, the hegemony of which is extending at all levels threatening all that people from developed countries have managed to build up in the past two centuries: democratic rights and freedoms, economic security, the chance to lead a dignified and productive life meant to make them feel satisfied [7].

Among the causes that generated this reality, I mention: a cultural conservatism derived in partly from the continuous influence of Christianity (various types) on the European social life, the ruling elite's understanding of the fact that this ecological crisis is not some myth imagined by environmental activists exalted beyond measure[8]. The negative effects of the European Union do not end at its borders. In relations with the rest of the world, the Union demonstrated a purely rhetorical knowledge of the imbalance of power between North and South and the disasters grazing both

regions. In fact, it acts without restraint, for short-term interests of European capital owners and their highly selective commitment to free trade and protectionism that protects industries and agriculture of the Member States, has contributed to the underdevelopment against which many of its trading partners poorer in the last three decades fought.

The fact that we need an international approach to the problems which humanity in this century has been facing up, does not mean that the only or the best available forms of international cooperation are this international approach, this European Union, a single currency based on monetary principles discredited or extreme, a political system that seems almost designed to maximize the rich elite corruption and hegemony or a Constitution which is in fact a neoliberal political program [9].

To conclude, The European Union, through the institutional framework that it created, has to contribute to development by respecting the diversities existing in this new European world. Without respecting this diversity the process of integration becomes a form without content annulling considerably individuals' lives meaning. The strength of the European construction has to be founded on the spiritual assimilation of the integration values in which people, as European citizens, have to believe,

think of, and act in their spirit and hope. If the results of integration are not concretized gradually and are not resented in each country immediately, the degree of confidence in the process of integration is more and more diminished, which is totally opposed to what the founders intended to create.

#### 4. References

- [1] See Popescu Constantin., Ciucur, Dumitru, Gavrilă, Ilie, Popescu, Gheorghe, *Teorie economică generală.Volumul II. Macroeconomie*, Ed. ASE, București, 2008.
- [2] McCormick, John, *Să înțelegem Uniunea Europeană. O introducere concisă*, Ed. Codecs, București, 2006, pp.21-22.
- [3] *Ibidem*, p.24.
- [4] Andrei Tudorel, Matei, Ani, Roșca, Ion, Gh., *Corupția. O analiză economică și socială*, Ed. Economică, București, 2008, p.184.
- [5] Brzezinski, Zbigniew, *Triada geostrategică. Conviețuirea cu China, Europa, Rusia*, Editura Historia, București, 2006, pp.71-72.
- [6] Hirst, Paul, Thompson, Grahame, *Globalizarea sub semnul întrebării. Economia internațională și posibilități de guvernare*, Ed. Trei, București, 2002, p.351.
- [7] McGiffen, Steven P., *Uniunea Europeană, ghid critic*, Ed. Monitorul Oficial, București, 2007, p. 179.
- [8] *Ibidem*, p.180.
- [9] *Ibid.*, pp.185-186.

## The Schengen Agreement and the Free Movement within the European Union

BRASOVEANU Florica  
PETRU Alexandru  
BREZEANU Lisievici  
„Ovidius” University Constanta  
floriordache@yahoo.com

### Abstract

*Among the main aims of the European Union there are targets such as the achievement of a high level of employment or obtaining a permanent economic growth and raising the living standard. Achieving such objectives requires the necessity of establishing a common market that represents a single economic space composed of the following elements: the customs union, the four freedoms, free competition, and common policies in the domains of agriculture, transportation and trade. The core of this common market can not be anything else than the domestic market with the free movement of goods, persons, services and capital*

*The free movement of goods, persons, services and capital within the EU common internal market is ensured by a set of provisions of the Community law which, together, constitute the four fundamental freedoms. Although the activities of the European Union can not be easily summarized in brief, we can say about the four freedoms that they represent the free flow of the economic factors towards gaining prosperity both for Member States and their citizens.*

**Key words:** Schengen agreement, four freedoms, custom union, common policies

**JEL classification:** F15

Since the Union citizenship should be the fundamental status of the nationals of Member States when they exercise their right to free movement and residence, it has been considered that it is necessary to codify and revise the existing Community instruments which separately envisioned workers, self-employed persons, students and other inactive persons, in order to simplify and strengthen the

right to free movement and residence of all Union citizens

To the extent necessary for the proper functioning of the common market, participating countries have phased out, from their relationships, the restrictions on the movement of capital belonging to the residents of Member States, as well as the discriminatory treatment based on citizenship, or on nationality or on residence or on the registered office of the parties or on the location of capital placement. On the EU territory, the capital can be transferred in any quantity from one state to another, and all transfers in Euros within the EU is considered a domestic payment and thus it supports the appropriate internal transfer rates. These provisions apply to all EU Member States, whether or not in the Euro area, as long as it is the transaction currency.

Concerning the right to the free movement of persons, EU citizens enjoy the opportunity to travel, for whatever reason, from one region of the Union to another, only on the basis of an identity document or valid passport. This possibility was reiterated and the Court of Justice of European Communities stated that Member States can not apply, for the admission to their territory, other formality than the mere presentation of an identity card or a valid passport

The free movement of workers is fenced only in two situations, strictly defined, which can be exceptions. Firstly, Article 39 of TEC will not apply when it comes to the employment in public services. In this way, there are eliminated several jobs that directly or indirectly involve the participation in the exercise of the powers conferred by public law. The European Court of Justice stated that such positions presume in fact from those who occupy them the existence of a special loyalty connection to the State and the reciprocity of rights and duties which form the basis of the

nationality obligation. Secondly, the free movement of workers may be limited, fenced, for reasons of security, order and public health.

In practice, the main obstacle to the free movement is the control of borders, and their dissolution is a prerequisite in order to facilitate the imposition of free movement.

The Schengen Agreement is a treaty signed on June 14th, 1985, by the representatives of five countries (Belgium, France, Germany, Luxembourg and Netherlands) of the 10 States that were the members of the European Community at that time. The name of the Agreement comes from the name of the village Schengen of Luxembourg, near which the Treaty was signed, located near the border of Luxembourg with France and Germany. The actual signing of the agreement took place on board of a boat located in the middle of the river Moselle, which forms the boundary line between Luxembourg and Germany.

We can say that since the establishment of the European Economic Community in Rome in 1957, major changes occurred on the old continent, both at political and legal levels. The will of States to cooperate resulted during these years not only in strengthening and in establishing community integration but also in fulfilling and ultimately achieving the largest part of the objectives established of not only by the Treaty of Rome but also by other important acts, such as the Single European Act, the Maastricht Treaty or the Treaty of Amsterdam. The creation and the expansive evolution of the free movement of persons within the Union area is probably one of the most eloquent examples of the success of this appropriate cooperative environment.

Considering that the abolition of internal borders in 1995 was enforced by only seven Member States, it is noted that the Schengen space was and is constantly in a process of enlargement. Although the new states joining the Schengen cooperation need some time to actually and practically implement the regulations, each of them is expected to eventually succeed in participating and fully benefitting from this cooperation.

The preparations for the accession to the Schengen area is a complex of measures that should be adopted and implemented in a coordinated, unified and planned way by the institutions and structures with responsibilities in the field. This approach may materialize only through an inter-institutional effort to express the capacity of all persons involved in

order to coherently manage this complex process. In addition, the preparation for the accession to the Schengen area must have such a quality as to allow a positive evolution of Romania during the Schengen evaluation process and the adoption of the European Union Council decision on the abolition of internal border controls.

Of course, we can not deny that the will to cooperation of the European states did not have the same number of ups and downs. If there had been a constant and undisturbed cooperation, we could not have reached the situation in which the Schengen Agreement was signed by a group of countries outside the EU understandings. But even in this situation, there is the possibility to interpret the Schengen phenomenon as rather an engine that has accelerated the too slow pace of the development of the European Community at that time, but as a sign of the disparity of views of partner countries. Concerning the further progress of the Convention of implementation and its poaching in the Community acquis, the clear conclusion is that the five countries that have forged the agreement, initially outside the Community, have not been drawn away from the other partner states, but rather have taken a step forward, which was followed in the coming years by nother twenty states, failing to count those that are currently in the process of accession to the Schengen space (such as Cyprus, Romania, Bulgaria and Liechtenstein).

Apart from this, the Schengen Agreements have been considered as a "laboratory" of intergovernmental cooperation before being incorporated into the European Union, and if we consider the achievement of transforming the free movement into a fundamental right and a benefit automatically guaranteed with the integration with the EU, we can say without delay that it is a categorical success.

But the question that will remain unanswered is to what extent the Schengen successful recipe can be applied to other intergovernmental approaches. We know that there is already at least one New Convention, the one of Plum, which tries to follow its footsteps. It was concluded outside the EU policy by seven EU member states, to which other four states have announced their intention to join (Finland, Italy, Portugal and Slovenia) and it aims at the regulation of cooperation on the movement of persons. It is certain that, unlike the Schengen Agreements, the Plum Convention has been vehemently

criticized so far, especially by the European Data Protection Association, which sees in its provisions serious threats to privacy breach. Given these conditions, only time is able to pronounce itself on the success or failure of the “Schengen III Agreement”.

## References

[1] Faure Atger, Anais, „The Abolition of internal Border Checks in an Enlarged Schengen Area: Freedom of movement or a web of scattered security checks?”, lucrare publicata de CEPS, 20 martie 2008.

[2] Fuerea, Augustin, „Manualul Uniunii Europene”, Editia a-III-a, Editura Universul Juridic, Bucuresti, 2006.

[3] Gyula, Fabian, „Drept institutional comunitar”, Editia a III-a revazuta si adaugita cu referiri la Tratatul de la Lisabona, Editura Sfera Juridica, Cluj Napoca, 2008.

[3] WALLACE, Helen, WALLACE, William, POLLACK, Mark A., „Elaborarea politicilor in Uniunea Europeana”, Editia a cincea, Oxford University Press, 2005.

[5] Regulamentul (CE) nr. 2560/2001 al Parlamentului European si al Consiliului din 19.12.2001 cu privire la platile transfrontaliere in euro



## The Free Movement of Goods, Persons, Services and Capital

BRASOVEANU Florica  
PETRU Alexandru  
BREZEANU Lisievici  
*Ovidius” University Constanta*  
*floriordache@yahoo.com*

### Abstract

*The issue that we tried to analyse in this paper is related to how we could keep what Jean Monnet proposed and realized in the last 50 years, whereas the current economic and political situation requires it.*

*The European Union is the lab of successful experiences regarding unification. We started from the collaboration between two competing countries and nowadays we are talking about 27 accessions and many others in the near future.*

*Jean Monnet himself concluded that after an economic union, states will also want a political one.*

*What could be more interesting in the European Union than knowing our rights and freedoms and, why not, positively taking advantage of these prerogatives?*

**Key words:** free movement of goods, persons, services and capital

**JEL classification:** F15

Being European is not a random attribute; the credit belongs to the parents of Europe, who faced reality more than fifty years ago.

Talking about the quality of being European includes a reminder of the Treaties of Paris, Rome, and Maastricht – treaties which testify the free movement within the Community space.

A comprehensive concept, *the freedom* in the history of Europe challenges us to answer questions such as: “What is Europe?” What will its future be like?”

It is true that the premises of the ideas of European unity have their origin since Antiquity, but we can not dispute that Europe was reborn under the probative imprint of the intellectuals of the time.

The genesis of “Europeanism” reveals the importance of the study of this article because speaking of the free movement means also balancing the origin of this right.

The free movement, which is naturally given, has been imprinted in the quotidian by us, the contemporary Europeans, and it has been acquired through joint and real efforts by yesterday Europeans.

It is not enough to thank to the parents of Europe for the freedoms that we enjoy; at least, we have to respect and not to prejudice these fundamental values that we benefit from, as European citizens.

Analyzed both from a historical perspective and a contemporary one, but also from the multidisciplinary perspective, this paper comes to show once again the actuality of this theme anchored within the contemporary.

This approach is not possible without a serious foray into how to define the essential elements of the free movement of goods, persons, services and capital, achieved at international level.

Also, the rules within the domain were regarded as immutable ones, seeking all the time, during their treatment, to give them the current interpretation by which to achieve their implementation, but also the design of *proposed regulations* that reflect the present general interests.

Although this study is addressed to specialists in the field, we aimed at achieving a standard of accessibility for all persons who want to make an investigation into this matter, without allotting an excessive space to the analysis of purely theoretical issues.

Among the Community sources of the Union, which have guided us in the

development of this research, we consulted treaties, directives, regulations published in the Official Journal of the European Union.

We approached the idea of the European Union in terms of the free movement, as it is perceived by respondents, and the conclusions of the study give it a touch of originality. The comparative studies between the different European Union legislations are also very interesting.

Given that human existence is undoubtedly related to the free movement, we can not dissociate it from its specific correlative exceptions.

The actuality of the theme influences the knowledge of the Community field because, in a single material, it gathers useful and certified data and it simplifies the research activity concerning the information which is the object of this study.

The evolution from 6 to 27 states, the institutional improvement and the development of the ideas on the major stages establishing the process of the European Communities construction have not been overlooked. The European construction is even nowadays in full process of development, as long as there are states who want to join the great European family. It is certain that the EU will maintain itself as a force in a world that is moving more rapidly towards globalization.

In order to better understand the mechanics of the free movement, which also forms the core of the study, the emphasis is on the overview of the liberalization of the movement of goods, persons, services and capital.

The study leans the balance more towards the practical aspects imposed by the freedoms and restrictions of this right of the free movement, but it is also based on theoretical viewpoints.

Regarding the policy within the domain on the free movement of goods, we find that it is a permissive one, based on the democratic principles of the free trade.

The European Union is a free space, without borders, where the free movement of goods, persons, services and capital take place without restrictions.

However, the liberalization of movement prones to criminal behavior and that is why it is necessary to impose preventive measures and

the integration of new technologies for border control.

The free movement allows criminals the access to various EU countries and bodies such as Frontex, Europol, which acts as a European FBI.

Terrorist threats, human trafficking - organized crime - in general, are issues related to citizen security and, therefore, their analysis can not be avoided.

We found that the European Union should not be confused with the Schengen area, also because for Romania it has become the first target on the priority list.

Although Romania has fully liberalized the labor market, some EU states are still reluctant to do so.

But is Romania ready to face the wave of foreigners?

Can Community institutions adapt to this remarkable change? The current institutional organization is the result of significant transformations, both through the regular revisions of Treaties, and by the daily practice and cumulated experience.

The advantages and disadvantages of the employment on a single market are given by the following factor: the recognition of professional qualification.

Although, theoretically, we are speaking about the principle of non-discrimination, the practice challenges the values of freedom and the equality of chances. The age, gender and qualification criteria are some of the requirements imposed indirectly on job candidates. Official documents and statistics are proofs that highlight examples of discrimination in this regard, and the employers are not discouraged by legal sanctions.

On the list of the approached topics there are also situations on unemployment, illegal work and, from the chapter on goods liberalization, the measures of European standardization and of ecologic labeling are of great interest. In this study we will learn that not all goods can move freely in the Union, but only those which meet the criteria imposed by European standards and, in addition, we will define and specify the prohibited goods on the single market.

The restrictions on the free movement of goods and those on any charges or measures having equivalent effect on them are

prohibited. Useful examples gathered from the Community jurisprudence will contribute to the systematization of theoretical notions.

Starting from the great magnitude of the phenomenon of the freedom of movement, from its advantages and disadvantages, we consider that the research and the conclusions which will be drawn from this study will contribute to the knowledge of the rules in the field, both under its theoretical and practical aspects.

The date of January 1<sup>st</sup>, 2007 remains in history as the date of Romania's EU integration. In connection with this last statement, some precisions are still required, because we believe that Romania belongs to Europe through its history, geography, traditions and culture.

Romania is politically integrated in the new Euro-world structure, belonging to the club of the most select countries.

It remains to be seen how the regional, political and economic map of Europe will look like in the near future, how we will fill in the gaps between large and the small countries, how powerful and weak states will merge in order to achieve a common goal.

The answer will be decided by us, on the infallible realm of contemporary Europe.

The importance of free movement within the EU is still a natural given, enshrined in rules, but, in order to maintain this right, we must fight.

The violation of European legislative meanings is equivalent to the restriction of free movement, proportionally with the violated rule.

Writing about Europe and the European Union from its origins and until today, about the viability of several institutions that handle all the strings of an international theater is *an entertainment* that requires information, inspiration, analysis and objectivity.

The climax is given by the free circulation within the Union and the outcome is an open one, with the possibility of shaping our own opinions.

The conclusions to which we stopped are few because the subject challenges new debates and reflection topics so that we conclude with the following questions which worth to be treated in the future: Where can we travel? What papers do we need at the border? What

services can we provide in the Union? Can we set up a trading company in another European country?

Considering the content recorded in the study and the above conclusions, we came up with the following recommendations (*lex ferenda*): the clarification of the concept of free movement not only in rules, but also by implementing this concept to the apprehension of citizens; the development of a strategy for the benefit of the European citizen, in the sense of making him aware of his rights and freedoms in a more practical and easy manner, such the information by the media.

It is true that treaties, conventions and many other normative acts treat and regulate the freedoms available to the citizens of Europe, but there are many people who, although are generally acquainted with them, do not know how to apply them. It is a vast range of people who either have no access to media or are uninterested.

And this will happen to the extent that *contemporary kings* will facilitate the access to information also in deprived areas, because, in fact, the situation is worrisome. The lack of information, on the other hand, leads to criminal conduct, but this can not be opposed by the incognizance of law.

Informing the public on the free movement, in particular, is not only sufficient but also necessary in a democratic society. *Do you want to know the European Union?* This remains an invitation to all who want to move freely, in the European spirit.

The Treaty on the European Union has made from the free movement and residence one of the essential rights attached to the European citizenship. Between the European citizenship and the free movement of persons there have been established many links.

Thus, article 12 of European Community Treaty restricts the right to non-discrimination based on nationality to the citizens of Member States. Article 39 on the free movement of workers refers only to the citizens of Member States, although this is not explicitly stated, it must, however, be deduced from the practice of Courts.

## References

- [1] Ghica, Luciana - Alexandra, *Enciclopedia Uniunii Europene*, Ediția a III-a, Ed. Meronia, Bucuresti, 2007.
- [2] Voicu Marin, *Politici comune ale Uniunii Europene-cadru constitutional*, Ed. Lumina Lex, Bucuresti, 2005.
- [3] Manolache Octavian, *Tratat de drept comunitar*, Ediția a V-a, Ed. C-H-Beck, Bucuresti, 2006.
- [4] Fuerea Augustin, *Manualul Uniunii Europene*, Ediția a II-a, Ed. Universul Juridic, Bucuresti, 2006.
- [5] Stoica Camelia, *Libera circulație a persoanelor în Uniunea Europeana*, Ed. Oscar Print, Bucuresti, 2001.
- [6] Chilea Dragos, *Dreptul Uniunii Europene*, Ed. Muntenia si Leda, Constanta, 2001.
- [7] Lege privind aprobarea O.U.G nr. 96/2006 pentru modificarea și completarea Legii nr. 248/2005 privind regimul liberei circulații a cetățenilor români în străinătate, M. Of. nr. 323/ 15 mai 2007

## Romania vs Global Crisis

IONESCU Romeo

“Dunarea de Jos” University of Galati  
ionescu\_v\_romeo@yahoo.com

### Abstract

*The paper deals with the impact of the present global crisis on the Romanian economy.*

*As a result, the analysis is focused on 2008-2010 time period and support the idea that Romania is not in the best position to face this crisis.*

*The analysis covers social, economic and financial pertinent indicators and uses the latest statistic database.*

*Even that the Romanian government adopted the Updated Convergence Program 2009-2012, the forecasts are not too optimistic for the economy.*

*The main conclusion of the paper is that to adopt radical measures, starting by the top of macroeconomic management and politicians, not by the bottom.*

**Key words:** global crisis, globalization, foreign financing

**JEL classification:** F01

Despite an abrupt decrease, in the last quarter of the year, the GDP growth accelerated by 7.1% in 2008, regard 6.2% in 2007.

The internal demand for consumption and investments grew by double-digit in the first three quarters of 2008. It was supported by the wages growth and the rapid extension of the credits.

The net exports continued to have a negative contribution to the GDP growth.

The great FDI fluxes in Romania stopped dramatically in the fourth quarter of 2008, as a result of a significant contraction of the foreign capital inputs, growth of the investors risk aversion, vulnerability of the Romanian economy and decrease of the disposable income.

As a result, the internal demand decreased by 2%, in the fourth quarter of 2008, regards an average 14.5% growth in the first three quarters.

The contribution of the net exports became positive in the forth quarter of 2008, even that the internal demand decreased significantly.

The need of foreign financing decreased slowly, but it was high (12.8% of GDP) in 2008. In 2007, the same indicator was 12.8% of GDP.

The FDI influxes grew in 2008. They covered 56% of the total foreign financing need, regard 47% in 2007.

The great internal and external disequilibrium and the effects of the world financial turbulences concerned the economic and financial situation from Romania.

As a result, in March 2009, the Romanian authorities addressed to the European Commission in order to support the cash flow equilibrium.

The EU financial assistance is conditioned by the implementation of a major economic policy program, which has to cover fiscal, structural and financial reform measures.

In 2009, the GDP growth was negative, by -4%. The decrease of the households' disposable income growth rate and the harder credit terms decreased the domestic consumption.

On the other hand, the government expenditures tightened as a result of a significant fiscal adjustment.

The expected powerful contraction of the gross capital formation will be attenuated by a growth of the public investments and EU investments, as well.

The GDP growth rate in Romania will be 0% in 2010.

The net exports will have a positive contribution to the economic growth, even that the Eurozone demand will be weak.

As a result, the net foreign loans decreased, from 11.8% of GDP, in 2008, to 6.5% in 2009 and 5% in 2010. This macroeconomic scenario was based on the EU medium period program for financial assistance in Romania.

As a result of the economic activity decrease, the unemployment rate grew, from 5%, in 2008, to 8% or more in 2009 and 2010.

The inflationist pressures decreased from the second quarter of 2008, as a result of the decrease of the rare materials prices on the international markets. At the beginning of 2009, the inflation rate grew again as a result of the national currency depreciation.

During 2009-2010, the inflation rate will decrease. This is the result of the lower growth of the wages and low goods prices on the international markets. At the end of 2009, the inflation rate in Romania achieved the National Bank target by 3.5% +/- 1%.

The depreciation of the exchange rate and the lowest pressure of the wages growth will support the improvement of the international efficiency of the Romanian goods.

In 2008, the budget deficit was 5.4% of GDP, regard 2.5% in 2007. This evolution was supported by the higher growth of the expenditures, especially those connected to the public sector wages and the social transfers.

Moreover, the too optimistic forecasts of the budgetary revenues in 2008 didn't realised. In the latest two months of 2008, it was an abrupt decrease of the budgetary revenues, as a result of the slowed down economic growth.

On the other hand, the budgetary deficit decreased by 5.1% of GDP in 2009. The 2009 budget contained some specific measures to decrease the deficit, including blockage and decrease of the salary increases in the public sector, decrease of the goods and services expenditures and subventions. The same measures covered the growth pension's limitation to the inflation rate value, the growth of the pension fund contribution by 3.5% and the excises growth, as well.

The Romanian government supporting economy program adapted the supplementary fiscal measures, decreased the wages fund of the public sector, the goods and services expenditures, some specific capital expenditures and subventions.

The governmental measures connected to the budgetary revenues were focused on the elimination of some specific tax deductions and allowances, especially to cars service and the depreciation of the re-evaluated assets.

On the other hand, the government achieved a substantial growth of the public investments in 2009 regard 2008. These measures were reflected in the approved budgetary rectification from April 2009. The budgetary deficit will achieve 5.5% of GDP in 2010.

But the Romanian authorities engaged to continue the financial adjustments during 2010,

in order to obtain a deficit less than 3% of GDP in 2011.

The great deficits and the significant growth of the paid interests for public debt will support the growth of the public debt ratio in GDP, from 15.25% in 2008, to 22.75% in 2010. On the other hand, Romania ranked 48<sup>th</sup> position in the world welfare top ([1]).

It was better placed than Turkey (rank 69), Ukraine (rank 61) and Russia (rank 69), but worst than Bulgaria (rank 46), Czech Republic (rank 25) and Poland (rank 29).

Romania ranked 52<sup>nd</sup> position at economic fundamentals, 42<sup>nd</sup> position at entrepreneurship and innovation. The best position was at democratic institutions (33<sup>rd</sup>) and the worst at social capital (102<sup>nd</sup>).

*Table 1. Romania macroeconomic indicators  
(% annual change)*

	2008	2009	2010
<b>GDP (prices from the previous year)</b>	7.1	-4.0	0.0
<b>Private consumption</b>	9.1	-3.7	-0.3
<b>Public consumption</b>	3.2	-11.0	0.1
<b>Gross fixed capital formation</b>	19.3	-6.5	-0.5
<b>whereby equipments</b>	19.0	-7.0	-1.0
<b>Exports</b>	19.4	-16.9	0.6
<b>Imports</b>	17.5	-17.3	-0.5
<b>Labour</b>	0.3	-2.2	0.6
<b>Unemployment rate</b>	5.8	8.0	7.7
<b>Average labour cost</b>	14.3	10.5	8.1
<b>Households saving rate</b>	-	-	-
<b>Consumption prices index</b>	7.9	5.8	3.5
<b>Trade balance</b>	-13.3	-9.1	-8.0
<b>Gross public debt (% of GDP)</b>	13.6	18.2	22.7

Source: [2].

On March 2010, the Romanian government approved the Updated Convergence Program 2009-2012, according to the latest evolutions of the internal and international economic environment.

The program was based on the present legislation and the budgetary capitols for 2010.

The Convergence Program sustains the engagement to adopt Euro at the 1<sup>st</sup> of January 2015 and forecasts an economic growth by

1.3% in 2010 and 3.7% in 2012, the inflation decrease and the employment improvement, as well.

The program covers a medium period economic strategy, which is focused on the following objectives:

- taking again the economic growth process and creation of new jobs, adjustment of the public deficit and current account deficit until values which are able to support their financing, deflation and population protection;
- improvement of the fiscal policy medium term predictability and performances;
- efficient use of the European funds;
- sustainability of the long term public finances;
- restructuration and a better efficiency of the public administration;
- implementation of the assumed commitments regard IMF, European Commission and World Bank.

The Romanian government wants to introduce Euro on 1<sup>st</sup> of January 2015, but it understands that our national currency will not be able to achieve the 2<sup>nd</sup> exchange rate mechanism (ERM II) until 2012.

On the other hand, the government supports a larger economic recovery, according to a future consolidation of the financial system or a greater growth of the world demand.

As a result, the Romanian government consider that the GDP growth rate will achieve 1.3% in 2010, 2.4% in 2011 and 3.7% in 2012.

The budgetary deficit will decrease below 3% of GDP until 2012, regard to 7.4% in 2009.

The domestic demand will grow by 1.4% in 2010. It will be supported by the private consumption, which will grow by 3.8% in the same year, as a result of the governmental measures which were focused on the economic recovery, the propensity to consume and better credit terms.

The greater external demand and the growth of the domestic economic activity will support the recovery of the Romanian foreign trade.

The goods exports and imports will grow moderated and the net export will have a little negative influence (-0.2%) on GDP growth.

Moreover, the GDP growth rate will grow during the next two years. It will be supported by the intensification of the foreign trade and the growth of the domestic economic activity.

The Romanian government considers that the economic recession will stop in 2010, in Romania.

As a result, the goods exports will grow by 3.5% and the goods imports will grow by 4.2% in 2010. The trade deficit will be 5.7% of GDP, as great as in 2009.

On the other hand, the current account deficit of the balance of payments will maintain into sustainable limits in 2010. It will be 5.1% of GDP and will be 76% covered by FDI.

On the other hand, the world economy will grow after it will be able to defeat the economic and financial crisis. As a result, the Romanian government forecast the growth of Romanian exports by 4.6% in 2011 and 6.7% in 2012.

The domestic economic activity will accelerate and it will need supplementary imports (4.9% in 2011 and 8.3% in 2012). This is why the trade deficit ratio of GDP will increase and will achieve 5.9% in 2012.

The current account deficit will not deteriorate and it will achieve 5.2% of GDP in 2011 and 5% in 2012.

The current balance transfers exceeding will compensate the negative impact of the trade balance and revenues balance deficits.

The employment will decrease by 0.9% in 2010 and the employment rate will achieve 58%. The good news is that the employment growth rates will be 1% in 2011 and 2012.

The unemployment rate will decrease, by 7.5% in 2011, to 7% in 2012.

The Romanian government decided to implement austerity measures for the next period, which will be able to decrease the budgetary deficit by 1.7% of GDP in 2010, 1.9% in 2011 and 1.4% in 2012. This means a cumulated adjustment of 5% during 2009-2012.

2010 Budgetary program is focused on the deficit decrease by 5.9% of GDP (6.3% according to the European methodology).

The measures for 2010 maintain the unique tax percentage and VAT and are focused on the decrease of the wages, employment from public sector, replacement of one from seven labours and the decrease of the supplementary paid and bonuses.

A distinct problem is that connected to the sickness pensions, which grew very much. As a result, the annual pension's expenditures would grow by 2 billion lei.

The Romanian government wants to sell Rompetrol bonds by 2.4 billion lei in 2010, in order to retrieve Rompetrol debts to the budget.

On the other hand, Rompetrol faces to a lack of cash and the received amount would decrease to 1.2 billion lei (0.2% of GDP) in 2010.

At the same time, the public bonds achieved the repayment period and the payments from the budget for these bonds will decrease, by 0.07% of GDP in 2010, to 0.03% of GDP in 2012.

The medium term impact of the governmental reforms will support the social security budget savings by 0.6%-1.5% of GDP.

In 2060, for example, the deficit of the public pension system will decrease by 4%.

The member states from Eurozone implement stability programs and the other Member States implement convergence programs every year.

These programs are evaluated by the European Commission. The objective of these evaluations is to improve the budgetary discipline using budgetary policies monitoring and coordination inside Eurozone and EU27.

The government eliminate some fiscal deductions and allowances, especially to the job cars and revaluated actives depreciation.

On the other hand, the government grew the public investments in 2009 regard 2008. These measures were found in the budget rectification in April 2009. Even that the budgetary deficit will achieve 5.5% of GDP in 2010, the Romanian government will continue the fiscal adjustments in order to obtain a deficit of only 3% of GDP in 2011 ([3]).

The great deficits and the growth of the interest paid for the public duty will support the growth of the public debt, from 15.25% of GDP, in 2008, to 22.65% in 2010. These evolutions will affect the welfare in Romania.

In 2009, Romania ranked position 48 in the world welfare top. It was below Bulgaria (rank 46), Czech Republic (25) and Poland (29). Romania ranks were 40 for entrepreneurship and 52 for its economy. This is not a positive perspective. The Romania model of powerful economic growth, low taxes and great poverty implemented until 2008 was not a democratic and efficient way to a European sustainable socio-economic model.

What can we do? Maybe it's time to adopt radical measures. But these measures have to start by the top of macroeconomic management and politicians, not by the bottom.

## References

- [1] Vienna Institute for International Economic Studies (WIIW) Handbook of Statistics 2009: Central, East and Southeast Europe, 2009.
- [2] Juan R., Regional Policy, Economic Growth and Convergence, Hardcover, Madrid, 2009.
- [3] Ionescu R. Mediul de afaceri european, Editura GUP, Galati, 2010



## Trading Partners are in Conflict. Mediation, Arbitration, Court – the Current Settlement Possibilities

MARIN Marilena  
“Ovidius” University of Constanta  
marilenamarin@yahoo.com

### Abstract

*Integration issues in the contemporary world are a current concern of anyone who tends to the evolution of social, professional and beyond. As our business, Romans followed with interest the European integration and integration in the contemporary world, but from different perspectives, depending on various factors.*

*Acts and deeds of trade are subject written or unwritten rules and pursue counterparties each first meeting his rights. This sometimes generates violating the rights of others and/ or failure of the legal obligations assumed made with the commercial legal relationship.*

*A dispute and restore legality are possible so amicably and by resorting to a competent authority. Such authority may be the court or court of arbitration.*

*By regulation of the mediator, has become a new authority in resolving a conflict competence including commercial. Mediation procedure seems to be a fast, less expensive and elegance of a dispute between partners.*

*We consider the efficiency comparison in this paper the possibilities for settlement of conflicts between partners.*

*The novelty of this work lies in the fact that until now have never been studied versus all three ways of solving disputes.*

**Key words:** mediation, arbitration, trial, commercial conflicts, European integration,

**JEL classification:** F15, K29

### 1. Commercial activity from the perspective of European integration

When we talk about European integration must remember something about the appearance of this phenomenon, but also about the factors behind this integration.

Between newly emerging phenomena, which concern economic growth and development at national, European and global consequences of the phenomenon of economic integration requires political, social and military.

Articles expert talking about interstate economic integration. This was one of the essential features of the world economy since the post-war period. It resulted in the formation of new centres of power, which exerts a growing influence on the ratio of forces in the contemporary world. Thus, economic integration after World War II occurs in the context of Western Europe on grounds that originally started the economic situation in this period. Western European integration was one of the ways the economic recovery of countries that feel the negative effects of war.

The economic literature finds the notion of economic integration has many meanings. Starting from the definition of economic integration will find directions and views on economic integration. Economic integration means a complex process of development of world economy in contemporary conditions, based on a qualitatively new stage, upper interdependencies between economies of specialization and different countries, and is determined by a combination of factors, among which it has an essential role technical revolution contemporary scientific.

Initially, the notion of integration was used for the first time in economic science in relation to industrial organizations. This notion is the result of expression of a set of agreements between firms to form cartels, corporations, trusts or merger, a vertical direction, in terms of implementation in relation to suppliers with users, and a horizontal direction with regard to agreements between firms' competitors.

Currently, some believe that the notion of integration is the most comprehensive, leading

to notions of national integration, regional integration and global integration.

Most specialists and economic literature has brought a new outlook on economic integration, which is considering more degrees of depth and speed of expansion. Thus, it is estimated that above all there is a first-degree integration in production and trade structures are ordered by a form more or less spontaneous, driven by competitive market law.

The second level of integration is the situation in which intergovernmental and supranational authorities play a major role in the development and trade orientation. The third level is the ultimate stage of integration, the final stage; he must be regarded as an ideal sphere of human value.

In terms of commercial activity with respect to European integration, remember that in mid-century began to establish the first international economic organizations that protected the various economic sectors. Within these bodies have an important economic trade relations are governed by a legislative text or by the contracting parties.

Either way, regulators, co-contractors are bound by contractual terms, rights and liabilities recorded in the respective conventions. If any law is violated or if any of the obligations is not respected, one who is guilty of this breach of law will be held responsible and also will try establishing state of legality.

The problem that interests us in terms of this work and for solve this potential authority competent to deal with disputes arising between merchants, the contracting parties.

## **2. Court, the most widely used method of solving conflicts in commercial matters**

Usually, when traders come to litigation, the first step they should have it done to restore legality should be discussed directly to the representatives, trying to solve problems amicably. However, counterparties impulse is to act through the court. Perhaps this happens because of the entire individual, whether commercial or not, has more confidence in the court in the dispute settlement procedures, even though they are sometimes costly and burdensome.

In cases where it is considered injured by their partners attitude contract by failure or

improper fulfilment of contract terms, dealers have to reach via direct court having as "claims". The reason will be judged by the court, both on the merits, and to review and after a final and irrevocable decision that will invest the formula will be enforceable and enforced.

The claimant is obliged to pay a stamp duty related claims required, depending on the stage to proceed to case, which is judged and its *locus standi*. Sometimes, when appropriate, if the trial court agrees specialized technical expertise, expert fees is supported, usually all by the complainant. All it will pay the fee and a lawyer, you hire legal services, and executor's fee, if forced to choose to implement the decision obtained.

Disadvantage is that if at the time of enforcement of the decision of the debtor is insolvent; the creditor can not obtain satisfaction in the claims pursued to promote action.

If one partner has a foreign nationality other than the Romanian, the dispute shall be verified by applicable law.

Another possibility that the lender has an obligation to hand is declaring a state of insolvency of the debtor or which is a dealer. Creditor in this situation can be so individual, but also a legal person (trader).

In this situation the lender is not likely to recover damages, but spend less this procedural step up and get the kind of so-called moral satisfaction. In doing so it may affect the debtor, or not.

There are legal, including the possibility that the debtor himself to declare his state of insolvency request to prevent any steps shown above and which are easier or creditor.

In all cases proceeding before the court is a public, not the judge in secret session.

## **3. Court of Arbitration, another method of solving conflicts in commercial matters**

It is known that in countries with well-developed market economy, most business processes resulting from the execution of a contract is usually settled by arbitration. Consider calling the trial a commercial process to ordinary courts would take years because of cumbersome procedures and multiple levels of jurisdiction.

Arbitration is a preferred way of settling disputes and dealing with rapidity because of

confidentiality. The latter is usually imposed as a fundamental characteristic opposite trial publicity.

In Romania, commercial arbitration is a form of private justice.

As a general rule, according to Code of Civil Procedure, persons who have full legal capacity may agree to settle by arbitration of economic disputes when the law does not allow them to make the transaction.

Arbitration may be assigned by the arbitration agreement, one or more persons, and parties or vested under that convention to hear disputes and to give a final and binding upon them. The parties may agree to arbitration to be held by a permanent arbitration institution or a third person, the parties have a choice between arbitration and occasional (ad hoc) and institutional arbitration.

Arbitration occasional (ad hoc) occurs when the parties have complete freedom to organize and to establish a procedure under the agreement between them. Institutional arbitrage occurs when parties have entrusted the task of organizing a specialized arbitration, the dispute is solved by the rules set by that institution.

Arbitration shall be organized and conducted under the arbitration agreement which is mutual agreement between the parties to submit the dispute between them arbitral tribunal trial.

Arbitration Convention appears as a bilateral contract, consensual and commutative, it is a disposal, because, first, the parties waive specific guarantees of state and justice, on the other hand is required to execute an arbitration award, which may require payment of money or transfer of ownership of property.

Arbitrary convention can be concluded either as an arbitration clause, included in the main contract or as a stand-alone agreements, called compromise. The form chosen depends on the moment when the agreement will - before or after birth dispute.

The arbitration clause the parties agree that disputes will arise from the contract that is inserted or connected with it should be settled by arbitration, showing the names of the arbitrators or the manner of their appointment.

The compromise the parties agree that a dispute between them be settled through arbitration, showing it, on pain of invalidity of the subject and names of the arbitrators or the manner of their appointment. Compromise the essence is there a dispute to a dispute between the parties is irrelevant whether the state court at the time the convention was asked or not.

Effects of the arbitration agreement are contractual, and procedural. Arbitration, whether combining form of compromise or compromise clause whether the one ad hoc or institutional arbitration, the same effect.

The arbitral tribunal have their own jurisdiction to resolve the dispute and decides in this regard by a closure can be broken only by annulment of the arbitration award.

Typically, the defendant, to remove the main effect of the arbitration, the arbitration agreement invoking the exception of nullity, validity or invoking disputing them that it has shortcomings. Exception solution presents a special interest, competence or incompetence as determined before the court or tribunal complainant.

The referee may be any person who, according to its national law, has full legal capacity. The law does not provide special conditions for appointment of arbitrators, but nothing precludes the parties provide for arbitration in certain skills or experience requirements.

Arbitration procedure to ensure the parties, failing which the arbitration award invalid, equal treatment and respect for the rights of defence, and is determined by the parties to arbitration.

Arbitration procedure to ensure the parties, failing which the arbitration award invalid, equal treatment and respect for the rights of defence, and is determined by the parties to arbitration.

Although Code of Civil Procedure makes no statement on whether public or secret discussions, is generally accepted that the principle of publicity is not applicable in this matter.

Sentence gives the arbitral tribunal unless the parties have agreed otherwise, within five months of its establishment. Expiry of the sunset is not a reason to arbitration, unless one party notifies the other party and the arbitral tribunal by the first term that will invoke the arbitration inoperative.

Abolition of the award may be obtained by an action for annulment may be brought within one month from the date of sentence, and it is for the next higher court that would have been competent if no agreement could be concluded arbitration. Decision of the court on cancellation action may be challenged only on appeal.

#### 4. Mediation and scope of commercial activities in which it can solve

Number of disputes could be resolved through mediation could grow to tens of thousands until the end, because judges are required, starting yesterday, to inform the court that addresses this process of existence (Claudiu Ignat, vice-president Mediators National Union of Romania).

The emergence of mediation law in 2006, the number of disputes were resolved through mediation was less than 500 annually, Ignat said. "It is a procedure that not only advantageous for the parties are in litigation, because it shortens the period of several months to resolve it - how long in court - a few hours, but the judges are overcrowded."

Until yesterday, the judges were not required to inform parties involved in litigation that may appeal to mediation, which has the possibility to resort to this procedure without judicial deadlines to be delayed so that judges do incur this information.

Mediation is a mechanism for an amicable settlement of a dispute in the commercial, civil, consumer protection, employment or other areas of law, without recourse to a judge in May of "state", but a judge "private. In commercial matters, litigation frequently refers to non contract terms.

In commercial matters, litigation frequently refers to non contract terms. In 2009, due to late payments and lack of liquidity in the economy, over 20,000 firms became insolvent.

Profession of mediator is a recently opened in Romania and to qualify in this profession must pass a training course accredited by the Mediation Board, after completion of higher education in any field and three years of work experience.

A mediator may request a fee in euro for mediation. Currently, this new profession grew; more people are interested to know the conditions what are which must meet to get a mediator.

Considering all legal options available to those who consider the damage, it remains to appeal to them most effective of the methods to be liable to one who created the damage.

#### 5. Conclusions

It is possible that during the development of a contract to interfere with some disputes between the contracting parties. As noted, these disputes can be resolved in several ways: amicably, through mediation, arbitration or by the court.

How to solve a conflict depends on intent of parties involved and their seriousness of the conflict situation and applicable law and persons.

Undoubtedly, solving a conflict, a dispute amicably or through negotiation and mediation, even through arbitration, is an elegant option and proof of social and professional maturity of all persons involved.

However, there are times when one or both parties fail to overcome some ambition, pride or hold erroneous data on commercial activity they are involved. This may cause enmity towards negotiated transactions, mediation, arbitration and appeal to court to solve the conflict they see well.

Alike, there are situations in which parties are not sufficiently well informed, and another path than the court does not find it safe, do not think it offers a satisfaction guarantee obtaining fair.

In relation to the ways of solving conflicts in commercial matters, the opinion for a complete analysis of conflict situations as objective and only then released to choose settlement procedure.

#### 6. References

- [1] Codul civil, Titlul III, "Despre contracte sau conventii"
- [2] Codul comercial, Titlul V, "Despre obligatiile comerciale în general"
- [3] Codul de procedura civila, Cartea a IV-a, "Despre arbitraj"
- [4] Legea 85/2006 privind procedura insolventei, consolidata 2010
- [5] Legea nr. 192/2006 privind medierea și organizarea profesiei de mediator

[6] Tabarca M., “Drept procesual civil”, Editura Universul Juridic, București, 2009,

[7] Zilberstein S., “Procesul civil internațional”, Editura Lumina Lex, București, 1994

[8] Capatina O., “Publicitatea comercială”, Universul Juridic, București, 2007

[9] Malaurie Ph., Aynes L., Gautier P-Y, “Drept civil. Contractele speciale”, Editura Wolters Kluwer, București, 2009

[10] Ph. Malaurie, L. Aynes, Ph. Stoffel-Munck, “Drept civil. Obligatiile”, Editura Wolters Kluwer, București, 2009

[11] Calmuschi O., Munteanu R., “Fundamentul competiției arbitrajului comercial în soluționarea litigiilor”, în Registrul de Drept Privat nr. 2 /2002

## **SECTION ONE**

# **INTERNATIONAL AFFAIRS AND EUROPEAN INTEGRATION**

## **SUBSECTION**

### **Regional Development Strategies**

# Interdependence Between Public and Private Sector in Services- a Regional Development Tool

BOB Constantin

BALALIA Alina Elena

*The Bucharest Academy of Economic Studies*

*constantin.bob@com.ase.ro*

[\*balalia\\_alinaelena@yahoo.com\*](mailto:balalia_alinaelena@yahoo.com)

## Abstract

*Starting from some relevant theories regarding the interdependence between the public and private sector, the reality shows that these sectors are connected one with each other, even more by daily activities.*

*Three main key market segments (manufacturing, construction and automotive industries) benefit from the support of both European Commission and the private sector, by Public- Private Partnerships, in order to stimulate the economic recovery after the crisis period.*

*Nowadays, to obtain a strong relationship between the public and private sector the investment should be focused on human resources and mutual technology.*

*Ways of interaction between the two sectors are included in this paper. Among them it can be mentioned government assistance, legislation, joint projects, industrial and community development.*

*The interaction between the two actors could become a regional development tool as long as the state of a developing country, especially, is determined to come up with proactive activities that bring economic transformation and further on, a position in the global economy. These could be achieved by promoting public-private alliances, according to local conditions.*

*The cooperation between the state and businesses, by regulations, is of real impact on services. The access of individuals to basic services like primary education, health, water resources, energy represents an important mean in order to eradicate poverty and register progress of the community.*

**Key words:** regional development, public sector, European Commission

**JEL classification:** H41, R10

## 1. Introduction

Taken as a whole, the interdependence between the public sector and business community in services area is based on theories of *natural monopoly and contestable market*. The meaning of the interdependence concept consists of inter-linked and *mutual conditioning* between things, events, processes and others. [1] Is there a natural monopoly when the production cost of a certain enterprise is lower than the cost amount of several enterprises, between which that specific quantity is allocated, no matter the distribution. But, in the 80's it was found that firms in monopolistic or oligopolistic situations had excessively high costs, thus the encouraging of competition by the state generated the rate (tariff) diminish and the demand growth. Regarding the theory of contestable markets, this implies the freedom of an economic agent to enter and exit a market, this aspect being achieved by government intervention that restrict the practice of unfair prices in order to encourage investment, but with the existence of some typical uncontested situations. The improvement of this theory involved finding solutions even in such uncontested cases, by setting the concession to some activities that could be taken by firms through auction.

The paper highlights another opinion of a researchers group [11] which states that in order to analyze the interdependence between government and business community to be used the psychological theory of cooperation and competition. Their research refers to government officials and businessmen from Shanghai, China, but may be drawn some several directions applicable also to the European Union. The study examines the collaboration between private industry and government agencies and its effects on business development. In addition, the

researchers' intention is to seek when and how managers and government officials openly discuss their ideas and constructively integrate their perspectives. The contributions of this study argue that private industry and government agencies are in a greater extent interdependent, a fact which is also supported by the interdependence theories of social psychology that can be applied in order to understand the dynamics of public and private relationship (cooperation and competition theory, the concept of open discussion for mutual benefits- solving the problems, strengthen relationships and industry development). Similar to China is presented also the European Union situation, when on one hand, the government aims to increase the number of persons employed, the consumption and social stability and on the other hand, the business persons who stress the need of an environment where to feel confident that they can expand their investment, enhance the employment force and income. The incompatibilities between goals and views between the private and public sector interfere in contracts of employment, employment practices, security and concerns about environmental and legislative issues. Government assistance, regulations, common projects (30%), community development and industrial development are the categories of incidence between public and private sector, which emerged from the quantitative analysis conducted by the researchers mentioned above.

According to a specification from the Development strategy of public sector [12, p.2], between public sector reform and private sector development there is a very close interconnection. The private sector role toward the public sector and vice versa should be a complementary one, although there is no typology generally valid to establish an equilibrated balance on the occupied roles by the public or private sector.

The paper is structured as follows: after the introduction is presented the necessity of the public- private cooperation in services, then some elements that determine the public support for the business community, reaching regional development by public- private collaboration and in the end, more particular aspects of public- private interdependence in the specific case of services and conclusions.

## **2. The necessity of public- private cooperation in services**

Regarding the need for interaction between public and private sector are taken into account factors such as quality of service, rates, depreciation of fixed funds and corruption. Regarding the quality of services, especially in emerging countries, it can be argued that providing people with different types of services such as utilities (water and sewer, gas, heat and electricity), like other services (public transport, telecommunications services) is unsatisfactory and there is often no continuity in their delivery, furthermore their quality does not meet the consumer needs because of outdated technologies, mismanagement and others. Therefore, the consumer is not satisfied with the way of providing these services. A second element that encourages the introduction of ways for cooperation between private and public consists of the rates established by the persons that activate in public service, and which tends to be continuously increased. For example the methodology of composing the rates (in water supply and sanitation, gas, hot water, electricity, the heating, postal services, urban telephony and other services) provides the establishing of rates according to the cost of services, but without having as result also the increase of quality services. A third element that determines the need for collaboration between the public and business community is the depreciation of fixed assets, which is seen as low budgetary sources of state with the intention of investing in public services. One last important element that marks the need for public-private collaboration is corruption, which in this way can be reduced.

Public sector, through the state is the one that establishes the appropriate framework for the private sector development by proper application of trade policies, maintaining competition, regulation of utilities, commercial legal systems, taxation, labor codes and environmental management. The moderator role of the state is manifested through the establishment of balance between the competitive requirements of the private sector, on the resources, and the maintaining of stability. A powerful state that holds economic competences can develop "common interests", by encouraging the forming of alliances with the private sector. *Maintaining economic stability is achieved through the collaboration*



*between the two sectors*, with means consisting of modern technologies acquisition and the funds investment in productive activities. A strong state can support a company also beyond its borders, or on the contrary a weak state may risk being overwhelmed by the commercial interests of economic agents. In addition, the lack of economic competences of a state may cause not seeing the development benefits generated by the collaboration with the private sector. Those states that realize how important the collaboration with the private sector is, by *combining the expertise of both sectors*, those have to benefit in the way of obtaining a sustainable development of that specific community. [4]

At the European level, the European Commission in collaboration with the private sector aims to stimulate the economic recovery by injecting funds (about 268 million euros) in three key market segments. It seeks to develop new technologies in the manufacturing, construction and automotive industries, through public-private partnerships, aiming to promote convergence between public and sector interest, considering the research area. This *collaboration between the European Commission and private sector* for "smart" investments in strategic sectors generates long-term benefits, which consist of constructing unpolluted technologies, creating new jobs and sustainable development. The funding for these partnerships comes half from the business sector and half from the European Commission, through the Seventh Framework Programme for research and development. In the European context, between 2010 and 2013, the emphasis will be placed on factories for future, energy efficient building and environmentally friendly cars. Increase of knowledge level and utilization of future technologies, promotion of ecological technologies and creation of energy-efficient systems and materials for European building sector, development of renewable and unpolluted energy sources and increase of safety and traffic flow of cars are targets established by the European Commission in cooperation with the private sector. These targets will be put into practice by public-private partnerships for which funds of 3.2 billion Euros are allocated. [13] Although in a market economy the achievement of high levels of competitiveness is, primarily, the responsibility of companies, public authorities can assist this process by providing a favorable

economic environment. This became possible in the European Union when the Single Market was established, particularly through the trade policy with Non-EU countries and the competition policy.

By the Single European Act 1992 the programme of the single market was approved, when twelve separate national markets have been transformed into a single market. A summary of business benefits include access to new markets, proportionally restructuring the production to the population of the single market area, contracts with transnational partners and others. Over the years plans, analysis, communication regarding the single market were developed, but in this paper is presented the recently recorded situation. In 2007 was elaborated a resolution on the Single Market Review, prepared by the European Parliament, which proposes the "fighting against the barriers and inefficiencies through a better transposition and application of existing rules" [9, p.404], followed by the Communication 724 / 2007 "A single market for the Europe of XXI century" which seeks to reposition the single market, focusing on services of general interest and the market of domestic goods.

### **3. Public sector support toward business**

Summing up the ways by which the state supports business, represented by companies, includes direct and indirect forms of intervention. [14] The direct forms of intervention are represented by grants, which refer to transfers of money from the state budget amounts to businesses, non-refundable and without any basis; investments granted by the state to develop the public sector or others; subsidized loans granted to public or private enterprises which have temporary financial difficulties, financial aid which is given from the budget for the dissemination of information, marketing studies, organization of exhibitions; and repayable loans. The indirect forms of business support consist of tax benefits, which constitutes the facilities and tax relief that reduces the tax burden of the recipient companies; and the state guarantees to bank loans incurred by enterprises, with the state ownership of the fact that when the debtor becomes insolvent, to secure repayment of the loan.

In addition to the traditional idea that public sector provides financial support, policy,

information and technical support and also negotiates with the private sector environmental issues, are born strong relationships between public and private which may consist of investment in human resources and mutual technology. [10] The interaction between the public and business community can be done in several ways, such as government assistance, involving financial support and technical information for the public to the private sector, legislation that can become a barrier or support for representatives of businesses, joint projects involving the pooling of resources to meet a clearly defined purpose, industrial development by supporting innovative initiatives and community development, through private sector involvement in policy making aimed taxes, building construction and legislation.

#### **4. Reaching regional development by public- private cooperation**

Considerations on the directions of public-private collaboration are captured and supported by the European Commission through the Regional Development Policy. Among the principles of this policy it can be identified the *Partnership and cooperation* between the Commission, Member States and other authorities or bodies, including economic and social partners.

Collaborative governance is a term used to describe a new form of public sector work, involving cooperation with private sector stakeholders to develop and implement policies. The identification of variables influencing or not the governance way is a challenge for researchers wishing to develop a model of successful public-private collaboration. According to the authors [2], the variables that define the collaboration can be found within the history of conflict or cooperation, incentives for stakeholders to collaborate, imbalance between power and resources, leadership and institutional aspect. Also were identified by the authors, also a number of factors that are relevant to the collaborative process itself, among them being face to face dialogue, confidence gained and the development of commitment and shared understanding. The collaboration discussion forums, developed in collaboration tend to develop trust, commitment and understanding

for the other part, so as to form a cycle together.

Globalization may create conflict between public and private interests, but it is necessary to identify key elements of public policies that both economists and business leaders agree with them and in this way is obtained a positive interdependence relation. [6]

Proactive actions of the state in case of a developing country, aiming to achieve economic transformation and a role in the global economy, are matters which reduces differences in comparison with a developed country. To recover this difference, the state must implement a medium and long term strategy and to obtain support from public-private alliances, according to local conditions. Public-private alliances are a supporter of regional development and thus less developed countries manage to achieve a process of convergence with developed countries. [5] The implementation of European integrated socio-economic system proves its usefulness to implement policies of social cohesion, because of the connections which are established between the European administrative unit, national government and business. [7]

To eradicate poverty and register progress is essential for individuals to have access to basic services like primary education, health, water resources, energy, etc. These basic services are actually public goods, of which the public sector is in charge. But it is considered the main supplier, but not the only one, because it may be involved also the business community, by establishing partnerships between the two entities.

#### **5. More particular aspects regarding public- private interdependence in services**

The tertiary sectors interacts with the other economic sectors toward which develops many interdependence relations, because of the fact that services can be associated with the production of goods, intermediate consumption and final consumption in order to meet people's needs. The complementarities between goods-services generate more interdependent relations, compared with the single action of services, and the services relations in the economy and society are developing on several levels. The services area is in interdependent relationships with the

scientific-technical revolution, population and production needs, the global values circulation and environment. [8, p. 60] These plans develop mutual relationships with the services area, and also between them interdependence is reflected, for example, people's needs are influenced and influence in return, on one hand the scientific-technical revolution and on the other hand, the environment. If the focus would be on the relationship between the service sector and the environment there are noticed two different directions: the first consists of services that act so destructive on the environment through pollution, destruction, for example transport, tourism, and the second concerns the care for environment, by developing scientific research services, sanitation services, information services and others.

Services are those economic activities subject to a well structured government intervention way, applicable by tax system, subsidies, system of rules and regulations. The volume and structure of service control is done indirectly by the state and directly through state companies and policies that encourage competition. [3]

Various forms of cooperation are developed between the state and businesses, and the most significant impact on services and implicitly on included activities, are present regulations. The regulations that aimed primarily services can be found under the form of technical regulations which refer to those persons involved in providing services (some specific requirements that have to be met: diplomas, some coaching), products or business (compliance with rules security, customer protection). The role of these regulations is reflected by regulating flows of companies on market entry. Administrative regulations are the second category of ways in which the state acts on the business community in services, in order to limit access to that area (it can set a defined number of firms in a market, so that it can be assigned a monopoly within a specific territory to a certain economic agent, or only to some of them thus forming the oligopoly). Specific to the services are the regulations aiming the administrative control of prices (tariffs), the state control on the increasing of prices, more explicitly on the size of the commercial margin rates. In addition, the tax rules also result in changes at the business community level, through the tax system that

can stimulate or not the service sector activity. [8, p. 109-110]

The system works by the following route: citizens pay taxes to the state, the latter, as a direct supplier, directs funds to provide basic services and infrastructure that supports providing these services (administration, emergency services, medical systems, transportation, water supply, etc.). Instead, the state may change its position in two ways: by transforming it into a supervisor of services offered by business community representatives and by assuming the role of purchasing services/ infrastructure from the private sector.

Managing a public service can be made either by a public entity (state institutions), or by a private individual (or entity). The management of a public service by a public entity can be made either for its own or through a specialized institution. Individuals have different ways of providing a public service, under an administrative contract, location contract, the authority given by the local government and concession. In the national or international scientific literature are found several main ways of managing public services, where the interaction between public and private sector is the mainstay and manifests differently from one type to another, such as public service concession, the service made by its own, public services in franchise system, joint ventures, purchase of goods and services, privatization of public services and public-private partnership.

## 6. Conclusions

Finally, the collaboration between the public and business community introduce a new approach in assuring the social welfare and it is a mean for achieving multiple purposes: savings in public expenditure, improving the quality of public services, streamlining the operations from public administration and improving the efficiency opportunities of chosen and implemented policies. The interdependence between public and private foster political control, managerial freedom and activity transparency of the public administration bodies, which must create a actually cheaper governance, with high quality services and more effective programs. Future research on this topic will imply the analysis of some particular cases in services, under the form of Public- Private Partnerships.

## 7. Acknowledgements

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

## 8. References

- [1] Academia Română, Dicționarul explicativ al limbii române, Editura Univers Enciclopedic, București, 2007.
- [2] Ansell C., Gash A., “Collaborative governance in theory and practice”, *Journal of Public administration research and theory*, Vol. 18, Nr. 4, 2008, pp. 543-571.
- [3] Bobîrcă A., Cristureanu C., Negrescu D., *Competitivitatea sectorului serviciilor din România, în perspectiva liberalizării acestora în UE*, Institutul European din România, București, 2006.
- [4] Department for International Development, *Private Sector Development Strategy: Prosperity for all: making markets work*, London, 2008.
- [5] Devlin R., Moguillansky G., “Public-private alliances for long-term national development strategies”, *CEPAL REVIEW*, Vol. 97, pp.95-113, published: APR 2009.
- [6] Gomory R., Baumol W.J., „Globalization: Country and company interests in conflict”, *Journal of Policy Modelling*, Vol. 31, Nr. 4, 2009, pp. 540-555.
- [7] Grigorescu A., Balalia A. E., „Interdependences Between the Public Administration and Private Business Environment in the Context of Economic Crisis”, Conferința internațională ”Integrarea europeană – noi provocări pentru economia României”, „Analele Universității din Oradea”, seria Științe Economice - Tom XVIII, 2009, ISSN-1582-5450.
- [8] Ionciă M., *Economia serviciilor- teorie și practică*, Ediția a III-a revizuită, Editura Uranus. București, 2003.
- [9] Profiroiu, M., Profiroiu, A., Popescu, I., *Instituții și politici europene*, Editura Economică, București, 2008.
- [10] Spencer J.W., Murtha T.P., Lenway S.A., “How governments matter to new industry creation”, *Academy of Management Review*, Vol.30, Nr.2, 2005, pp. 321-337.
- [11] Tjosvold, D., Peng, A. C., Chen, Y. F., Su, F., „Business and government interdependence in China: Cooperative goals to develop industries and the marketplace”, *Asia Pacific Journal of Management*, Vol. 25, Nr.2, 2008, pp: 225-249.
- [12] World Bank Group, *Private Sector Development Strategy- Directions for the World Bank Group*, Washington D.C., 2002.
- [13] \*\*\*, *Comisia Europeană și sectorul privat vor investi 3,2 miliarde de euro în redresarea economică pentru o economie mai puternică, mai ecologică și mai competitivă*, 13/07/2009, [www.europa.eu](http://www.europa.eu), accesat la data 17.03.2010.
- [14] <http://www.scribde.com/economie/SISTEM-UL-CHELTUIELILOR-PUBLICICE35491.php>

## The Role of SMEs in Diminishing Territorial Disparities. Case Study: Gorj County

BRAGHINĂ Cristian  
STOICA Ilinca-Valentina  
ZAMFIR Daniela

*University of Bucharest, Faculty of Geography, CICADIT  
(Interdisciplinary Centre for Advanced Researches on  
Territorial Dynamics)*

*cristibraghina@yahoo.com, stoicailincavalentina@gmail.com irdanniela@yahoo.com,*

### Abstract

*The current study is part of a CNCSIS project, focusing on Gorj county; its previous phases consisted in identification of secondary growth poles and the way in which foreign and local investments can stimulate their development. The complex methodology used allowed for the identification of a main growth pole, the city of Târgu-Jiu, and nine secondary growth poles, mainly urban settlements (Motru, Tismana, Novaci, Bumbe ti-Jiu, icleni, Târgu Cărbune ti). A little-developed and not polarized area was also identified in the south-eastern part.*

*This article reviews in depth the main features of SMEs (concerning size, number of employees, sectors of activity) in Gorj county, as well as their geographical distribution across the territory; it analyzes the part they play in creation and consolidation of secondary growth poles.*

*The distribution of SMEs in Gorj county highlights that the highest concentration is found in Târgu-Jiu and secondary growth poles (with the exception of Urdari), while the non-polarized area in the south-eastern part of the county features some of the lowest values. At the same time, one can notice the companies tend to concentrate in the central and northern part of the county, a situation favored by the presence of natural resources, but especially by the polarization capability of the city of Târgu-Jiu.*

*SMEs classification in terms of size highlights that microenterprises are predominant; in terms of sectors of activity, a predominance of tertiary-sector companies can be noticed.*

**Keywords:** *small and medium-sized enterprises, Gorj county, secondary growth poles, territorial disparities*

**JEL Classification:** *I30, M13, M21, O10*

### 1. Territorial differentiations in levels of development in Gorj county

The process of development across a region depends on a set of organic factors, which cause significant differences in the emergence of economic producers – in terms of quantity and quality – difference in the structure of fields of trade and distribution of economic activities, and in social terms. These differences lead to some human settlements standing out, and to permanent competition between settlements, which results in the emergence of growth poles and of an area comprising several competitors, which is the polarized area.

The overall evolution of the economic and social life, as well as the pre-1990 industrialization policy led to the emergence of imbalanced development in the territory [10]. The region under analysis features major imbalances caused by the drop in the capacity of diffusion of “development” of numerous hubs, a situation that caused a chain reaction of imbalances in subordinated areas, going beyond the critical threshold in numerous situations.

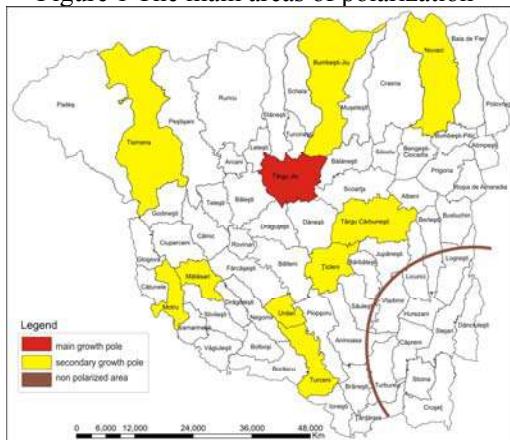
Grounded in this situation, one of the national policies for economic and social recovery consisted in identifying and declaring disadvantaged areas. The Government labeled three disadvantaged areas in Gorj County in 1999: Albeni - by Government Decision 191/1999, Schela - by Government Decision

192/1999 and Motru-Rovinari - by Government Decision 193/1999.

According to law 351 /2001, Gorj County has two second-rank cities (Târgu-Jiu and Motru) and seven third-rank cities. According to traditional classifications, the county seat is a middle-sized city, at the higher end of the 100,000-inhabitant category, Motru is also a middle-sized city at the lower end of the 20,000 inhabitant category, while all other seven cities are included in the category of small-size cities with less than 20,000 inhabitants [5].

Using analyses carried out at the level of administrative subdivisions by collating a set of indicators that describe demographic matters, economic development level and living standards, the secondary growth poles were identified, whose geographical distribution is relatively even across the county, with the exception of the south-east where polarization stands at a relatively low level [1]. Using the respective methodology one main growth pole was represented - Târgu-Jiu – and nine secondary growth poles, mainly urban settlements (Motru, Tismana, Novaci, Bumbe ti-Jiu, icleni, Târgu Cărbune ti)(figure 1).

Figure 1 The main areas of polarization



Diversification of the economy of the region is a priority in the present context, because the region is a mono-industrial one and in addition mining operations falls short of the regular parameters (production can no longer reach the rates that, up to 1990, contributed to the development of the region). The entrepreneurial sector is the fastest-growing sector in the region; its development offers cohesion to the region, thanks to its capacity to selectively capitalize on resources and to its impact on the strength of the ties between the other components of the system.

Considering this economic framework, plagued by numerous setbacks, one could conclude that opportunities for new activities and jobs can be created by means of innovation. In this context, starting from the premises that SMEs enhance the dynamism of local economy, their main characteristics were analyzed, with the goal of identifying the part they play in the emergence and consolidation of growth poles.

## 2. Particularities of small and medium-sized enterprises

The European view is that SMEs have had a key part in reorganization of the centralized economies in Central and South-Eastern European countries and in preserving economic dynamism [4]. They are able to create a significant number of new jobs, to improve industrial relations and to provide a superior working environment for employees, to create a diversified and flexible industrial base by creating a pool of entrepreneurs willing and able to take risks, to stimulate competition for small and large firms alike, leading to an energetic enterprise culture, to stimulate innovation [4].

At the same time, SMEs are, everywhere in the world, the engine of growth (being the largest provider of employment in most countries and a major source of technological innovation and new products), essential for a competitive and efficient market (playing a major role in removing regional and sector imbalances in the economy and creating competitive market pressure), critical for poverty reduction (tending to employ poor and low income workers) and play a particularly important role in developing countries [9].

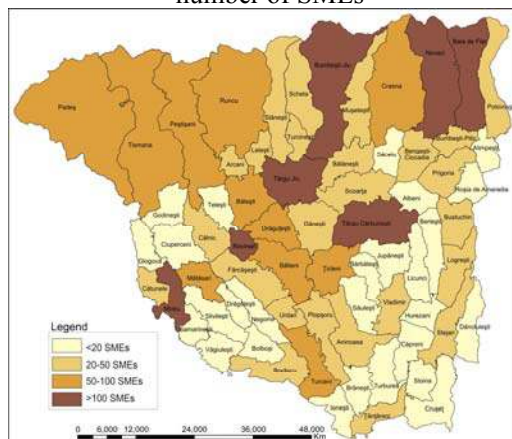
For big companies, SMEs represent the world where they have come and where their concurrence of tomorrow will appear. For individuals, SMEs often represent a first place to work, a first step of career. They are also a first step towards entrepreneur's world [8]. They can also contribute to the preservation and development of local customs, thanks to the opportunity of operating at lower costs than large enterprises [6].

At the regional level, the development of SMEs is determine by a set of local factors, that emphasize the importance of this sector, offering clues that lead to certain courses of action that can be taken into account when

creating strategies or programs for development [7].

**Territorial distribution of SMEs** in Gorj county turns out to be uneven and indicates disparities between urban and rural areas and the northern and southern regions (figure 2). 2007 data indicate that the biggest number of SMEs is concentrated in urban areas (75.3%), especially in Târgu-Jiu (54.8%). A high number of units are also to be found in the urban settlements of Motru (6.1%), Rovinari, Bumbe ti-Jiu, Târgu Cărbunesti and Novaci. In rural areas, more than 100 SMEs are found in Baia de Fier only, with somewhat high numbers also registered in Bălesti, Bălteni and Drăgutești. There is also the reverse situation, where there are townships with less than 10 active companies, mainly involved in retail: Godinesti, Jupânești and Glogova.

Figure 2 Territorial distribution of the number of SMEs



Source: The National Trade Register Office; processed data

This situation is also explained by the fact that the first small and medium-sized enterprises to emerge in post-1989 Romania were grouped in the large urban centers, the place where the concentration of population and the income earned in the first year of transition – in addition to the clear deficit in commercial activity – allowed small retail enterprises to develop. From the large urban centers activity expanded – gradually pervaded – to medium-sized and small towns, then later or simultaneously – to rural communities in the vicinity and eventually to isolated settlements, difficult to reach [2].

As far as *SMEs size* is concerned, one notices that microenterprises (0-9 employees and an average net turnover or total assets of less than EUR 2 million) are predominant in all townships; in 27.1% of them they are the

sole type of economic agents. The communes of Logresti, Dănciulești, Stejari and Stoina, located in the non-polarized area in the south-eastern part of the county, are included in this category.

Overall, in the area under analysis, 91.4% of all SMEs are microenterprises, a ratio slightly higher than the national average (88.4%) [12], but lower than the European one (93%) [11].

The high number of SMEs is due to the fact that on the one hand this is the first step most businessmen take in business, but on the other hand it is the result of important factors of an institutional, legislative and, not least, fiscal policy nature [12].

Small enterprises (10-49 employees and an annual net turnover or total assets of less than EUR 10 million), account for 7.7% of all SMEs, which indicates a lower ratio than the national average, in the same period of reference (9.6%). Small enterprises account for more than 10% of all SMEs in a mere 14.3% of all administrative units in Gorj county. The highest ratio is registered in the commune of Pades (34.4%), followed by Albeni (17.6%) and Pe ti ani (15.7%).

Medium-sized enterprises (with 50-249 employees and an average annual net turnover of up to EUR 50 million, or total assets of up to EUR 43 million), are located in several units, most of them concentrated in Tîrgu Jiu (63.1%), but also in the secondary growth poles (Motru, Târgu Cărbune ti, Tismana). Overall, they are less represented (0.9%), as compared with the national average value (2%).

**The distribution of SMEs in terms of size and sectors of activity** highlights the fact that in both the primary sector and in the secondary sector medium-sized enterprises are best represented, while microenterprises feature a clear dominance of the tertiary sector (table 1).

Table 1 Distribution of SMEs in terms of size and sectors of activity (%)

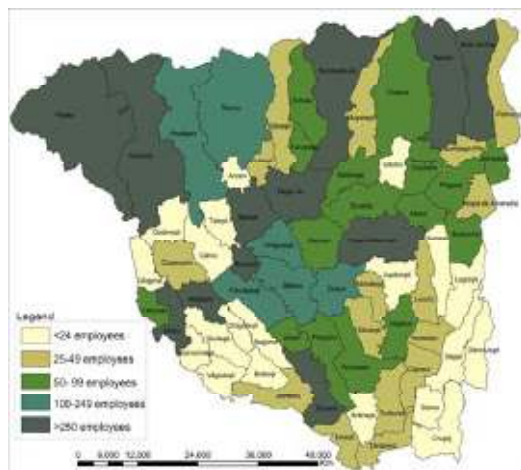
Fields of trade	Micro-enterprises	Small enterprises	Medium-sized enterprises
Primary sector	2.5	3.2	7.7
Secondary sector	6.4	14.4	23.1
Tertiary sector	91.1	82.4	69.2

Source: The National Trade Register Office; processed data



An assessment of the *workforce* employed in SMEs indicates that the majority is located in the city of Târgu-Jiu (58.4%); alongside other urban settlements, it accounts for more than 84% of the total, which contributes to enhancing their attractiveness in the region. In rural areas, higher ratios are found in the communes of Pade , Mătăsari, Baia de Fier, Băle ti, Bălteni and Runcu (figure 3).

Figure 3 Territorial distribution of the number of SMEs employees



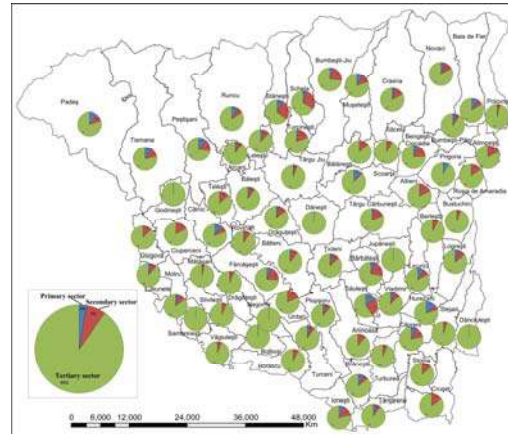
.Source: The National Trade Register Office; processed data.

The reverse situation is found in the communes where less than 25 people are employed in SMEs – two sizeable areas in the south-eastern part of the county, which partly overlap with the non-polarized area, and in the south-western part of the county.

SMEs division in terms of *sectors of activity* highlights the fact that tertiary sector companies are predominant (90%) in the administrative units of Gorj county (figure 4).

Moreover, in some localities, all companies operate in the tertiary sector – for instance in Bolbo i, Dănciule ti, Dăne ti, Godine ti, Jupâne ti, Negomir, Samarine ti; a large part of them are companies involved in retail.

Figure 4 Distribution of SMEs in terms of sectors of activity



Source: The National Trade Register Office; processed data

The explanation would be that involvement in such an activity involves several incentives, such as low initial investments, the existence of low risks, rapid depreciation of investments and the fact that this activity does not require either lots of experience or high levels of professional training [3].

The predominance of the tertiary sector is also typical of urban settlements, such as Târgu-Jiu (95%), Rovinari (90.7%), Motru (86%) and others, but one can notice that in their case tertiary sector activities are much more complex, as they include higher tertiary sector (such as universities and specialized medical assistance).

### 3. Outlooks for development

Starting from the premises that development of secondary growth poles can induce development of surrounding areas and therefore allow a polarization of the biggest part of the county (also bearing in mind their geographical distribution), the following courses of action are suggested:

- identifying and promoting the strengths of the secondary growth poles as part of existing county development programs;



- the need for establishment of SMEs by local and foreign investors that would capitalize on local resources, so that they would become competitive on the European market and attractive for banking institutions, supply jobs and lead to the emergence of a prosperous middle class;

- the creation of a partnership between secondary growth poles and neighbor administrative units, with the purpose of encouraging entrepreneurial initiatives, but also in order to implement infrastructure development projects, also by means of tapping into development funds;

- establishing of collaboration ties between the county seat (Târgu-Jiu), as the main growth pole, and the secondary poles, matching the revaluation of urban-rural and urban-urban ties.

#### 4. Conclusions

Matching the main areas of polarization against the geographical distribution of SMEs in the region indicates differences among secondary growth poles, but also certain similarities:

- the concentration of companies in the central and northern part of the county, a situation favored by the presence of natural resources and especially by the polarization force of the city of Târgu-Jiu;

- the total number of companies, on commune, varies in a range from less than 10 to more than 3,700, with the highest numbers found in Târgu-Jiu and in secondary growth poles (with the exception of Urdari), and in communes in the central-northern part of the county, some of them located inside the polarization scope of the urban settlements;

- as far as both the distribution of SMEs and the number of employees are concerned, the non-polarized area in the county's south-features some of the lowest values;

- a feature shared by all administrative units in the county, secondary growth poles included, is the predominance of microenterprises; in terms of structure, the dominance of the tertiary sector is visible;

To conclude, the analysis of SMEs in Gorj county highlights the existence of SMEs concentration in secondary growth poles, which influences the attractiveness of settlements with such functions and contributes to accelerating the dynamics of local economy.

#### 5. Acknowledgements

This work was supported by CNCSIS – UEFISCSU, project number PNII – IDEI code 196/2007 and 194/2007.

#### 6. Bibliography

[1] Braghină C., "The Entreprising Field And His Role In The Mitigation Of The Regional Differences. Case Research - Gorj County", annual report, 2007, project PNII – IDEI, code 196/2007;

[2] Ianoș I., "Potențialul economic al teritoriului și dezvoltarea sectorului antreprenorial în România", Terra, Bucure ti, year XXX (L), no.2/2000, 2000, pp.64-70;

[3] Mita Simina, Stoica Ilinca-Valentina, "Rolul activităților economice nonagricole în dezvoltarea așezărilor rurale subcarpatice situate între Buzău și Slănic (Subcarpații Buzăului)", Comunicări de Geografie (2008), Editura Universității din Bucure ti, Bucure ti, 2007, pp. 441-449;

[4] Mitru C., Constantin Daniela Lumini a, "Current issues concerning regional policy and SMEs in Romania", South-Eastern Europe Journal of Economics, 2, 2006, pp. 209-221;

[5] Pascariu G, Dumitrescu M.A., Analiza socio-economică și spațială a jude ului Gorj, Editori: PFDL și Consiliul Jude ean Gorj, 2007;

[6] Platon V., coord., Construcția și dezvoltarea infrastructurii specifice IMM-urilor, Ed. Expert, Bucure ti, 2005;

[7] Platon V., Antonescu Daniela, "The regional dimension of the SMEs sector in Romania", Journal of Urban and Regional Analysis (JURA), vol.1, no.1, Editura Universita-ră, Bucure ti, 2009, pp. 17-26;

[8] Simionescu Silvia, "Sme sector – the subject of specific scientific research", Anale. Seria Științe Economice, vol. XV/2009, Ed. Eurostampa, Timi oara, 2009, pp. 55-59;

[9] Stanciu C., Cârciu D., "The impact of taxes towards economic performances of SMEs from romanian urban and rural areas", Buletin UASVM, Horticulture 65(2), Cluj-Napoca, 2008, pp. 470;

[10] Tălângă C., Peptenatu D., Stoica Ilinca-Valentina, "Functional structure of severely disadvantaged areas in Gorj County", Analele Universității din Bucure ti, Bucure ti, (în curs de apariție);

[11] Trica Smaranda Andreea, Zuca Marilena, Tinta Alice, "A new dimension for accounting standards-IRFS for SMEs", Studia Universitatys Babe -Bolyai, Negotia, LV, 2, 2010, pp. 45-56;

[12] ANIMMC(National Agency for SMEs and cooperatives), Annual report on SMEs sector in Romania, 2008;

[13] The National Trade Register Office.

# Irrigation in Dobrudja's agriculture retrospective and historical perspective

CHRILĂ Constantin, LUP Aurel  
Chamber of Deputies  
Ovidius University  
constantin.chirila@cdep.ro  
lupaurel@yahoo.com

## Abstract

The paper presents the development and agricultural exploitation of the land reclamations in Dobroudja's since '50 years until these days. The main aspects analyzed were the followings: equipped area and investments, organisation and exploitation, influence on yield per hectare, cost price of the main crops, economic efficiency of the irrigation in farms and social water cost.

Finally, the author proposes some ideas about the future of the land reclamations in Dobroudja's, especially in the irrigation field.

**Key words:** irrigation, land reclamation, efficiency.

**JEL Classification:** Q15

## 1. Introduction

According to some relatively recent studies, Dobrudja's quality in agricultural land is affected by what the FAO language calls the *danger of desertification* determined mainly by two factors, the vulnerability of the land by the phenomenon mentioned above and anthropogenic activities (including grazing). In terms of climate, the areas where the report precipitation/potential evapotranspiration (Penmann) is less than 0.75 are considered vulnerable.

For Northern Dobrudja the phenomenon was highlighted on the lower and middle rungs of relief in the Jurilovca, Cerna, Babadag, Tulcea, Macin, Topolog (strong-moderate vulnerability in the steppe and weak-moderate before steppe (Munteanu, 1988).

In southern Dobrudja, the sterility phenomenon was also found on the lower and middle rungs of relief at more than 70 km from

the coastline (Mihailescu and Paul, 1993). As a remedy, irrigation and reforestation were proposed.

## 2. Materials and methods

The main data source is the techno-economic statistics of the ANIF branches and the beneficiaries. Financial reports for the period before 1990 are extracted from the book "Irrigation in Romanian agriculture" (A. Lup).

For the period 1990-2010, the data was extracted from the rehabilitation studies of irrigation systems and the Report on irrigation Parliamentary Commission of Inquiry.

The chosen method was that of the specific economic research, data collection and analysis, processing and synthesis.

## 3. Results and discussions

### 3.1. Irrigation development in Dobrudja

In only two decades: 1969-1989, over half a million hectares have been equipped, the largest area, over 200 thousand ha, was equip in a five-year period, 1970-1975. In the end of the 1989, over 581.5 thousand hectares or 82% out of the arable area Constantza county and about 55% out of the arable area Tulcea county were equipped.

The rhythm of the arrangements and the shortage of funds of the recent years have

Year	Dobrudja		Constantza county		Tulcea county	
	Agri-cultural	Ara-ble	Agri-cultural	Ara-ble	Agri-cultural	Ara-ble
1965	15.0	13.1	9.1	7.3	5.9	5.8
1970	76.7	69.6	62.7	58.0	14.0	11.6
1975	289.9	263.4	204.5	187.7	78.4	75.7
1980	452.0	434.3	339.5	326.3	112.5	108.0
1985	532.0	512.6	390.7	376.5	141.3	136.1
1989	581.5	552.7	422.3	398.8	159.2	153.9

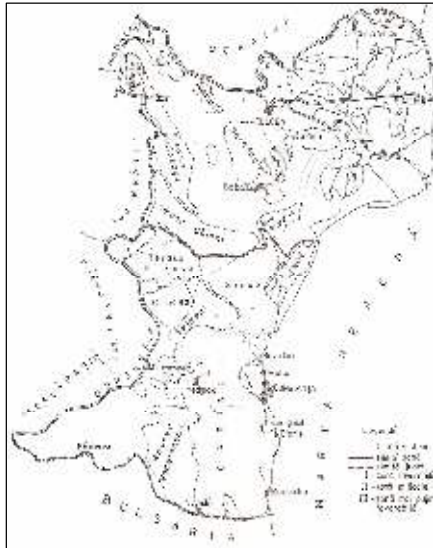
damaged the quality of accommodation, so the essential elements such as sealing channels,

drainage systems and water supply remained unfinished.

Another characteristic of the irrigation systems in Dobrudja, and Constantza in particular, is that it is the largest water pumping, it heights over 80 m, compared with 40-45 m in the Romanian Plain, for example.

This feature entailed excessive power consumptions over 1500 kwh/1000 m<sup>3</sup> of water in Constantza county, and 1200 kmw/1000 m<sup>3</sup> water in Tulcea county, compared to an average of 723 kwh/1000 m<sup>3</sup> water throughout the irrigation systems in Romania. The location of the irrigation systems in Dobrudja as it was at the end of 1989, is presented in fig. 1.

Fig.1.Irrigation systems in Dobrogea (1989)



The large arranged areas and the structural characteristics at the time had a significant impact on the level of capitalization and energy equipment.

In 1985, for example, hydro facilities were 38.8% out of the capital's technical units of the agricultural equipment and 33.8% out of the power equipment of the vegetal sector in Constantza county.

### 3.2. Operation of irrigation systems before the year 1990 in Dobrogea

The two decades of building, the irrigation system and especially the decade 1980-1989, were characterized by a deepening of the financial crisis resulting in shortages of the most diverse such as electricity, spare parts, fuel, fertilizers and pesticides, and above all a continuous further arrangement of new areas.

According to a recent program launched in 1983, the arable area of Constantza county, for example, ought to be fully equipped for irrigation by 1989.

The cumulative effect of these objectives historical facts, never recognized by the decision factors of that time, were reflected in the improper operation developed for the irrigated perimeters and finally in the technical and economic results achieved.

The most affected was the hydro operating system: delayed watering, reduced rates for irrigation, big water losses. The result was that the yields per unit practically were half of the one projected, much more for the small hoes and technical crops (tab.2).

Table 1  
Irrigation development in the period  
1965-1989 in Dobrudja

Source: Statistical yearbook of Romania

Culture	County Constantza	County Tulcea
Wheat	3521	2524
Maize	3051	2130
Sunflower	1444	1096
Soybeans	748	711
Potatoes	11567	8743
Sugar	21048	11847

Table 2

Yield (kg/ha) for the main crops average production for the period 1986-1989, the counties of Constanta and Tulcea

Source: A. Lup, Agricultural Dobrudja, 2003.

We mention that during the referenced period 1986-1989, the operated land under irrigation was over 80% out of arable land in the county of Constantza and about 40% out of Tulcea county and technical crops such as soybeans, potatoes, sugar beet, were located exclusively in the exploited land under irrigation.

Naturally, under such circumstances, satisfactory economic results could not be achieved. Moreover, the supplier of water – the State - recorded water loss rates at prices representing only 25-30% out of the actual adduction cost of water distribution to beneficiaries and farmers.

A performed calculation on actual data from Constantza agricultural county proves the social economic inefficiency of the agricultural system under irrigation throughout the economical plan, including last year when over 80% out of the arable county was exploited

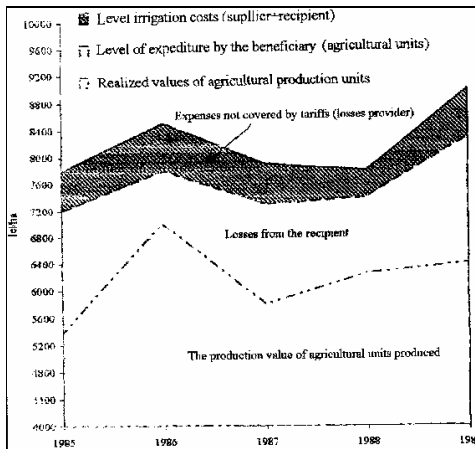
technology in the irrigation system (table 3 and fig 2).

**Table 3**  
Economic efficiency of agricultural crops at the level of aggregate expenditure by the difference covered by the water supplier

Specification	At the level of agricultural	Cumulative ag agricultural units and water provider (state)
<b>Wheat</b>		
Production value	6367	6367
Production costs	4686	5746
of which: irrigations	758	1818
Net income	1681	621
<b>Maize</b>		
Production value	4991	4991
Production costs	6924	8616
of which: irrigations	1820	3512
Net income	-1933	-3625
<b>Sunflower</b>		
Production value	4618	4618
Production costs	5135	6037
of which: irrigations	910	1812
Net income	-517	-1419
<b>Potato</b>		
Production value	19237	19237
Production costs	35420	38578
of which: irrigations	3330	6488
Net income	-16183	-19341

Source: A.Lup, Romania irrigation in agriculture

Fig. 2. Crop production value obtained by agricultural enterprises Constantza country, state spending compared with its volume and the water supplier (not covered rates) during 1985-1989



Of course the main cause of the economic inefficiency was the very low yields per unit (tab.2) and the result of the improper operation of surface facilities.

Another cause of failure of the economical parameters was the overcome of the technological costs provided by technical and economic studies carried out by designers.

### 3.3. Irrigation in Dobrudja during 1990-2010. Areas operated under irrigation.

According to the data from the water provider (IELIF, then RAIF, SNIF, ANIF) in 1989 were irrigated in Dobrudja 520 thousand ha, of which 389 thousand ha in the county of Constantza and 131 thousand ha in Tulcea county, figures which did not concur with the yields obtained: wheat - 3773 kg/ha in the county of Constantza and 2828 kg/ha in Tulcea county, maize - 2307 kg/ha and Constantza county of 2055 kg/ha in Tulcea, or soybean - 600 kg/ha and Constantza county of 495 kg/ha in Tulcea county .

In 1990, the persistence of old structures operating (IAS and CAP) and of free irrigation water, 382 thousand hectares were irrigated - 264 thousand ha in the county of Constantza and 110 thousand ha in Tulcea county

In 1991, starts the dismantling of the agricultural cooperatives (Law 18/1991) and irrigation is practiced only on 54.5 thousand hectares, out of which 45.1 thousand hectares in the county of Constantza and 9.4 thousand ha in Tulcea county. In the following years the irrigated areas were 4281 ha in 2006 and 124 thousand in 2003, one of the driest years of Dobrudja.

In 2007, the year with a similar rainfall regime as 2003, only 26.8 thousand hectares, will be irrigated - 9.3 thousand hectares in the county of Constantza and 17.5 thousand ha Tulcea county.

Among the objective reasons which led to a gradual reduction of irrigated areas we find:

- Abolition of the operating structures of the large agricultural cooperatives and then that of the state agricultural enterprises whose territory was organized in accordance with the network of the water collection and distribution to the plant.
- The degradation of the water collection and distribution infrastructure through removal, physical and moral wear basic components;
- The gradual introduction of differentiated pricing according to the height of water pumping and delivery point;

- Radical changes to agricultural markets both in structure and in the price system as a result of their liberalization, but also of the restrictions imposed by the European integration.

Romanian market has been invaded by imported products: vegetables, potatoes, soya, and specific irrigated agriculture products. The area planted with sugar beet was limited to 50 thousand hectares, while over 95% of sugar consumed is imported. The prices of the agricultural input increased of an alarming rate, while prices of the agricultural products stagnate or even declined in the years with better harvests.

Responding to the market challenge, the Romanian agriculture expanded, the range of species has diminished being dominated by cereal grains and oilseeds, even in the most favorable areas for the intensive agricultural system of the irrigation system.

### **3.4. Organizational structures and management of irrigation systems in Romania.**

Over the years, land improvement and especially irrigation were the subject of organizational and management structure governed by laws issued by policy makers.

Before 1990, the latest organizational structure and management of land improvements was the General Economic Directorate of Land Development and Agricultural Construction - DGEIFCA the Ministry of Agriculture and Food Industry. According to the establishing act - State Decree no. 210-1983, DGEIFCA was responsible for implementing state policy in the field, research, design, construction and mining, and of course managing the financial resources.

After 1989, in 1990, units of the territory, former IEELIF (Business of Execution and Operation of Land Improvements) existing in each county have been transformed - to match new concepts of economic exchange - in Companies of Operations of the Works of Land Improvements - SCLEIF.

According to the same principles of the market economy from SCLEIF different compartments were separated with specific activities: design, construction, industrial production, which in turn turned into commercial companies. Reducing irrigation activity and other specific works justifies in a

certain measure the diversification of the work areas which meant using a powerful material basis, especially human resources usage which could not be passed to *conservation*.

1994 will bring a new restructuring. GD nr.686/1994 and then nr.50/1994 Law shall establish the Autonomous Land Improvements - RAIF with branches in every county, all in the background of further specific land reclamation activities.

In 2000, the GD nr.23/2000, RAIF turns SNIF - National Society of territorial land improvement with the same structure but with a smaller number of hydro systems, due to the reduction of the irrigation activities.

Finally, Law no. 138/2004, SNIF, the unitary form of organization is split into:

- ANIF -National Administration of Land Improvements, Romanian legal person of national interest in the land improvement, with specific activities (Article 3);
- SNIF - National Company for Land Development which is proposed for privatization and the first two years of its establishment is required to provide specific services for ANIF.

Territorially Law 138/2004, compresses the administrative structures of only 13 to 41 branches each including two or more counties. In Dobrudja there is a single branch, Constantza, with three management units: Constantza South, Constantza North and Tulcea.

Nr.138/2004 Act, also stipulates the establishment of organizations and federations of private organizations (legal or natural persons) for the exploitation of land and facilities covered by formal transfer of pressure stations and water supply infrastructure in plants.

Currently, the Law 138/2004, is criticized both by specialists and by the decision factors specially for the provision from which the SNIF, the service has been separated from ANIF, depriving it of its material base necessary for the maintenance of the irrigation infrastructure, pumping, collection and transportation of water.

### **3.5. Rehabilitation irrigation programs**

Early studies of rehabilitation were initiated in 1990, a total of three hydro complexes, including Carasu irrigation complex.

The studies conducted over a period of three years (1990-1992) by a Romanian-French team have achieved a certain level of economic efficiency under certain conditions of the pattern of crops of yields and operating costs.

A second study of irrigation and drainage in Romania, was carried out by an English-Romanian consortium during 1992-1994. They analyzed 100 major irrigation systems in Romania.

They concluded that only 1, 2 - 1, 4 of 3 million hectares could be arranged to be economically efficient, Dobrudja is practically excluded because of the high pumping and high energy costs that are exaggerated.

In 2001, the ministry launched The Strategic Development of Agriculture, Food and Forestry in Romania. Under its rehabilitation, the areas with irrigation systems would reach 2000 thousands ha in 2004 and 2600 thousands ha in 2010.

Table 4  
Economic viability of irrigation in Dobrudja  
- thousand hectares -

County	Prezent situation			Situation perspective (after rehabilitation)		
	viable	margin of viable	non viable	viable	margin of viable	non viable
Constantza	0	15.9	403.4	0	106.2	313.0
Tulcea	2.9	15.8	129.6	5.9	24.5	118.0
Dobrudja	2.9	31.7	533.0	5.9	130.7	431.0

Source: DHV Netherlands and INCDIF-ISPIF Bucharest

Finally in 2007-2008, a consortium of DHV Netherlands and INCDIF-ISPIF Bucharest, have developed an economic analysis of the irrigation sector component of The Rehabilitation and Reform Project of Irrigation in Romania, financed by the World Bank.

They analyzed 375 irrigation systems in terms of economic viability. For Dobrudja the situation is shown in the opposite table.

#### 4. The Perspective of irrigation in Dobrudja

In the summer of 2009, the Chamber of Deputies of the Romanian Parliament set up an Inquiry Committee for the state irrigation and other sectors of land reclamation.

The authors of this material have participated in the Committee, assessing especially the situation in Dobrudja, where the

cost of irrigation water in the area is one of the highest, and also taking into account the climate of Dobrudja.

Dobrudja is expected to have soils with a high production potential which can not be realized due to the arid climate, Dobrudja is even prone to become tropical zone

In another train of thoughts, the elimination of subsidies for irrigation since 2010 makes the irrigation uneconomical, leading to the lower interest of beneficiaries for this type of farming.

This year, for example, the farmers have indicated their intention to irrigate - based on firm contracts - only for about 10 thousand hectares in the county of Constantza and less than 5 ha in Tulcea county.

#### 5. Conclusions

1. To combat the effects of drought in Dobrudja, over 581 thousand hectares were designed for irrigation during 1965-1989.
1. Improper operation of irrigation systems and technological difficulties in the farm, led to the failure of economic parameters and design techniques.
2. After 1990, some studies have been conducted to rehabilitate the irrigation systems, which were partially transferred to water users for irrigation.
3. Although the current irrigable potential is around 100 thousand hectares, we irrigate less, the main cause is the insufficient funds and even the stopping of their subsidies from 2010.
4. In perspective we search for solutions of indirect subsidy of irrigation by framing Dobrudja in the disadvantaged areas under the climate issue.

#### 6. Bibliography

1. Chirila Ctin., Lup A., 2000: *Cereals in Romania and abroad*. Ed.Mondograf Constantza.
2. Lup A., 1997: *Romania irrigation in agriculture*. Ed.Agris, Bucharest.
3. x x x, 2009: *Report of the Parliamentary Commission of Inquiry into the state irrigation and other land reclamation works*.
4. x x x, 2009: *Data ANIF and Dobrudja Branch ANIF*.

## Migration and Density – Major Problems for the Economic Future of Emerging Economies

CULIȚĂ Gica Gherghina  
CIORĂȘTEANU Gianina  
MIHĂILESCU Mariana

*Universitatea Constantin Brâncoveanu – Brăila*  
*ggculita@yahoo.com*  
*giallnina@yahoo.it*  
*mihaillescumariana@yahoo.com*

### Abstract

*The world is changing. Civilization has moved from discovery and populating their territories through colonization to the next level. Those who recently tried to win a piece of land to settle are now driven by economically developed areas to survive and lead a better life. We therefore return to the abandoned areas in uninhabited areas.*

*Steps to work the developed world now repeat emerging states. Populations we are talking about now migrate to areas that are economically developed but hundreds of millions. And yet migration is not "free" (see the case of China).*

**Keywords:** economic development, living standards, migration

**JEL Classification:** J61, O15, F22

Cities evolving people becoming more mobile and products becoming more specialized, are all part of the development. Such changes were visible in North America, Western Europe or North and East Asia. But the countries of Eastern and Southern Asia and Eastern Europe now face similar changes in scope and speed. World Development Report 2009 - "Reshaping Economic Geography"[3] considers that such transformations will remain essential to future economic success in developing and emerging countries should be encouraged.

These changes bring prosperity but do not occur without risk and sacrifice. Evidence are examples of three of the most prosperous places in the world:

The first is Tokyo, the largest city in the

world with 35 million people, one fourth of Japan's population, living in less than 4 percent of its territory.

The second is the United States, the largest economy in the world and is also the most mobile, where approximately 35 million people change their residence each year.

The third proof is the Western Europe, the continent most connected in today's world, where countries trade out of about 35 percent of gross domestic product (GDP), more than half of them being accomplished between neighbors.

Man's habitat at the outset was dominated by the need to find food, and hunting and foraging were rural pursuits. Not until the end of the last ice age, around 11,000 years ago, did he start building anything that might be called a village, and by that time man had been around for about 120,000 years. It took another six millennia, to the days of classical antiquity, for cities of more than 100,000 people to develop. Even in 1800 only 3% of the world's population lived in cities. Sometime in the next few months, though, that proportion will pass the 50% mark, if it has not done so already. Wisely or not, Homo sapiens has become Homo urbanus.[6]

Visitors can see the people crushed in Tokyo trains. Millions of people voluntarily subject to the possibility of suffering such accidents. A density map shows that Japan's economic. Tokyo generate much of the wealth in Japan and to get some of this people choose to live near it.

In the United States each year, days before the Thanksgiving holiday, some 35 million people trying to return to their families and their friends. It is early winter in some

parts of the country, so many times, flights are canceled. But Americans accept the pain of leaving friends and family, because economic activity is concentrated in some parts of the country. To get some of that wealth has to be close to her. This is why the 8 million Americans each year change their state of residence, migrating to reduce the gap to economic opportunities.

Over the Atlantic, Western Europe, another massive movement takes place every day but this time not of people but of the products. An example is Airbus, which manufactures aircraft components and assembles them in France, Germany, Spain and the United Kingdom and other countries. Large sections of aircraft are loaded on ships and planes to special places in different parts assemble and produce them at scale. Countries in a region that was shared not long ago now they trade with former enemies to become an increasingly integrated European Union. As this integration has increased the economic disparities have decreased, making possible the specialization and economies of scale.

What is the reward for all this trouble? A map of economic geography, which resizes areas to reflect the country's GDP each show benefits of big cities, people's mobility and integration of economies. United States, Western Europe and Japan dominate the world economy.

Big cities, migration and trade were key catalysts of progress in the developed world in the last two centuries. History is repeated now in the most dynamic developing economies. Mumbai is the largest city in the world but is the most densely populated and the population continues to grow. China is the largest economy in the world, but is the fastest growing and could be among the most mobile. Southeast Asia may not have formed a political union like Europe, but trade in goods between states are similar to the EU region.

- Half of world production would fit into a smaller area than Algeria?
- Cairo metropolitan area generates more than half of Egypt's production using 0.5 percent of the country's area?
- In the U.S., 96 percent of the innovations taking place in metropolitan areas?

Increasing population density, rather than boosts in human brain power, appears to

have catalysed the emergence of modern human behaviour, according to a new study by UCL (University College London) scientists published in the journal *Science*. [1]

High population density leads to greater exchange of ideas and skills and prevents the loss of new innovations. It is this skill maintenance, combined with a greater probability of useful innovations, that led to modern human behaviour appearing at different times in different parts of the world.

- 200 million Chinese immigrants traveling to his native place to spend New Year?
- Despite lower transport costs in the last century, countries are selling even more neighbors than with more distant?
- In 2006, Singapore, with 700 square km area of export of the same value (U.S. \$ 300 billion) as the Russian Federation, which has more than 16 million kilometers square?
- People take risks just to take advantage of special economic density. Despite the loss of lives among commuters and those due to living in slums like Dharavi, Mumbai population has doubled since 1970. Starting in 1990, millions of Chinese workers have migrated to closer economic opportunity concentrated along the coast. Just as Americans traveling for Thanksgiving, so more than 200 million Chinese travel to China during Chinese New Year.

Regional production networks in East Asia are much more common than in Western Europe's Airbus. East Asian countries may not sell airplane parts, but nations that were once enemies, are now trading in auto parts or computers, the same frequency and speed as in European countries. And the reward? We recognize the new forms of China, India and the countries of South-Eastern Asia on the map of world economic geography. These forms contrast with the African continent, which seems a peninsula deleted.

WDR2009 report claims that the situation in some regions is good to have promoted changes in the three dimensions of economic geography:

higher density, as seen in the growth of cities.



Distances shorter, so that workers and companies migrate closer to the density.

Borders fewer, as countries weaken their economic borders to enter global markets and to reap the benefits of specialization and economies of scale.

United States and Japan have reshaped the economic geography on the basis of past trends. China reshape its economic geography now. This shows that there will be changes that will help developing nations in other parts of the world, especially Africa, to follow the path of developed countries.[4]

Over half of world population live in miserable conditions. Whether from our poorest African or emerging, they are the greatest challenges of current economic development. Seemingly disparate, they share one key feature: at different distances, they are the most visible manifestation of the importance of economic geography of development.

Precisely because of this breakdown is required to follow a more balanced growth space. It is necessary to develop controlled growth of cities, a reduction of urban-rural disparities and should be required to implement development programs that create jobs for people who live far from economic density.[5]

Bridging could be achieved by measures to protect companies from the developing world until they are able to compete on the world market.

But economic growth is rarely

balanced. Efforts to obtain it at all costs may sometimes endanger economic progress.

Two centuries of economic development shows that differences in income and production are inevitable. Results of scientific research confirms that there is no reason to expect economic growth to be spread smoothly in space.

Developers of successful experience shows that production becomes more concentrated spatially. Success Nations established policies that standardize living standards. Economic production is concentrated, while living standards are converging.

In conclusion, any economic benefits would bring the density required to follow a balanced growth as the region.

## References

- [1]Adam Powell, Stephen Shennan, and Mark G. Thomas. "Late Pleistocene Demography and the Appearance of Modern Human Behavior". *Science*, 2009; p. 324
- [2]Negrea (Culiță), G., "South-South Cooperation". Economic Tribune Publishing House, Bucharest, 2007, Introduction.
- [3]World Development Report 2009, "Reshaping Economic Geography", on <http://www.worldbank.org>
- [4]<http://unstats.un.org/unsd/demographic/sconcerns/densurb/default.html>
- [5][http://www.esri.com/mapmuseum/mapbook\\_gallery/volume21/sustainable\\_dev1.html](http://www.esri.com/mapmuseum/mapbook_gallery/volume21/sustainable_dev1.html)
- [6]<http://www.economist.com/specialreports/>

## JURIDICAL ASPECTS REGARDING THE IMPLEMENTATION OF THE PROJECT “ROȘIA MONTANĂ”

DURAC Gheorghe  
VOICU Mădălina  
*“Al.I.Cuza” University of Iași,  
Lawyer, The Bar of Iași,  
madavoicu1983@yahoo.com  
gigidurac@yahoo.com*

### Abstract

In the past decades, the number of sources of pollution has increased and their consequences on the lives of humans, plants, and animals are ever more alarming. Numerous personalities in the entire world draw the attention on the present unprecedented aggression against the environment.

Romania, which, from January 1<sup>st</sup>, 2007 is a member of the European Union, faces serious environmental problems. The promises related to investments for fighting pollution and for protecting the environment have not been kept, on the contrary, the projects suggested by the various investors present the risk of polluting the air, the water, and the soil, endangering human life and health.

One of these projects is Roșia Montană, which, through its objectives, its special scope, as well as through its potentially negative impact on the environment, contravenes to the national, communitarian, and international principles and regulations that govern environmental law.

Moreover, the type of organization adopted by the Roșia Montană Gold Corporation implies significant risks, providing insubstantial financial guarantees. This joint-stock company, created in 1995, has as its main activity objective the implementation of a single project with an uncertain purpose: the extraction and process of the auriferous and argentiferous minerals of the Western Carpathians. Since it will not initiate any other activities, this society has little credibility on its specific market and does not comply with the international practices in the field of environmental law.

Although this project also includes a series of positive aspects, knowledge of the severe consequences on the environment has determined numerous protests against the Roșia Montană Gold Corporation project. In this sense, the following institutions have presented their opinions, together with scientific arguments: The Romanian Academy, The Holy Synod of the Romanian Orthodox Church, The Ecological university of Bucharest, as well as a number of scientific and cultural associations and organizations.

This way, a consensus was formed of all the personalities and institutions that understand the importance of a healthy natural environment for the preservation of life on earth in defining the project as disastrous and catastrophic, not only for Roșia Montană, but also for its surroundings.

**Key words:** Roșia Montană, sustainable development, environmental quality, rational usage of the resources

**JEL Classification:** K22, K23

### 1. Introduction

The Roșia Montană Project is located in the neighborhood of the Roșia Montană commune in the county of Alba, approximately 80 km away from the county seat Alba Iulia, in the Center-West of Romania. The Project area is located in a region called The Auriferous Quadrangle, in the metalliferous Mountains – framed at a regional level by the Apuseni

Mountains of Transylvania<sup>1</sup>. The area around Roșia Montană, known in the Roman antiquity as Alburnus Major, has represented, for over 2000 years, the most productive auriferous region in Europe.

In 1999, Romania's Government granted an exploitation license, for a surface of approximately 4282 ha, to Minvest S.A., as contract assignee, and Roșia Montană Gold Corporation (RMGC), affiliate. This relation between the two companies reversed in October 2000. At this moment, the license was transferred from Minvest S.A. to Roșia Montană Gold Corporation, who became the assignee, and Minvest S.A. became the affiliate. This license transfer has important implications in the decision-making system regarding the completion of the Roșia Montană Project.

The project's initiating company is composed of: Gabriel Resources Ltd. of Canada, holding a percentage of 80%, Minvest S.A., the company of the Romanian State – former Copper Direction of Deva – with 19.3%, and other Romanian shareholders, with 0.7%.

The deposit of Roșia Montană has been estimated at a value of about 3 billion dollars. The exploitation process will take place on the surface, and 36,000 tons of minerals will be excavated per day, which will mean approximately 13 million tons of minerals per year. Roșia Montană Gold Corporation will process the exploitation of the 10.6 million ounces of gold and 52.3 million ounces of silver in four massifs: Cetate, Carnic, Orlea, and Jig-Vlădoaia.

During the entire period of exploitation, the extraction technology used will be cyanidation, which will represent a danger for the health and life of humans and of the rare plants and animals in the Apuseni Mountains. The cyaniding process – during the exploitation of gold and silver – will generate gangue and technological waste, which will deposit in a sedimentation pool with a stocking capacity of 250 million tons. The pool will cover a surface of 400 ha, and the dam height will reach 185 meters<sup>2</sup>. The Roșia Montană Project “is conceived so as to support the revival of the economy of the region, by ensuring local,

regional, and national development, through the creation of jobs and through the income generated by taxes in the private sector” and includes a summary of the benefits that may be brought to the Romanian State – elimination of the ecological damages caused by the previous mining activity, introduction of the best available techniques, economic benefits, alignment to internationally acknowledged standards, training and acquisition of new skills, protection of the cultural heritage, and direct foreign investments.

Through Decision no. 8 of March 27, 2003, a Parliamentary Commission was created, made up of 13 members who, after visiting the premises and talking to all the interested parties, reached the conclusion that the implementation of this project will severely affect “all the elements of the environment (air, water, soil) and all the forms of life” during a period difficult to estimate.<sup>3</sup> The Commission report evokes the complaints to the Project, according to which the exploitation method suggested for Roșia Montană “contravenes to the concept of sustainable development and usage”. At the same time, the Parliamentary Commission mentions that “relocation, no matter how correctly and legally it takes place, presupposes the appearance of human problems that can have major individual consequences”<sup>4</sup>.

With a potentially negative impact on the environment,<sup>5</sup> the Roșia Montană Project infringes the provisions of the Community and the international conventions regarding environmental protection.

## **2. Objectives of the European Union regarding environmental law, translated into the Romanian legislation**

The first objective of the environmental policy of the European Union is expressed in the concept of “preservation of the quality of the environment”. Environmental protection includes measures for preserving its *statu quo*. Since art. 174 of the EC Treaty establishes a

<sup>1</sup> Presentation report of the Roșia Montană Project, pp. 1-10.

<sup>2</sup> *Idem*, pp. 21-23.

<sup>3</sup> The Report of the Parliamentary Commission regarding the Roșia Montană Project, April 2004.

<sup>4</sup> *Ibidem*.

<sup>5</sup> D. Mazilu, “Dreptul comunitar al mediului”, Lumina Lex Publishing House, Bucharest, 2009, pp. 228.

high level of protection concerning the environment, the Community must also stop those initiatives that have not yet shown to have any negative effect on the environment, but may threaten environmental integrity. According to art. 174, par. 3 of the EC Treaty, risk evaluation should rely on the available technical and scientific data. Therefore, the current state of the environment can be preserved through the implementation of preventive environmental protection; it cannot be preserved solely by adopting the measures required for eliminated the damage that has already been caused<sup>6</sup>.

Specialized literature and communitarian jurisprudence consider that people should not be considered the main factor that threatens the integrity of the environment.<sup>7</sup> In fact, the policy of the European Union should also refer to the threats that will become real in the future (for example, changes in the state of the underground water or earthquakes). Based on this interpretation of art. 174 of the EC Treaty, threats to the environment that have not been caused by people should also be included in the environmental policy and legislation of the European Community. Moreover, through this agreement, the difficulties encountered in proving the threats to the environment should be eliminated, since the polluter or the causes of pollution cannot be always be verified.

The second objective of the environmental policy of the Community included in art. 174 of the EC Treaty is “to improve the quality of the environment”. According to art. 2 of the EC Treaty, this objective should aim at a high level of protection, thus facilitating the adoption of measures that would improve the current environmental standards. The high level does not indicate a state of perfection, but only serves as a starting point. In order to actually improve the statu quo, the Community should first introduce environmental standards that are ever more difficult to achieve<sup>8</sup>.

The third objective of the environmental policy of the Union is defined as “protecting human health”. The aim to insure high protection for human health is already mentioned in art. 152, par.1 (Title XIII) of the EC Treaty. In order to complete to some extent this clause, Art. 174, par. 1, point 2 of the EC Treaty repeats the objective of obiectivul protecting human health” in Title XIX (Environment), thus stressing the importance given o the protection of health in the environmental legislation of the European Community. In this respect, the term “health” encompasses all physical and mental processes. Therefore, in the context of a final competence norm, this objective must be understood as an addition to the objective of “protecting the environment”, although certain measures of environmental protection, such as the preservation of nature, have little to do with health. However, the protection of human health has its independent importance within environmental policy and the present European legislation<sup>9</sup>.

The fourth objective, “the careful and rational usage of natural resources”, refers both to natural environments (for example, air, soil, water, as well as plants), and to mineral resources. Since the European Community does not have the competence to develop a common legislation concerning energy, a conflict may occur between this objective and national policies. First, such a conflict should be diminished by the fact that this regulation represents a simple objective and, as such, it is not included in the category of the directly applicable legislation of the European Union. However, if this objective is materialized in the future in a legal act of the secondary legislation of the EC, this act will either have to be implemented (in case it is a directive), or to have a direct effect in a vertical direction. In case a directive is implemented, it is generally compulsory and directly applicable as soon as it is approved or comes into effect.<sup>10</sup>

The Chart of Fundamental Rights of the European Union states in art. 37 – “Environmental Protection”: “The Union acknowledges and obeys the right to the access to services of general interest, as stated in

<sup>6</sup> “Compatibilitatea proiectului minier Roşia Montană cu principiile şi normele legislaţiei UE şi CE”- an opinion expressed by experts Peter Fischer, PhD Professor, and Alina Lengauer, PhD Assistant, LL.M, The Institute of European Law, Vienna University, Austria, 2002, pp. 8- 9.

<sup>7</sup> E.Lupan, *Tratat de dreptul protecţiei mediului*, C.H. Beck Publishing House, Bucharest, 2009, pp125.

<sup>8</sup> “Compatibilitatea proiectului minier Roşia Montană cu principiile şi normele legislaţiei UE şi CE”, pp.9.

<sup>9</sup> Idem, pp. 9- 10.

<sup>10</sup> M. Duţu, *Dreptul mediului*, 2<sup>nd</sup> edition, C.H. Beck Publishing House, Bucharest, 2008, pp.114.

national legislations and practices, in agreement with treaties, aiming to promote the social and territorial cohesion of the Union”. The precautionary principle and the principle according to which preventive action should be taken into consideration represent an important component of the concept of preventive environmental protection,<sup>11</sup> providing the Community with the ability to adopt legal measures and, as a result, to go further than the repressive environmental legislation. These principles of environmental policy give the Community the ability to guarantee environmental protection through legal acts of the secondary legislation of the EC.

In agreement with European regulations, the Emergency Ordinance no. 195/2005 concerning environmental protection (approved by law no. 265/2006) includes a series of strategic principles and elements that will be implemented, in the view of meeting the engagements that Romania took in the process of European integration.

The following principles are included: the principle of integrating environmental requirements into the other regional policies (art. 3, let. a); the principle of precaution in decision making (art. 3, let. b); the principle of preventive action (art. 3, let. c); the principle of keeping pollutants at their source (art. 3, let. d); the principle according to which the polluter pays (art. 3, let. e); the principle of the preservation of biodiversity and of the ecosystems specific to the natural geographical frame (art. 3, let. f).

The following strategic elements are taken into account and consecrated: the sustainable usage of natural resources (art. 3, let. g); the information and participation of the public to the decision-making process, as well as access to justice in environmental issues (art. 3, let. h); development of the international collaboration for environmental protection (art. 3, let. i).

Reported to international as well as internal provisions, the exploitation suggested by the Roşia Montană Project will shortly exhaust all the natural resources and will compromise the

sustainable development of the area for a long period of time.

### 3. The EIA and SEA directives

The normative acts of the secondary legislation of the EC, relevant for establishing an evaluation procedure for the impact on the environment, include Directive no. 85/337/CEE referring to evaluating the effects of certain public and private projects on the environment (or the Environmental Impact Assessment Directive – the EIA Directive), as well as Directive no. 2001/42/CE regarding the evaluation of certain plans and projects on the environment (or the Strategic Environmental Assessment Directive de – the SEA Directive).<sup>12</sup>

Romania has translated Directive nr. 85/337/CEE in its internal legislation through Law no. 137/1995, abolished by O.U.G. no. 195/2005 regarding environmental protection, which draws the regulating directions in the field of environmental protection. An important feature of the EIA Directive is the provision of a legal procedure for establishing an assessment of the impact on the environment. This procedure is based on certain fundamental principles and will help the correct identification, description, and evaluation of the adverse effects on the environment, as soon as possible.

The EIA Directive does not stipulate that the projects believed to have negative effects on the environment should not be authorized under any circumstances. Actually, the effects of these projects on the environment should be included in the “development agreement” (the decision to authorize the project). If necessary, special conditions will be imposed on the “project entrepreneur” (the person who requests project authorization).

In art. 1, the EIA Directive states that public and private projects that may have a significant effect on the environment should be subject to a compulsory assessment of the impact on the environment. In the context of this directive, the term “project” refers to a large range of activities. According to art. 1, par. 2 of the EIA Directive, a “project” means performing construction works or any other installations or activities, as well as other interventions on the

---

<sup>11</sup> D.Marinescu, *Tratat de dreptul mediului*, ediția a III-a, Ed. Universul Juridic, Bucureşti, 2008, pp.58.

---

<sup>12</sup> “Compatibilitatea proiectului minier Roşia Montană cu principiile și normele legislației UE și CE”, pp.16.

natural surroundings and on the landscape, including the extraction of mineral resources. Since the definition of the scope of applicability includes all construction works and all the interventions for the extraction of natural resources, any extension of the already existing installations should also be seen as a possible scope of this directive.

The installations corresponding to the definition of a “project” of art. 1, par. 2 of the Directive should be subject to an environmental impact assessment. Art. 3 of the Directive states that: “the assessment of the environmental impact will appropriately identify, describe, and evaluate, in the light of each individual case and according to articles 4 – 11, the direct and indirect effects of a project, based on the following factors: 1) human beings, flora, and fauna; 2) the soil, water, air, climate, and landscape; 3) the interaction between the factors mentioned in the first and second point; 4) material assets and cultural heritage.

According to art. 4, par. 1 of the EIA Directive, “the installations for obtaining the non-ferrous metals from minerals, concentrates, or secondary raw materials, through metallurgic, chemical, or electrolytic processes” (Annex 1, par. 4, point 2) will have to be evaluated according to art. 5 – 10.

Art. 5, par. 3 of the EIA Directive stipulates that the information that will be provided by the entrepreneur should include at least a description of the project with on-the-scene details, the actual project and its dimensions, a description of the measures envisaged in order to avoid, reduce, and, if possible, repairing the significant negative effects, the data necessary for the identification and evaluation of the main effects that the project may have on the environment, a description of the main alternatives studied by the entrepreneur and an indication of the reasons for its selection, considering the environmental impact. Moreover, a non-technical abstract of the information above is required in order for the public to acknowledge and understand this information. This regulation includes two requirements that the member states must comply with when requesting the development agreement: the collected information should be available to the public within a reasonable delay; besides, “the public concerned by this problem”

should be given the opportunity to “express their opinion”.

“The public concerned by this problem” includes a smaller group of people than the general public. According to its permanent jurisdiction, The European Court of Justice gives individuals the right to exert their rights established through a legal act in the environmental legislation if the purpose of the legal act in question supports the protection of the rights considered crucial for the people.

Analyzing the Roşia Montană Project, we can notice that the requirements of the EIA procedure have not been met. The information required by art. 5 of the Directive are not available. It seems that no hearing of the opinions expressed by the affected people has been held. The request of the opinion of the “community” or the use of opinion surveys do not represent means that comply with the requirements of a correct procedure established by law and in conformity with the EIA Directive.

The objective of the EIA Directive is to provide a high degree of protection for the environment and to contribute to the integration of environmental considerations in the preparation and adopting of specific plans and programs. This directive includes all the projects believed to have a similar impact on the environment.

Although the SEA Directive basically contains similar regulations to those in the EIA Directive, in its case, “the public concerned by this problem” includes both that part of the public that is or will be affected by the decision-making process of the Directive, and the non-governmental organizations that place a particular accent on the activities connected to the object of the Directive.

Therefore, the group of people included in the SEA Directive is larger than that included in the EIA Directive. According to the data owned by experts, this extended group of people has not been heard by the responsible authorities, nor have they been given information concerning the project. This represents an infringement not only of the EIA Directive, but also of the SEA Directive. Although the requirements of these directives have been included in national legislation, it is still necessary to establish a concrete method for their effective implementation and compliance.

#### 4. Conclusion

The socio-economic and environmental costs of the Roșia Montană Project, determined by the changes in the professional structures, the usage of cyanide, and the irreversible deterioration of the environment are considerable and contravene to the fundamental objective of sustainable development and to the principle of precaution.<sup>13</sup> They also ignore the obligation of the present generation to leave behind a proper ecological and cultural heritage.

Romania's Constitution stipulates in art. 134, par. 2, let. d) the obligation of the State to ensure "the exploitation of natural resources in conformity with the national interest". But the exploitation to the exhaustion of the gold resources in the Apuseni Mountains, under the circumstances in which the Roșia Montană Gold Corporation Project will concretely develop, does not meet this constitutional requirement.

Because of the mining project of Roșia Montană, thousands of people will be relocated, which can only be justified if this action is of "public interest", that is, aims at improving "the country's wealth", in proportion to the disadvantages caused for the affected individuals. The RMGC mining company is owned in a proportion of 80% by the Canadian company Gabriel Resources Ltd. and in a proportion of only 20% by the Romanian State. This type of minority shareholding for the country owning the resources is quite unusual in the international mining industry. In what concerns the lease of exploitation, the Rosia Montana Project does not indicate a formula for splitting the profit. Usually, mining leases include such a formula in favor of the producing country. But this Project mentions rights over only 2% of the total production that the lease owner should annually pay to the Romanian Government. This means that the justifying criterion "the public interest aimed at the country's wealth", mentioned in art. 8 of CEDO, has not been fulfilled by the mining project of Roșia Montană. However, even if Romania, as

the country owning the resources, is not granted a correct share of the Project's profits based on a series of UN resolutions, both the significant involvement in the lives of thousands of people that live in this mining area and the irrecoverable damage caused on the environment by this method of extracting gold using cyanide, which is forbidden, are not proportional to the possible economic benefits that Romania may gain as a producing country.

A lunar landscape, with a precarious stability, takes contour on the horizon. If applied, the Roșia Montană Gold Corporation project will transform Roșia Montană and its surroundings into a lifeless area; most species of rare plants and animals will become extinct. Such a catastrophic evolution should sensitize all those aware of the importance of a healthy natural environment for the perpetuation of life on earth.

#### 5. Bibliography

- [1] MAZILU, D., *Dreptul comunitar al mediului*, 4<sup>th</sup> edition, Lumina Lex Publishing House, Bucharest, 2009
- [2] LUPAN, E., *Tratat de dreptul protecției mediului*, C.H. Beck Publishing House, Bucharest, 2009
- [3] DUȚU, M., *Dreptul mediului*, 2<sup>nd</sup> edition, C.H. Beck Publishing House, Bucharest, 2008
- [4] MARINESCU, D., *Tratat de dreptul mediului*, 3<sup>rd</sup> edition, Universul Juridic Publishing House, Bucharest,
- [5] DURAC, GH., BOURIAUD, L., *Dreptul mediului. Răspunderea juridică pentru daune ecologice. Doctrină și legislație*, Junimea Publishing House, Iași, 2004
- [6] *Presentation of the Roșia Montană Project* - [http://www.mmediu.ro/departament/ent\\_mediu/rosia\\_montana/rosia\\_montana.htm](http://www.mmediu.ro/departament/ent_mediu/rosia_montana/rosia_montana.htm)
- [7] *Compatibilitatea proiectului minier Roșia Montană cu principiile și normele legislației UE și CE – o opinie a experților Prof. univ. dr. Peter Fischer și asist. Univ. dr. Alina Lengauer*, The Institute of European Law, Vienna University, Austria, 2002 - [http://www.mmediu.ro/rosia\\_montana/rosia\\_montana.htm](http://www.mmediu.ro/rosia_montana/rosia_montana.htm)
- [8] The Ministry of the Environment and Sustainable Development – the Environmental Department - [http://www.mmediu.ro/departament\\_mediu/](http://www.mmediu.ro/departament_mediu/)
- [9] The National Agency for the Protection of the Environment – <http://www.anpm.ro/>
- [10] The Deputies Chamber – The Roșia Montană Project – [http://www.cdep.ro/informatii\\_publice](http://www.cdep.ro/informatii_publice)

<sup>13</sup> G.Durac, L. Bouriaud, *Dreptul mediului. Răspunderea juridică pentru daune ecologice. Doctrină și legislație*, Junimea Publishing House, Iași, 2004, pp.17.

## Questioning EU Regional Cohesion Policy in Romania

GRAMA Izabella Gilda  
PATACHE Laura  
„Spiru Haret” University Constantza  
izabella.grama@spiruharet.ro  
iacob\_laura@yahoo.co

### Abstract

*The main objective of this paper is to analyse the territorial impact of the European Cohesion Policy in Romania. Since the inception of this policy and the first programming period (1989 - 1993) the key problem: 'to reduce the disparities between the levels of development of the different regions' has usually been measured in terms of GDP per head (relative to the EU average). In the future, will be recommended, that GDP per head in PPS being complement with other measures of welfare and standards of living. The cohesion policy in the current financial crisis is concentrated in investing in priority infrastructure, productive capacities of businesses and in human capital potential, in this way it could play an important role in restoring confidence in real economy.*

**Keywords:** cohesion policy, convergence, operational programme

**JEL Classification:** R58

### 1. Introductory remarks

One of the most important objectives of the European Union (EU) is defined in Article 3 of the Treaty establishing EU cohesion should contribute to “promote economic, social and territorial cohesion, and solidarity among Member States.” This implies that the people should not be disadvantaged by wherever they happen to live or work in the EU. In the highlight of this reason in the draft Constitution was mentioned the concept of territorial cohesion (Article 3) alongside "economic and social" cohesion. The importance of this concept is also acknowledged in Article 14 (old Art.16) (Principles) in the Treaty, which stipulates that the citizens should have access to the essential

services, basic infrastructure and knowledge, underlining the significance of services of general economic interest for promotion social and territorial cohesion. Article 174 (old Art.158) at Title XVII: Economic and Social Cohesion adds “in particular, the Community aims to reduce the disparities between the levels of development of the different regions and the backwardness of the least favoured regions or islands, including rural areas”. (We mention that since December 1, 2009 Old Treaty establishing the European Community - Amsterdam 1997 – has been replaced by the European Union Treaty - Treaty of Lisbon; for more information on New numbering of the Treaty on European Union see the address <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:0202:0229:EN:PDF>) [1]

The EU's economic and social cohesion policy is a policy of financial solidarity, based on redistribution of the Community budget obtained by the member states contributions (one of the third part) to the least developed EU's regions, for promoting a higher level of competitiveness and employment.

The European regional policy has the following objectives: convergence (for countries with less than 75% of GDP per capita EU's average, among these is Romania too), regional competitiveness and employment (for the regions excluded from convergence objective), European territorial cooperation (regions, counties and transnational areas). All these are sustained by European regional development fund (ERDF).

The ERDF finances:

- ✓ Direct aid to investments in companies (in particular small and medium enterprises) to create sustainable jobs;
- ✓ Infrastructures linked notably to research and innovation, telecommunications, environment, energy and transport;
- ✓ Financial instruments (capital risk funds, local development funds etc.) to support



regional and local development and to foster cooperation between towns and regions;

✓ Technical assistance measures.

There are a number of aspects of territorial balance in the EU, which threaten the harmonious development of the Union economy in future years [2]:

- at *EU level*, a high concentration of economic activity and population in the central area or pentagon (which stretches between North Yorkshire in England, Franche-Comté in France, Hamburg in northern Germany and Milan in the north of Italy), which was identified in the second Cohesion Report and which covers 18% of the EU15 land area while accounting for 41% of population, 48% of GDP and 75% of expenditure on R&D. Enlargement will only increase this degree of concentration by adding to the EU land area and population but increasing GDP relatively little;
- at *national level*, a persistence of pronounced imbalances between the main metropolitan areas and the rest of the country in terms of economic development, which is a particular feature of the accession countries;
- at *regional level*, a widening or, at least, the persistence of a number of territorial disparities beyond those measured by GDP or unemployment. In particular, economic development is accompanied by growing congestion and pollution and the persistence of social exclusion in the main conurbations whereas a number of rural areas are suffering from inadequate economic links with neighbouring small and medium-sized towns and their economies are often weakening as a result. Large urban areas are tending to sprawl outwards encroaching into the surrounding countryside as economic activity and their population increase, creating what have become known as „rurban” areas, while rural areas where there are no towns of any size are experiencing falling population and a decline in the availability of basic services;
- *within regions and cities*, the development of pockets of poverty and social exclusion in areas with often only limited availability of essential services;
- in *a number of specific areas* constrained by their geographical features (islands, sparsely populated areas in the far north,

and certain mountain areas), population is declining and ageing, while accessibility continues to be a problem and the environment remains fragile, threatened, for example, by regular fires, droughts and floods;

- in *outermost areas*, with an accumulation of natural and geographical handicaps (as recognised in Article 344.2, old Art.299.2, of the EU Treaty), the continuation of severe social and economic problems which are difficult to tackle because of their remoteness, isolation, topological features, climate, small size of market and dependence on a small number of products.

The territorial cohesion concept exceeds the economic and social cohesion ones, it's intensified and completed by the last one. In policies terms, the aim is to achieve a balanced development by diminishing of the existent territorial disparities, by preventing the territorial discrepancies and by contributing to the coherence of the sectorals policies with territorial impact and to the regional policy. In this highlight should be working on the direction for improvement of the territorial integration and sustains regional cooperation.

The path of so-called European regional policy - or, in modern terms, the European Regional Cohesion Policy (RCP) – has been long and slow. A varied set of factors (named the vectors of change) were generated changes in RCP's structure: the theoretical concept of growth and its territorial impact; the political concept of EU's role; the development of the integration process in the EU; the successive enlargements in the EU; and, finally, the evolution of the business cycle in the EU. [3]

Presently, EU has 27 member states which represent a community and an internal market of 493 millions of citizens, with higher possibilities of economic and social disparities between them and between 271 regions of them. Besides, one region of four has a GDP per head under 75% of EU-27's average.

## 2. Measuring convergence on the dimension of GDP per head

Despite the cohesion refers at economical aspects and social and territorial issues too, most frequently, analysis are based on relatively aggregated measures, such as for instance the standard deviation or the coefficient of variation of regional GDP per

head at purchasing power parity (EU's average). [4]

GDP per head at PPP calculation can differ by one year or one organization (International Monetary Fund, World Bank etc.) to other. The measuring of convergence on the dimension of GDP per head was realized by successive forecasts in different countries and regions in PPP standards for adjustment of differences between goods and services bought with one GDP unit. This adjustment is an annual process.

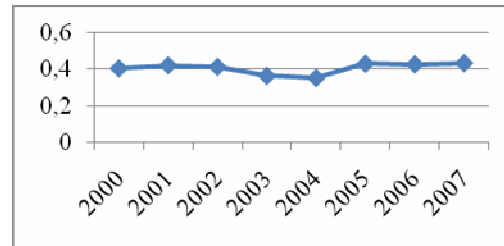
Despite GDP per head is the only criterion used in cohesion policy for regions disparities' evaluation, the others indicators of Report of Cohesion might help to manage better the structural interventions in the territory (e.g. sectoral GDP, the employment rate, the unemployment rate, total research and development expenses s.o.)

The GDP per head in 2006 it ranges from 25 % of the EU-27 average (5,800 PPP) per inhabitant in North-East (Romania) to 336 % (79,400 PPP) in the UK capital region of Inner London. With the exception of three other regions (Mazowieckie in Poland, Malta and Bucharest - Ilfov in Romania), all the other regions of the new Member States, Croatia and the former Yugoslav Republic of Macedonia have a per inhabitant GDP in PPP of less than 75% of the EU-27 average. (Eurostat 2009)

For measuring the convergence at national level – named in specific literature sigma-convergence (Barro, Sala-i-Martin, 1995; Sala-i-Martin, 1996) – on the dimension of GDP per head in PPP we determined the coefficient of variation (national average) during 2000 -2007. (See Figure1)

We may appreciate the fact that the disparities between development regions were grown. The coefficient of variation value is during entire period higher than 0.35 this means that the variation is high, the average is not significant and hided a heterogenic structure of the collectively, which higher it becomes points out a worse situation.

Figure1. Coefficient of variation: GDP per head in PPP



Source: National Institute for Statistics (NIS), Romania Book Years, editions 2000-2008, www.insse.ro, www.bnro.ro

In conformity with Eurostat dates, Romania has the most dramatically evolution comparable with others EU's new member states (which extended EU-15 at EU-27), the coefficient of variation increasing to 0.15 in 1995 at 0.43 in 2007. [5]

By the same source, in 2006, from 15's the most undeveloped regions of the EU six are in our country: North East Region with 25% by EU's GDP per head average, South West Region – Oltenia (with 30%), South Region – Muntenia (with 32%), South East Region (with 32%), North West Region (with 35%) and Middle of the country (with 38%). The only Romanian region which are not find it in The most poorest Europe's arias Top is Bucharest-Ilfov with 83% by EU's average.

The noncapital region with the strongest growth in the new Member States was Vest (Romania), where per inhabitant GDP (in PPP) increased by 15.3 percentage points between 2001 and 2006, from 29.4 % to 44.7 % of the EU-27 average.

In the table below, the regional disparities indexes (data are calculated as a proportion between the gross domestic product per capita at the regional level and the national average) reveal important differences between the 8 Romanian development regions, the forecasts for 2008 and 2010 estimate and improvement, but the expectations are not so significant.

Table 1. Regional disparities Indexes

Development regions	2004	2006	2008	2010
North – East Region	0.692	0.675	0.675	0.679
South – East Region	0.907	0.845	0.841	0.872
South - Muntenia Region	0.834	0.822	0.821	0.820
South - West - Oltenia Region	0.833	0.843	0.839	0.832
West Region	1.147	1.149	1.143	1.141
North – West Region	0.972	0.920	0.917	0.951
Middle Region	1.042	1.087	1.085	1.054
Bucharest - Ilfov Region	1.915	2.044	2.063	2.007

Source: 2004 and 2006 – NIS; 2008 and 2010 forecasts National Prognoses Commission

### 3. Future challenges for regional development policy

Fourth Report on Economic and Social Cohesion was identified problems such as: globalisation, demographical changes and social tensions, climate change and the increasing of energy price. [6]

Despite of the general consent concerning the fact that cohesion policy should debate these problems too, cohesion policy should not be the only one and the key instrument for intervention highlight's the majority of contributions.

Some contributions appreciates that these difficulties are already been debated by Lisbon Agenda and Goteborg Agenda too. Others mentioned the fact that the debate of these problems shouldn't affects the Treaty's objectives for cohesion policy. [7]

From the total amount of 19.7 million Euro, destined for Romania for the period 2007-2013, 19.2 milliards are for the Convergence objective and 455 million Euro for the third objective – European territorial cooperation.

According to Romania Government Programme of Convergence 2008-2011, the most important condition to accomplish the fundamental objective of it – that to promote a sustainable development growth, in competitiveness, directed to accomplish the nominal and real EU's convergence – is the implementation of an appropriate combinations of macroeconomic policies, which should

provide *the disinflation process continuation and the maintenance of external sustainment.* [8]

Trough the National Development Plan (NDP) and the National Strategically Frame for Reference (NSFR) prepared during 2007-2013, Romania promote a regional policy which has as general objective balancing territorial development of the country and disparities reduction of the social - economic development between Romania and EU's member states, by the improvement of the regions' competitiveness and by achieving of a supplementary economic growth for 15% of GDP until 2015, an European funds absorption's consequence.

For the consolidation of the territorial cohesion's component part, in 2007, was elaborated The strategically concept for territorial development of Romania 2007-2030, which highlight, by integrate territorial's perspective, the modalities of national potential evaluation, for catching up and for stimulation of the Romania balanced development. Are in course to be elaborated the 8 Plans for the territorial arrangement of area/region added to the measures concerning economic, social and territorial cohesion, as well as the projects for various sources of financing and is in course of preparing the modification of local and territorial planning legislation, so for the territorial arrangement, than for execution of the constructions working authorization, too.

The priorities established in Regional Operational Programme (ROP) 2007-2013 – support for cities sustainable development – potentials growing poles, improvement of the regional and local infrastructure for transportation, improvement of social infrastructure, consolidation of local and regional business environment, sustainable development and tourism promoting – should be contribute to the accomplishment of the ROP strategically objective. By ROP's objectives should be support the economic, social and sustainable development of the Romania regions. Some of these objectives are: concentration to the urban growing poles, improvement of the infrastructure and business environment's conditions and diminishment of the Romania regional disparities.

By putting into practice these programs which were elaborate in the framework of the cohesion policy, one aims at developing the basic infrastructure according to the European standards, the growth of the competitiveness on a long term, the development and the

efficient use of the human capital, the development of the managerial capacity, the promotion of the balanced territorial development. It is estimated a growth of the GDP with 15-20% up to 2015, the growth of the employment rate from 57.45 to 64% and the accomplishment of 1400 km of new or rehabilitated roads. [9]

Even if, according to recent studies, the year 2007 was a year of strong performance, we must not forget that effects of the global financial crisis will make the Lisbon targets even more difficult to achieve, since labour markets are deteriorating, and all countries economies, too.

#### 4. Reference

[1] European Union, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, 2009, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:FULL:EN:PDF>.

[2] European Commission, A new partnership for cohesion – convergence competitiveness cooperation. Third report on economic and social cohesion, Luxembourg, 2004, available at [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/pdf/cohesion3/cohesion3\\_toc\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/cohesion3/cohesion3_toc_en.pdf).

[3] T. Mancha-Navarro, R. Garrido-Yserte, “Regional policy in the European Union: The cohesion-competitiveness dilemma”, *Journal Regional Science Policy & Practice*, volume 1, Issue 1, 2008, pp.47-66.

[4] N. De Michelis, P. Monfort, Some reflection concerning GDP, regional convergence and European cohesion policy, *Journal Regional Science Policy & Practice*, volume 1, Issue 1, 2008, pp.15-22.

[5] UNDP, Romania's National Human Development Reports. Making EU accession work for all, Bucharest, 2007, available at [www.undp.ro](http://www.undp.ro).

[6] European Commission, Growing Regions, growing Europe. Fourth report on economic and social cohesion, Luxembourg, 2007, available at [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/cohesion4/pdf/4cr\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion4/pdf/4cr_en.pdf).

[7] European Commission, Green Paper on Territorial Cohesion. Turning territorial diversity into strength, Brussels, 2008, available at [http://ec.europa.eu/regional\\_policy/consultation/terco/paper\\_terco\\_en.pdf](http://ec.europa.eu/regional_policy/consultation/terco/paper_terco_en.pdf).

[8] Romania Government, Programul de convergență 2008-2011 (Convergence programme 2008-2011), Bucharest, 2009, available at [www.mfinante.ro/Program\\_Convergenta\\_2008\\_2011.pdf](http://www.mfinante.ro/Program_Convergenta_2008_2011.pdf).

[9] E. Lolescu, A.M. Zaharia, L.C. Dragomir, The role of the Regional Development Policy in providing the economic and social cohesion, *Annals of the University of Craiova, Economic Sciences Series*, Vol. 2 Issue 36, 2008, pp.594-603.

# **Tourism Impact of European Cultural Capital Programs – Sibiu 2007 Preliminary Findings of a Follow up Approach**

GREG Richards  
ILIE Rotariu  
*Tilburg University – Holland*  
*„Lucian Blaga” University of*  
*Sibiu – Romani*  
*ilie.rotariu@ulbsibiu.ro*  
*Greg@tram-research.com*

## **Abstract**

*The Sibiu 2007 European Cultural Capital was monitorized in order to highlight the follow up. Preliminary findings concerning the impact on tourism are prezented based on field research carried out for the City Hall of Sibiu. In spite of a lower tourist circulation the encrease of daylly spending of tourists have compensate partially the impact of the economic crises comparing with other cities of Romania.*

**Key words:** tourism, travel, statistic tourism

**JEL classification:** P25, L85

## **1. Introduction**

This study of the impact of the European Cultural Capital in Sibiu in 2007 is part of an ongoing programme of research initiated by the European Association for Tourism and Leisure Education (ATLAS) in 1999. This programme of research aims to examine the implementation and effects of this increasingly popular event throughout Europe. To date, ATLAS members have been involved in assessments of the impacts of the ECOCs held in Helsinki (2000), Rotterdam (2001), Porto (2001) and Salamanca (2002).

This study of the ECOC in Sibiu is the first such study to have been completed in an Eastern European country, and therefore provides an interesting contrast to the previous research. This study also benefits from the long association of the Lucian Blaga

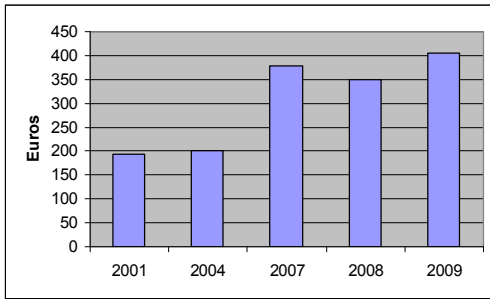
University in Sibiu with the ATLAS network. The university has been collecting data on cultural consumption in the city for number years as part of the ATLAS Cultural Tourism Project. This will eventually enable us to monitor longer terms in cultural consumption in Sibiu and therefore to provide a longitudinal assessment of the event.

## **2. Tourism Impact of ECOC in Sibiu**

An important aspect of the ECOC is the economic impact that it can have on the host city. The bulk of the economic impact of the ECOC usually comes from visitor spending, because visitors inject new money into the local economy. In 2007 we estimated that the total economic impact directly attributable to staying visitors to the ECOC was €19.35 million. It is difficult to compare this figure directly with other years, because the ECOC as a direct visit motivation is no longer there.

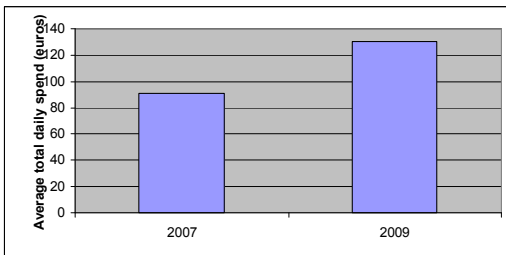
However, the figures on average visitor spending show that spend levels have increased since 2007. The average visitor to Sibiu now spends almost twice as much as the average visitor before 2007. Again, this underlines the structural change in the nature of the tourist market.

*Average total visitor spend 2001-2009*



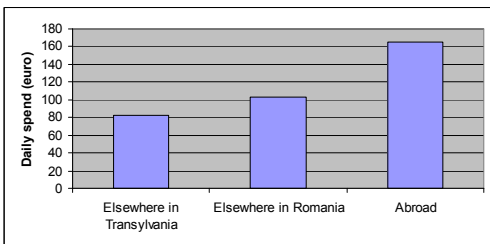
Total average visitor expenditure increased very little between 2007 and 2009. This is basically because the ECOC attracted a relatively high number of foreign tourists and other high spending guests. However, the average daily spend has increased significantly since 2007, largely as a result of a shift in spending patterns (see below).

*Average spend per day (euro) 2007 and 2009*



Not surprisingly the average daily spend of foreign tourists is significantly higher than that of Romanian tourists. However, the difference in daily spend between tourists from other parts of Romania and from abroad is perhaps lower than might be expected, probably because these visitors are more likely to be using commercial tourism accommodation.

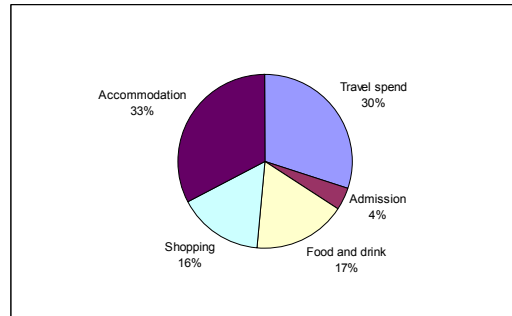
*Average spend per day (euro) by visitor origin 2009*



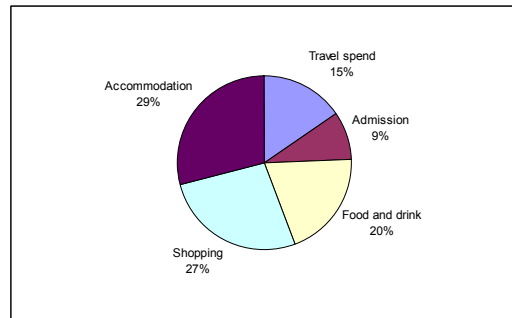
In 2009 relatively more was spent on shopping and admissions, and less on travel (reflecting the higher level of domestic tourism).

If we exclude travel expenditure, however, the spending by visitors in the city of Sibiu itself was significantly higher in 2009.

*Visitor spend by category 2007 (excludes Sibiu residents)*



*Visitor spend by category 2009 (excludes Sibiu residents)*



*Spend in Sibiu (excluding travel costs)*

	Total
2007	303,06
2009	406,58

Expenditure was particularly high for hotel guests, who tended to spend almost twice as much as other visitors.

*Spend by hotel guests in euro*

	2007	2009
Travel spend	212,14	157,69
Admissions	21,53	62,44
Food and drink	126,24	145,27
Shopping	87,89	277,18
Accommodation	250,19	269,39

Not surprisingly, the highest spend was made by visitors from abroad, who tend to have much higher travel and accommodation costs than Romanian visitors. However, the economic impact of foreign visitors on the local economy is not as great as the total expenditure suggests, because a large proportion of the total is spent on transportation to reach Sibiu. Even if travel costs are excluded, however, spending by foreign visitors in the city is still much greater than for domestic tourists.

*Spend by visitor origin in euro*

	1	2	3	4
Travel spend	36,79	66,11	300,5	77,82
Admission	26,22	35,84	152,5	49,22
Food and drink	65,37	108,9	186,1	99,58
Shopping	95,74	140,6	281,6	136,9
Accommodation	150,3	159,6	314,2	178,9

1. = Elsewhere in Transylvania
2. = Elsewhere in Romania
3. = Abroad
4. = Total

For the local economy, the most important data relates to those tourists actually staying in the Sibiu region, because these visitors spend money on accommodation in the region, and therefore have a greater economic impact. Visitors staying in Sibiu spent considerably more than visitors staying in the region around Sibiu, mainly because they spent far less on shopping. The accommodation spend in the Sibiu region was however higher than for visitors staying in other parts of Romania, a sign that the accommodation facilities in the region have been upgraded in recent years.

*Spend by visitor origin in euro for tourists staying in Sibiu city*

	1	2	3
Travel spend	41,33	30,22	33,36
Admission	3,00	40,00	22,50
Food and drink	20,33	60,24	76,54
Shopping	50,00	130,67	120,50
Accommodation	160,00	132,00	103,75
Total	132,33	226,09	255,50

1. = Elsewhere in Transylvania
2. = Elsewhere in Romania
3. = Abroad

**3. Total tourism expenditure trends**

Although the ECOC is no longer a specific motivation for tourists to visit Sibiu, we can still calculate the total tourism spend in the city for the period before, during and after the ECOC to see if spend levels have increased.

*Tourist arrivals and bednights in Sibiu 2006-2009*

	Arrivals	Bednights
2006	150,000	235,000
2007	178,532	280,993
2008	147,000	204,005
2009	120,373	164,281

The data for 2008 and 2009 show a sharp decline in tourist arrivals and overnights, which is probably related in 2008 to post-ECOC decline and in 2009 to the economic crisis. It is clear that the decline in arrivals and expenditure follows national and regional trends. Compared to other cities in Transylvania, for example, the decline in arrivals in 2009 has been lower in Sibiu than in any other city except those of Mures County. Nationally, the first 11 months of 2009 saw a decline in tourist overnights of more than 16%, which indicates that Transylvania as a whole has been hit by the decline in tourism worse than the country as a whole. However, evidence from the interviews (see below) also indicates that many individual businesses in Sibiu have seen an increase in tourism, in spite of the general economic climate.

The other important point to note about the trends in arrivals is that recent data indicate a significant shift away from officially

registered accommodation into unregistered accommodation or staying with friends and relatives. In Sibiu County, for example, over 30% of accommodation capacity inventoried is not classified according to the standards of the Ministry of Tourism. This may tend to exaggerate the extent of the decline in tourism arrivals and expenditure.

In estimating total expenditure we have used the official tourism statistics on the number of bednights spent in hotels and other registered forms of accommodation, This excludes people staying with friends and family, which in 2009 for example might have increased the total expenditure in Sibiu by around 20% (see Appendix 4).

*Total spending by visitors staying in Sibiu according to official statistics, 2007-2009*

	overnights	spend per night	Total spend (million euro)
2007	280,993	91	25.6
2008	204,005	85	17.3
2009	164,281	130	21.4

On the basis of the tourists staying in registered accommodation in Sibiu city alone, total tourism spend was around €26 million in 2007, the ECOC year. Most of this impact was due to visitors coming for the ECOC, as these visitors tended to spend far more on average than other tourists, particularly as the event attracted many foreign tourists. It is not surprising, therefore, that the economic impact of tourism declined in 2008. But the higher average spends in 2009 has maintained the overall economic impact at a higher level than in 2008. It seems that the increased number of high spending tourists attracted by the cultural image and new attractions of the city has to some extent mitigated the effects of the decline in tourism as a result of the crisis.

If we add the impact of visitors staying with friends and relatives, then the indications are that total tourism spending has been maintained at around the same level as in 2007, in spite of the economic crisis. This is partly due to the increased spending by hotel guests, many of whom are now staying in higher quality hotels accommodation thanks to the development of the hotel stock for the ECOC, and partly due to the growth in VFR travel. The surveys also indicate that many of the visitors coming to Sibiu in 2009

had visited previously in 2007. This seems to suggest that the ECOC had a direct impact on repeat visitation, with many of those returning now staying with friends and relatives instead of in commercial accommodation.

*Total visitor spending including VFR tourists*

	1	2	3	4
2007	25.6	26	8.5	34.1
2008	17.3	15	6.4	23.7
2009	21.4	31	13.7	35.1

- 1 = Total spend by tourists in official accommodation (million euro)
- 2 = % VFR visitors
- 3 = Total spend by VFR tourists (million euro)
- 4 = Total spend by all tourists (million euro)

#### 4. Conclusion

To summer up, according to preliminary findings, the follow up impact of Sibiu 2007 European Cultural Capital on local tourism was strong enough not only in 2007 but also on long term, as to balance the effects of the economic crises, by report of other similar cities of Romania

#### 5. Bibliografy

- [1] Herrero, L., Sanz, J.A., Devesa, M., Bedate, A. and del Barrio, J.M. „Economic Impact and Social Performance of Cultural Macrotourism”, in Palmer/Rae Associates (2004) European Cities and Capitals of Culture. Brussels: Palmer/Rae.
- [2] Palmer, R. and Richards, G. European Cultural Capital Report no. 1. Arnhem: ATLAS. Richards, G. (ed.) Cultural Tourism: Global and local perspectives. Binghampton NY: Haworth Press, (2007)
- [3] Richards G., Hitters E. and Fernandes C. Rotterdam and Porto: Cultural Capitals 2001: visitor research. Arnhem, ATLAS, 27-47 pp.; (2002)
- [4] Richards, G. and Palmer, R. (2010) Eventful Cities: Cultural Management and Urban Revitalisation. Butterworth-Heinemann: London
- [5] ROTARIU, I. An outline on how to boost the communication of a tourist destination by the European cultural capital program. Sibiu: Alma Mater, (2007)
- [6] Van Boom, N. and Mommaas, H. Comeback Cities: Transformation strategies for former industrial cities. NAI Publishers: Rotterdam, (2009)
- [6] Richards, G and Rotariu, I – data base of Sibiu survey.



## Resource Allocation for Preuniversity Institutions Based on Standard Costs

GREJDAN Gabriela Elena

JOLDOȘ Ana-Maria

OLTEAN Livia

*Valahia University- Targoviste, Romania*

*“1 Decembrie 1918” University- Alba Iulia, Romania*

*demianadrian71@yahoo.com*

*anajoldos232004@yahoo.com*

*livia\_audaces@yahoo.com*

### Abstract

*The educational system's modernization implies the transfer of responsibilities regarding the multiplication of financing resources and expense coordination to the level of the institution's management (the school director) and the direct participation of the local community and of the administrative authorities- mayors and town counselors- to the effort of ensuring the well-going of the training and educational process through school. It means, in the same time, creating a system designed to distribute equitably and rationally public money between educational units, and careful control of its expenditure. The educational system's modernization also implies raising the control and intervention capacity of the decision factors on local and central levels as well as the correction of some errors or the removal of dysfunctionalities in budgetary planning and execution. Our study was founded on a survey type of scientific research, made on 50 preuniversity educational institutions from Sibiu. The essential aims are ensuring the fund distribution based on standard costs and a real transfer towards the school of the attributions regarding the calculus of material and human resources and the accomplishment of a stimulant and efficient budgetary execution. Based on the facts presented by this paper, we notice the fact that the financing system based on standard costs and differential coefficients is not*

*difficult to apply on the conditions of knowing it and the informational data collecting and processing to function normally.*

**Key words:** standard costs, public funds, preuniversity educational institutions, differential coefficients, budget.

**JEL Classification:** I 22

### 1. Introduction

The state financing system for the preuniversity educational institutions comprises the principles and the institutions involved in budget planning, distribution and use of financing resources, as well as indicators of the founding and allocation of the funds necessary to a good functioning of the preuniversity educational institutions. The unit's funds, no matter their origin (state budget, local budget or own sources), are distributed to the following destinations: *basic financing*, proportional to the number of preschoolers/ students and *complementary financing*. The allocation of budgetary funds to educational units for the basic financing is made using a formula which refers to the number of preschoolers/students of the kindergarten/school and the standard costs per preschooler/student, corrected by differential coefficients according to the environment (rural/urban), level and the educational branch, socio-economical conditions of the region material basis' specific conditions.

## 2. Methodology

The methodology of the basic financial distribution considers the application of quality standards for the preuniversity education, the normative acts that control the teaching and non-teaching personnel's remuneration, regulations regarding the volume and structure of the teaching- auxiliary personnel and non-teaching. The distribution of the budgetary allowance for the basic financing of the preuniversity education per entities (schools) is made based on general information (the total amount allocated) and on specific information (the number and structure of students). This information is collected from the school units at a date considered to be representative for the system (the beginning of the school year). Therefore, the distribution methodology takes into account the number of physical students (for different educational levels, educational environments, branch, profile, teaching language and differential coefficients of costs per student-calculated for every educational level, based on standard costs), which determines the number of equivalent students and other quality indicators associated to the level of qualification of the teaching personnel.

The "equivalent student" notion has been introduced in order to express mathematically the fact that the process of training a physical student requires different costs, according to the level of education he is registered to, branch, profile, teaching language, etc.

The number of equivalent students is determined by balancing the physical number of students registered to different teaching forms, with differential coefficients of standard costs per teaching levels and other additional coefficients (for minorities, class dimension, etc).

## 3. Results and discussions

Ensuring the necessary funds for the Romanian school implies creating the instruments for budgetary planning and fund allocation. For the basis financing is used the standard cost/ student, which is the budgetary planning instrument; it is determined for a standard school unit.

In view of the differentiation of school units' budgets there has been made a field survey on 35 school units in Sibiu, about 50% of the number of school units existing in this town.

Starting from the notion of "equivalent student", the data has been processed in order to identify a typological group. With this purpose in view, we have used the STATISTICA calculus software, with the variable quantities *school cycle*, *school unit's profile*, *student/teacher indicator*.

Our first goal consists in knowing the differential coefficients of standard costs per educational level. The information is listed in table 1.

Educational form (level of preuniv. education)	X	Y	Z
Preschool (normal schedule)	0	1892	0.663
Preschool (long schedule)	0	3473	1.216
Primary (normal)	0.2	2179	0.763
Primary (vocational)	0.2	2555	0.894
Secondary (normal)	0.143	2856	1
Secondary (vocational)	0.143	3196	1.119
Secondary (low attendance)	0.143	1158	0.405
High school theoretical	0.133	2712	0.949
High school (technological, sports, teacher training, military, theological)	0.133	2952	1.033
High school (art and music)	0.133	3271	1.145
High school (low attendance)	0.133	1114	0.390
Industrial schools and supplementary years	0.1	3129	1.095
Post High school	0.1	3129	1.095

Table 1

Where:

X= Supplementary coefficient of adjustment for students learning in a minority language

Y= Standard cost/student (per educational levels and environments)

Z= Differential coefficients of standard cost (per educational levels and environments).

We mention that the notion of *standard educational cost per student* is the main component of the normative cost representing the expenses with the teaching personnel (standard education cost per student) and it represents the annual average gross salary expenses for a teacher, divided by the average student number per teacher.

$$school\_cost_{student} = \frac{gross\_salary\_cost_{teacher}}{students\_number_{teacher}}$$

Where:

- The gross salary means the basic salary (including weightings and allowances), plus the employer's contributions
- The student- teacher ratio results from dividing the average number of students per class with average teaching rate to the average number of classes of a student per week.

The information collected after the research regarding the teacher's classes, number of students per class and number of standard students/teacher is given in table 2.

Educational form (level of preuniversitary education)	A	B	C			D	E
Preschool (normal schedule)	25	25	10	15	20	20	20
Preschool (long schedule)	25	50	10	15	20	20	10
Primary (normal)	16	20	10	20	25	22	17.6
Primary (vocational)	16	24	10	20	25	22	14.7
Secondary (normal)	18	30	15	25	30	25	15
Secondary (vocational)	18	34	15	25	30	20	13.2
Secondary (low attendance)	18	10	15	30	45	25	45
High school theoretical	18	30	15	25	30	28	16.8
High school (technological, sports teaching, military, theological)	18	37	15	25	30	28	13,6
High school (art and music)	18	10	15	30	45	28	50.4
High school (low attendance)	18	32	15	25	30	24	13,5
Industrial schools	18	36	15	25	30	29.2	14.6
Post High school	18						

Table 2

Where:

- A= Teacher classes/week
- B= Student classes/week
- C= Students/class (specified by the law in force)
- D= Standard number of students/class
- E= Standard number of students/teacher

After the field research, we can notice differences between the real costs and the standard costs (in 2010), listed in Table 3. These differences are not objectively related to the quality of the managerial activity or policy and they cannot be eliminated at short notice. However, they can be minimized by using mid- and long-term policies regarding the school network, concentration and modernization of school buildings, development of the administrative- territorial unit's infrastructure.

#### 4. Conclusions

The results of our studies and analysis and the dialogue held with the specialists and institutions we referred to in this paper lead to an obvious conclusion. Regarding the school financing formula- meaning the whole relational system referring to the fund allocation strategy and the decentralization of the decisions regarding the volume and the effective budgetary execution-, our studies reveal that we are barely at the beginning. The following steps should ensure a real fund distribution based on standard costs, and, moreover, a real transfer of the attributions regarding the calculus of human and material resources needs and the application of an incentive and efficient budgetary execution toward the school. This process requires a long period of time, while the following must be provided:

- The improvement of the law system regarding the personnel's norming and remuneration, the school units' and their management's right of using the budgetary economies regardless their source, the local councils' and town halls' right of participating and decision in the school units' development programs and their personnel policies.
- Collaboration between the county school authorities, local councils and town halls, in order to control the managerial achievements of school directors.

- An intensive preparation of school principals in the area of financial and administrative management.
- Creating a coherent informational electronic system, which, according to the given data and parameters, to ensure the acknowledgement of the realities in all school units and the right decision-making process.

• Time is required in order to remove the excess and reticence generated by the responsibility transfer regarding the personnel and remuneration policy from the center towards the schools, local councils and town halls.

We are well aware of the fact that this last challenge, as well as the law modifications required by the decision decentralization is the toughest objectives to achieve. This is why we propose the process to be made gradually, through consecutive laws, well funded and sustained by a professional and moral preparation of all those involved in this process.

School unit	Payments 2009	Requests 2010	Standard cost calculus
Kindergarten no. 14	646,47	873,00	619,01
Kindergarten no. 18	597,19	625,00	625,32
Kindergarten no. 33	965,81	1200,55	1042,2
Kindergarten no. 38	660,44	864,99	896,29
School no. 1	1168,24	1527,00	1141,37
Gheorghe Lazar High School	3466,62	4202,74	2641,13
Octavian Goga High School	4640,94	7309,13	4227,54
G. Baritiu Economic High School	2578,49	3773,86	3013,41
Betania High School	326,67	450,00	265,77
Art High School	3740,79	6792,00	1547,35
Wood Industry School	1550,45	1610,00	1343,90
Machine Constructiion School	1299,65	1552,40	1096,98
Independent Technical School	4416,64	6205,48	4562,26
CFR Transport School	1713,23	1869,00	1217,54

Brukenthal High School	2033,76	2557,10	2540,73
Total	31944,7	44445,45	27874,52

Table 3

## 5. Acknowledgements

The authors would like to thank all those involved in this research: teachers, specialists and authorities, who offered their support and realized this is the first step out of many necessary in order to build and consolidate a modern, elastic and efficient school financing system.

## 6. References

- [1] Barzea C: "Reforma invatamantului din Romania. Conditii si perspective", Institutul de Stiinte ale Educatiei, Bucuresti, (1993).
- [2] Dima, I.C,"Sisteme manageriale in invatamantul preuniversitar", Editura ARVES, Craiova (2006).
- [3] Iosifescu, S, "Standarde manageriale si de formare manageriala, Institutul de Stiinte ale Educatiei, Bucuresti (2001).
- [4] Parlagi, A., Cristian, I., "Servicii publice locale", Editura Economica, Bucuresti (2006).
- [5] Ilie Dogaru, Ovidiu Mantaluta, "Sinteze si studii privind finantarea invatamantului preuniversitar de stat ", Bucuresti (2001).
- [6] Radut E, "Diagnosticarea sistemului de invatamant preuniversitar din Romania ", EURODIDACTICA (2008)

## Pathways on the Evolution of European Union Economical Regional Policy Nowadays for Future Accomplishments

JUDEU Viorina Maria

BRAILOIU Liviu

MIHAI Constantin

*Universitatea Agora, Oradea*

*violina@univagora.ro, violina.maria@gmail.com*

### Abstract

*Although regional policy is implemented in the EU Member States, the need of a common regional policy arising from the need for greater resources for implementing effective regional policies, resources have not all EU member states the financial argument is a fairly correct. Greece, for example, had to spend in the period '80 - '90, a much larger part of its GDP on state aid than the EU together*

**Key words:** European Union, allocation, regional policy, resources

### JEL Classification: R1, E6

The need to implement a regional policy in the EU arguments is based on social, political and economic facts. These arguments can be summarized as:

- inefficient spatial distribution of income: there is an inverse connection between growth and inequality in income distribution. However, improving interpersonal income distribution may lead to a less efficient allocation of resources affecting the welfare level. For this reason, the argument of equity in income distribution is more a social than an economic connotation;
- much easier to adapt economic structures to major changes or macroeconomic shocks: issues related to EU enlargement Thus, a state candidate may face more serious

problems after its accession to the EU, such as unemployment. Therefore, Member States may grant aid to overcome these problems by joining the new state;

- optimize the allocation of work and mitigation factor unemployment: in areas where economic activity is insufficiently developed, unemployment is high. Regional policy can contribute to economic development and employment reintegration factor underused, whilst ensuring its high mobility and lower operating costs benefits obtained activation from this reintegration.

On the other hand, Greece and Ireland have given a much smaller part of their GDP on infrastructure and research and development compared with other Member States;

- recital that the settlement of regional problems in a state is also good for other Member States. This consideration is related to the fact that any EU Member State shall enjoy the same welfare benefits;

- benefits of integration within U.E. require an equitable distribution, which may be provided by regional policy;

- to provide for compensation for– some Member States, which have suffered from implementation of other EU policies such as CAP, transport policy and policy research-development. This argument is often linked to the need for regional transfers within the EU, especially the peripheral regions, which have suffered most.

Regional Policy of U.E. is implemented based on allocations from the Community budget and only in designated areas within Member States. This implementation should be monitored at EU level since:

- donors of funds for regional policy net wish to ensure that these funds will be used to increase the economic potential of regions lagging behind. It is intended as temporary support regions which have a lower competitive level;

- regional authorities in many EU Member States are not be safe to apply the most effective measures for the development of their countries. As a result, the European body becomes viable to solve this inconvenience;

- as regional policy measures in a Member State have an impact on other Member States is necessary to coordinate regional policies at Community level;<sup>1</sup>

- regional policy approach at national level can only lead to the emergence of a race between different locations to obtain as large subsidies.

Initial elements of common regional policies related to European Social Fund - aimed, inter alia, increasing employment and occupation factor geographic and occupational mobility within the EU, and by the European Agricultural Guidance and Guarantee Fund. Oil shock in 1973 and the first EU enlargement have increased the importance of Community regional policy. Therefore, regulation 724/75 U.E. led to the establishment of the European Regional Development Fund. Basic objective of the fund was helping to mitigate the main regional imbalances within the EU, mainly due to imbalance of industrial reconversion and industrial decline. Initially, the resources allocated to the European Regional Development Fund shall consist of contributions - the default rate - the Member States. Member States U.E. co financed projects F.E.D.R. national public funds, in accordance with the principle of additionally. Almost 85% of regional projects undertaken by the ERDF in the period '70 - '80 included infrastructure improvements.<sup>2</sup> Extensions U.E. years 1981 and 1986 led to increased regional disparities and the need to compensate some states, like Greece, France and Italy, for losses incurred as a result of enlargement to the south. Therefore, integration programs were conducted Mediterranean, which proved to be the pioneers of European regional policy reform in the late '80s. The main stimulus for development of EU regional policy was the formation of the European Single Market. Single Market required the financial assistance of EU Member States to

help them increase their economic competitiveness. To this end, the European Commission's powers were increased and were dropped from the system of fixed quotas for participation in ERDF.<sup>3</sup>

Maastricht Treaty, in Article 2, spoke of objective economic and social cohesion, which could not be achieved without a proper European regional policy. The Maastricht Treaty led to the change of regional policy instruments. The Cohesion Fund was created and the European Investment Bank, European Investment Bank related. Cohesion Fund was established under the provisions of Article 161 (2) of the Maastricht Treaty, to ensure funds for the development of infrastructure and environmental projects in Member States whose GDP / capita was less than 90% of the EU. European Investment Fund was intended to facilitate funding of projects in peripheral areas of the EU, involving acceptance of a risk of higher than standard bank loans to operate the European Investment Bank. Another change was the establishment of the Committee of Regions (in accordance with Articles 263-265 of the Treaty), which act as a consultant for the European institutions involved in implementation of regional policy. European regional policy today is based on the following principles:

- concentration;
- programming;
- additionally;
- partnership.

EU regional policy reform, which took place in 1988, was based on its focus on those parts of EU who were most in need of development support. As a result, areas covered by national support and automatically became an object of European Structural Funds allocation.

EU regional policy objectives have evolved over time. For the period 1994-1999, these objectives were targeted:

1. development and structural change in the less advanced regions of the EU;
2. conversion of regions or areas that were heavily affected by industrial decline;

<sup>1</sup> Weise C., *EU-Politik zur Steigerung regionaler Wettbewerbsfähigkeit*, Vierteljahreshefte zur Wirtschaftsforschung, vol. 64, no.2, 1995.

<sup>2</sup> Tsoukalis L., *The New European Community: The Politics and Economics of Integration*, Oxford University Press, Oxford, 1997.

<sup>3</sup> Bianchi G., *The IMPs: A Missed Opportunity*, Frank Cass, London, 1993.

3. combating long-term unemployment and improving the integration of youth employment;
4. facilitate structural changes;
5. a. accelerate structural adjustment in agriculture and fishing cases;  
b. supporting the development and structural adjustment of rural areas;
6. support areas with a very low population density (northern regions).

For the period 2000-2006, EU regional policy objectives were:

1. combination of objectives 1, 5a and 6 in the period 1994-1999;
2. combination of objectives 2 and 5b of the period 1994-1999 and supplement them with specific problems of urban areas, those dependent on the fishing industry and the services sector is under reform;
3. supporting the adaptation and modernization of education, training session and policies aimed at employment factor, and follow further the objectives 3 and 4 of the period 1994-1999.

EU regional policy objectives can be divided into regional goals and objectives themselves horizontal.

For the period 2000-2006, Objectives 1 and 2 were considered regional and horizontal objective 3. In addition, quantitative criteria have been established to allow the lay out of European regions. For regions covered by Objective 1, was considered as the criterion for outs Regional GDP per inhabitant. So were departed those regions whose regional GDP per inhabitant is less than 75% of GDP / capita of EU the past 3 years, before starting the calculation. Moreover, traditional areas located under Objective 1, are: French overseas departments, Azores, Madeira, the Canary Islands and sparsely populated regions of northern EU According to the principle of concentration, the regions covered by Objective 1 are the type of NUTS-II, not less.

Designation of regions covered by Objective 2 is somewhat more complex. This is because, in 2000-2006, these regions were limited to 18% of the population, of which 10% covers the industrial and service areas, 5% rural areas, urban areas and 2% 1% areas dependent

on fishing industry. For delineation of these areas, European Commission uses a set of economic indicators, social and demographic considering proposals under which Member States of the region can be considered under Objective 2. The lists of Member States' proposals are reviewed by the European Commission, after consultation with Member States, completes the final list of areas that will fall under Objective 2.

However, the limit of EU regional policy was considered, since 1988, as Objectives 1 and 2 to cover areas in which to live up to 40% of the population. Part of the funds U.E. for regional policy is for Community Initiatives. These initiatives are aimed at helping different types of regions that are declining due to causes such as their location on the outskirts of the EU In 2000-2006, Community Initiatives have been grouped into four broad categories:

- border and interregional cooperation (INTERREG);
- convert socioeconomic urban areas (URBAN);
- rural development (LEADER +);
- transnational cooperation in the fight against discrimination and inequalities in the labor market (EQUAL).

The Community initiative in 2000-2006 represents 5.35% of total SF, vs. 9% in the period 1994-1999. Regional policy objectives for 2007-2013 are:

- O1 - Promoting convergence and economic development and job creation in the least developed Member States.
- O2 - Promoting regional competitiveness and employment by preparing work to attend and meet the labor market changes.
- O3 - Promoting regional cooperation at European level.

Programming is that principle that the forms of implementation of regional policy in a given area must be included in the development plan of that area. The basic idea was to ensure consistency between regional policy measures of individual, regional, national and EU levels. In 2007-2013, EU regional policy programming algorithm requires completion following steps:

- adoption by the European Commission guidelines– outlining common priorities for all three objectives of regional policy.

These priorities were reflected in all regional development programs and have focused, among others: increasing competitiveness, increasing employment of factor employment, equal opportunities for men and women;

First, these plans may differ in terms of classification regions in Objective 1 and 2. In addition, there are major national and regional differences between the size of the areas covered by the same objective and the tools that some Member States prefer to implement their regional policies. On the basis of national or regional plans, the European Commission, together with national and regional framework created to help the Community, which provides specific information on regional development plans. For Objective 1, the information is structured into the following categories: supporting productive investment, human capital formation and infrastructure. Support productive investment concern: industry, services, rural development, fisheries, tourism and agriculture.

Human capital formation covers education and training of research-development, while infrastructure refers to:

- transportation, communications, energy, but also to water, environment and health;
- preparing detailed operational programs: is done— only at the national and regional authorities in each Member State. During the implementation of such plans held numerous consultations with the European authorities of these authorities.

The current algorithm implementation of European Regional Policy, presented the three steps in its drive to increase the role of the European Commission, together with increased decentralization of management of regional development programs.

Additionally refers to the obligation of each member state to support public expenditure in each subject at least the same level as the previous programming period. Monitoring compliance with the principle of additionally is a complex process that can lead to disputes between the European Commission and Member States.

The partnership aims to close cooperation between the European, national and sub-national, in order to effectively implement

regional policies. This partnership takes three basic forms:

- coordination between the different Structural— Funds and other EU financial instruments;
- coordination between EU structural policies— and national policies of Member States;
- Coordination between the European Commission and— national authorities of Member States.

Increase budget allocations related to EU regional policy highlights the importance given to structural measures in the EU Financial resources have been concentrated in the period 2000-2006 nearly 70% in regions covered by Objective 1 and those in transition. The remaining third was divided regions were placed in Objectives 2 and 3. Already in 1993, four countries (Ireland, Spain, Portugal and Greece) have benefited from cohesion funds for financing of transport infrastructure and environmental projects.

In absolute terms, Spain was the largest recipient of Structural Funds in 2000-2006, followed by Germany, Italy, Greece, Portugal and the UK. Community allocations per capita in the period 2000-2006, ranged from 220 € / person (in Greece and Portugal), from 140 € / person (in Spain) and 100 € / person (in Ireland). The EU developed countries, these benefits are only 20 € / person (in the Netherlands, Belgium and Luxembourg) or 50 € / person (in Italy). European Union began providing financial support applicant countries in Central and Eastern Europe in 1989, through the Phare program.

The level of financial assistance U.E. by these countries increased significantly after 2000, by implementing two new programs, SAPARD and I.S.P.A. Until 2004, the 12 EU candidates received financial assistance of 3 billion Euros. Last 12 states that joined the U.E. in 2004 and 2007 became eligible for financing under the Structural and Cohesion Funds. From May 1, 2004 to the end of 2006, these countries have received 21.7 billion Euros. Nearly 2/3 of the funds from the Structural Funds, while 1 / 3 of the Cohesion Fund (European Commission, 2003). Low level of GDP per inhabitant, several regions of the 12 EU Member States in November covered by Objective 1. Research on



the dynamics of regional policy instruments allows us to achieve one of their out classical instruments and contemporary instruments.

The issues addressed in regional policy instruments, can be viewed from several angles, and are differentiated in the following categories:

- policy instruments used in– micro-regional level in order to influence the allocation of labor and capital factor between different industries and inter-regionally;
- macroeconomic policy– instruments used at the regional level, whose area of action is focused on revenue and expenditure changes made at the regional level;
- government policy instruments– used at regional level to achieve policy coherence between national and regional policy;
- EU regional policy instruments– used to achieve economic and social cohesion (between Member States) and in achieving a high economic and social development similar to the average level registered in the EU (if candidate states).

## **Bibliography**

- (1) Weise C., EU-Politik zur Steigerung regionaler Wettbewerbsfähigkeit, Vierteljahreshefte zur Wirtschaftsforschung, vol. 64, no.2, 1995.
- (2) Tsoukalis L., The New European Community: The Politics and Economics of Integration, Oxford University Press, Oxford, 1997.
- (3) Bianchi G., The IMPs: A Missed Opportunity, Frank Cass, London, 1993.
- (4) Young Eoin, Quinn Lisa, Writing effective public policy papers. A Guide for Policy Advisers in Central and Eastern Europe, Open Society Institute, 2002.
- (5) Secretariatul General al Guvernului, Unitatea de Politici Publice, Manual pentru elaborarea propunerii de politici publice, 2007.
- (6) Guvernul României, Strategia pentru o reglementare mai bună la nivelul administrației publice centrale 2008 – 2013 - Document de politică publică București, 2007.

## Eco-Management and Audit Scheme – a Tool for Sustainable Development

IOAN Ildiko \*  
RĂDULESCU Carmen Valentina \*\*  
Bucharest Academy of Economic Studies,  
Bucharest Academy of Economic Studies  
ioanildiko@yahoo.com,  
cv\_radulescu@yahoo.com

### Abstract

*In recent years environmental issues are an integral part of the strategy of organizations around the world. Each economic unit seeks to achieve and demonstrate along with economic growth and a level of performance of environmental protection to meet the environmental legislation. The paper analysed the objectives and relation among EMAS and ISO 14000, analyses is also extended to new EMAS adopted on 2009.*

**Keywords:** sustainable development, environmental management, environmental audit, business

**JEL classification:** Q56

### 1. INTRODUCTION

Environmental management systems are designed to help companies to improve their environmental performance including the life cycle performance of their products, activities and services. They allow organisations to have a clear picture of their environmental impacts, help them to target the significant ones and manage them well

The environmental rules mention the necessity for introduction of environmental management system at the organization level. In this way, is answering to a concept more a more use in the environmental protection field: the pollution stops of its sources or act at source of pollution and not only to its effect on the environment.

### 2. COMPETITIVENESS AND ENVIRONMENTAL MANAGEMENT

Competitive position of partners depends of ensuring "clean products, which meet both consumer demands, as well as the rules applied by their trading partners. A sustainable profit can be obtained only through an effective management of these changes in order to cope with new coordinates (table 1).

*TABLE 1. Pressures, changes, business technology .*

Pressures	Changes	Business opportunities
Development of environmental legislation	Draft of new products	New product with green level
Increasing of pressure behalf of beneficiary	Using of new materials	Cleaning technology
Competitive increasing	New technology	Division of environmental market
Cost increasing	Increasing of environmental monitoring and control	Reducing of waste generation
Investments decision	New system of environmental management	Application of the best practices
Pressure of environmental groups	Increasing of environmental preoccupation	Improvement of organization images

Source: Rojanschi, V., Duduman, S., Grigore, F., "Sisteme de Management Integrat pentru Agentii Economici", Tribuna Economica Publishing, Bucharest, 2007.

## 2. REQUIREMENTS OF ENVIRONMENTAL MANAGEMENT SYSTEMS

Planning consist in identification of significant environmental aspects and legal requirements, including procedures for integrating anticipated changes to the facility's requirements or commitments into the EMS. Measurable objectives and targets to meet policy commitments and legal requirements, to reduce the facility's significant environmental impacts, and to meet the performance commitments made as part of the facility's participation in the program

Implementation and operation  
Established roles and responsibilities for meeting objectives and targets of the overall EMS and compliance with legal requirements, including a top management representative with authority and responsibility for the EMS.

Checking and corrective action means an active program for assessing performance and preventing and detecting nonconformance with legal and other requirements of the EMS, including an established compliance audit program and an EMS audit program.

Management Review of performance against the established objectives and targets and the effectiveness of the EMS in meeting policy commitments.

One of the request addressed to the company that implement environemntal management system , is defining an *environmental policy*, management shall ensure that its policy is:

- Appropriate to the nature, scale and environmental impacts
- Commitment to continual environmental improvement.
- Commitment to prevention of pollution
- Comply with relevant environmental legislation pollution, and regulations
- Comply with other requirements
- Framework for setting and reviewing environmental objectives and targets.
- Ensure that its policy is documented.
- Ensure that its policy is implemented and maintained.

- Communicated to all employees

- Available to the public

From the view of evolution of environmental management system standard one of the most important are EMAS at the level of European Union and ISO 14000 at the international level. A relation among these environmental management systems is presented below:

TABLE 2. EMAS – ISO Relation

EMAS	ISO
European Union reglementation	International standard
Applicable only in EU	Applicable at international level
Restricted to sites specific for industrial activity	Applicable for activities of products, services including industrial activities
Require initial assessment of environmental impact assessment	Initial assessment is not required being suggest in appendix 4.2.1. of standard
Continuous improving of environmental performance at the level of the best available technology	Continuous improving reflected by increasing environmental performance
Require an environmental public declaration to allow access to environmental program and policy	Suggest an external communication but depends of each company to decide content of information. Require public access only to environmental policy
Frequency of environmental audit at 3 years	Not specific the frequency of environmental audit
EMS require existence of an register of environmental effect	Is not required

Source: Rojanschi, V., Bran, F., Grigore, F., Ioan, I., "Cuantificarea dezvoltarii durabile", Economica Publishing, Bucharest, 2006.

### 3. EMAS 2009

In the follows we are focus on presentation of EMAS at the level of European Union. The scheme has been available for participation by companies since 1995 and was originally restricted to companies in industrial sectors. Since 2001 EMAS has been open to all economic sectors including public and private services. In addition, EMAS was strengthened by the integration of EN/ISO 14001 as the environmental management system required by EMAS.

The **new EMAS adopted on 2009** cover not only the industry sector but all sectors and concern not just the environmental impacts of economic activities, but also of their products and services. EMAS II. Key revisions include an extension of the scope of EMAS to all economic sectors, including local authorities. In addition, a visible and recognizable EMAS logo was adopted to allow registered organizations to publicise their participation in the EMAS more efficiently.

With regards to EMAS requirements, the involvement of employees in the implementation process was increased, and the role of the environmental statement was strengthened with the aim of improving communication between registered organizations and the public.

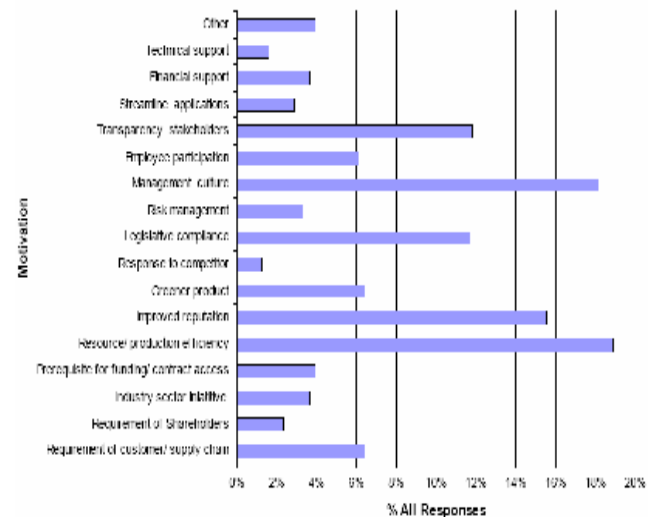
An EMS is defined in EMAS II as “the part of the overall management system that includes the organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy”

The **objective of EMAS**, is to promote continuous improvements in the environmental performance of organizations by the establishment and implementation of environmental management systems by organizations, the systematic, objective and periodic evaluation of the performance of such systems, the provision of information on environmental performance, an open dialogue with the public and other interested parties and the active involvement of employees in organizations and appropriate training.

Acoording to an study published in 2009 by European Comission organizations were asked what their three most important reasons for seeking EMAS registration were.

The reasons most frequently selected are highlighted in Figure 3 below.

They include the wish to improve resource and production efficiency (19%), internal management approach/culture (18%) and improved reputation (15%) as the most popular reasons identified. The desire to improve transparency with stakeholders and legislative compliance were also significant for some organizations.



Source: EC, 2009

Fig.1 Reasons for Seeking EMAS Registration

Organizations were also asked to indicate which of a list of impacts of EMAS had been the most positive for them. The most positive impact, identified by 29% of respondents as having a score of 1 and 18% as 2, was energy/resource saving.

### 4. CONCLUSIONS

Implementation of environmental management system can be useful tool for organizations to improve their environmental performance, and enhance their business efficiency on the other hand compliance with environmental laws and regulations is strongly well-established. Finally, acomplished the reqest adresses to the company that implement the environemntal managemnt system the competitive position to manage with the challenge of international market is ensured.

## 5. REFERENCES

[1] F. Bran, I. Ioan, “Ecosferă și politici ecologice”, ASE Publishing, Bucharest, 2002.

[2] European Commission, “Study on the costs and benefits to organizations of EMAS”, 2009.

[3] I. Ioan, “Voluntary reporting of environmental performances”, Quality – access to success, nr.5, 2009.

[4] V. Rojanschi, F. Bran, F. Grigore, I. Ioan, “Cuantificarea dezvoltării durabile”, Economică Publishing, Bucharest, 2006.

[5] V. Rojanschi, S. Duduman, F. Grigore, “Sisteme de Management Integrat pentru Agentii Economici”, Tribuna Economică Publishing, Bucharest, 2007.

[6] P.J. Stapleton, M.A. Glover, “Environmental Management Systems: An Implementation Guide for Small and Medium-Sized Organizations”, 2001.

## Networking a basic instrument for regional development

IONESCU Claudia  
Universitatea Hyperion  
adrbinvest@yahoo.com

### Abstract

*A successful regional development is support by an efficient communication. A modern and very useful tool for dissemination of information is the network. Romania benefits from Operational Programmes for 2007-2013, a lot of money that we need to spend wisely and to get development of local and regional areas. In the paper I present one instrument of regional development the Regional Operational Programme – Regio and its the communication network and demonstrate its usefulness for the successful of Regio implementation. I used strategic documents available on the European, National and regional institutions website and my personal experience achieved by working at the development of the Bucharest Ilfov Region, since 1999.*

**Keywords:** communication networks, Regional Operational Programme, Managing Authorities

**JEL Classification:** D85, R58

### 1. Introduction

The Operational Programme Monitoring Committee (OP MC) has a primary role in the monitoring of operations of the OP. The OP Managing Authority submits annually to the European Commission, an Annual Implementation Report by the 30th June in each year until 2015.

The Regional OP (ROP) is one of the Romanian Operational Programmes agreed with the EU, and an important tool for implementing the national strategy and policies for Regional Development. It applies to all 8 Romanian Regions [1].

The global objective of ROP is “to support and promote a sustainable balanced economic and social development of the

Romanian Regions, by improving business environment and infrastructure for economic growth”. This means that the ROP aims to diminish the gaps in economic and social development between more and less developed regions of the Country.

The ROP in Romania is funded through one of the Structural Funds - The European Regional Development Fund. This fund is supporting EU Regions where GDP is under 75% of the EU average. The total budget of ROP is approximately 4,4 Billion Euro for the first seven years (i.e. 2007-2013). EU funding represents approximately 84% of the ROP budget. The remaining is coming from national funds, public (14%) and private (2%). ROP is broken down in a number of Priority axes. Each priority axis is endowed with a specific budget and incorporates a number of key areas of intervention targeting specific development goals.

During the period 2007-2013 period, Romania will receive € 19,667 Million from EU Structural Funds. Approximately 98% of this amount will be allocated in seven Operational Programmes with the objective of “Convergence” (i.e. diminishing the economic and social development disparities among EU regions). The remaining 2% will be allocated in six Operational Programs with the objective of “Territorial cooperation” with neighbouring countries.

### 2. The system of regional development in Romania

The Managing Authority has the overall responsibility for the management and implementation of the ROP, in accordance with EC Regulations and the principles of sound financial management. Some of the most important tasks of the MA in relation to the potential beneficiaries are the elaboration of the project selection criteria, appraisal and evaluation methodology, and the

signature of contracts with the selected applicants. There is only one MA for the ROP and has been established within the Ministry of Regional Development & Tourism.

The Intermediary Bodies (IB) of ROP are implementation entities at regional level that have been delegated specific tasks of the MA, by means of a written Agreement. The IBs are the direct "contact" of ROP with the applicants. Among others, the IBs assist applicants in project development, launch the calls for proposals, receive and register the applications, support the evaluation process, notify the results of the evaluation process to applicants and follow up the implementation of projects.

There are nine (9) IBs: eight within the Regional Development Agencies (RDAs) and one within the Ministry of Regional Development and Tourism. Other Bodies making part of the implementation mechanism of ROP are : Certifying & Paying Authority (Ministry of Economy and Finance), and Audit Authority (Romanian Court of Accounts).

The ROP Intermediary Bodies are implementation entities at regional level and they organised a communication network to accelerate the dissemination of Regio information for local areas. They undertake certain tasks of the MA, on the basis of a written agreement, and are the main bodies that hold the contact with the applicants. There tasks are indicatively summarised below: Assist applicants in project development; Contribute to the delivery of the ROP Communications Plan at a regional level including local publicity, information and training events; Participate in the preparation of calls for proposals; Launch the calls for proposals, according to the schedule established by the ROP Managing Authority; Receive and register applications according to the relevant procedure; Check the administrative compliance and the eligibility of the applications submitted, in conformity with the criteria established by the ROP Managing Authority and approved by the ROP Monitoring Committee; Send to the Managing Authority reports on a monthly basis with regard to the applications that were submitted and their acceptance or return after their eligibility check; Organize the technical and financial evaluation sessions, with the support of the independent evaluators; Send to the

Managing Authority the technical and financial evaluation reports of the applications that received the positive endorsement from the Regional Committee for Strategic Assessment, including the list of projects proposed for financing and of those that were rejected, together with the rejections reasons; Notify the applicants with regard to the results of the evaluation process of their application and informs the RCSA with regard to the projects that were proposed for financing and those that were rejected; Carry out on-the-spot checks of projects; Take action as agreed with the MA in the case of fraud irregularities, and financial corrections; Ensure that all the documents and procedures for the establishment of an audit are in place, in accordance with the relevant procedures etc.

### 3. Communication networks

The term "network" can refer to any interconnected group or system. Networks connect everyone to everyone, contrary to hierarchies, which do not; rather they create formal channels of communication and authority. Networks operate informally with few rules, they depend on trust.

They are formed because people need one another to reach common goals. Mutual help, assistance, and reciprocity are common to all functioning networks, which are not only self organizing but also self-regulating. Networking is the most powerful way to build professional relationships, actively foster contacts and disseminate information. Networks can actively contribute to strengthening the communication power on the territory and thus helping to close the gap between EU Institutions and the people by improving the communications flow among the different bodies.

The European Commission encourages the creation of networks at different levels. The new Communication puts forward a set of future actions to foster a general and permanent debate on the future of the EU among people from all walks of life, at both national and EU level. It will, among other initiatives launch on-line networks which will bring together European, national and regional parliamentarians, journalists and other European opinion-makers to share information, knowledge and ideas on the EU.

**INFORM network** is open to EU communication officers who want to *inform* others about their experiences with the *information* on the ERDF, Cohesion Fund and EU Cohesion Policy, who want to be *informed* about inspiring ideas and communication projects developed in other Member States or regions, who want to meet other communication officers and learn from each other in formal and *informal* ways. It is coordinated by the Information and Communication unit of the European Commission's Directorate General for Regional Policy.

The network aims to foster the exchange of good ideas, learning from the experiences of others and creating common tools, where needed. Its composition is two-fold: the core group comprises one representative per Member State, usually from the central body responsible for coordinating ERDF/Cohesion Policy. The core group's key tasks involve conveying information about publicity and communication activities in the Member States as well as sharing the latest communication tools and exchanging information gathered from meetings held with the national networks of communication officers in each country. The general group includes communication officers from the ERDF and Cohesion Fund programmes, who want to participate in the network on the voluntary basis.

INFORM wants to grow to include all communication officers from the ERDF and Cohesion Fund programmes, who are responsible for developing and implementing communication plans and interested in sharing their experiences.

#### **A. National Networks**

Every country has one or more managing authorities or organisations that are responsible for distributing information on activities within the various EU programmes. The information officers in these organisations are easy to identify, and they have a clear remit and access to central information and communications from the EU.

There are other communicators on the fringes of these groups, who in their various positions are also responsible for providing information on the EU-funded programmes.

They can be communicators at local authorities or organisations, whose jobs are related to the Structural Funds in some way, but without giving them access to all sources of information.

Creating a national communicators network is therefore an important stage in providing integrated and consistent information about the Structural Funds and the EU. Such a network can, for example, consist of representatives from all the Operational Programmes within one country during a programming period.

The aims of the network can be to:

ensure an exchange of experiences and good practice, coordinate communication work, create synergy effects, share information about experience of the EU's communicator network INFORM. Some examples of what this might involve include distributing the results from various activities in the communication plan, sharing experiences and good practice, holding discussions around how the various regulations are to be interpreted and adapted to local circumstances, etc.

The network should meet regularly, e.g. the Bucharest Ilfov Regio Communication Network meet four times by year. The meetings are focus on the experience sharing, presenting various information products, discussing practical issues at the thematic workshops. External speakers, e.g. from the respective County Council from Ilfov and/or Bucharest offices and media experts are invited to enrich and contribute to the discussions.

#### **B. Networks with beneficiaries**

Information is the heart of Structural Funds programming. Applicants and beneficiaries need guidance in order to submit good quality projects and to implement their projects in line with the regulatory obligations. The dissemination of information and the transparency of programmes is a vital element of an Operational Programme activity. As a result, the contractual partnership between managing authorities and beneficiaries is a close-knit relationship as it affects the very success of the programme. Two-way communication here is a strong priority: beneficiaries need to understand what can and cannot be done with the Structural Funds co-financing and programme managers require



information on the programme's progress to make strategic decisions.

Effective networking with beneficiaries is crucial and should be combined with tools which support interactive, personal communication (i.e. events, seminars, workshops and one-to one meetings together with documentary sources of information such as programming documents, guidance, toolkits, newsletters and websites). We must always bear in mind that information regarding structural funds programming is often complex and versatile and that beneficiaries vary in terms of their degree of knowledge, experience and know-how in dealing with Structural Funds.

To be effective, communication must be centred around the beneficiaries' needs, taking into account their degree of familiarity with regional policy jargon and procedures. Good communication is not about giving out information blindly, but making sure that it is receiving has the desired results. The main objective is to avoid that applicants and potential beneficiaries abandon their projects under the false impression that applying for Structural Funds is too difficult.

#### **C. Enhance the publicity and communication capacities of beneficiaries**

It is widely acknowledged that beneficiaries and project implementers often ignore their information and publicity obligations and lack the necessary resources, skills and experience to design and implement their publicity measures. Since beneficiaries have a binding obligation to publish the Structural Fund contribution to their activities, it is essential for Managing Authorities. One effective way of doing this is by developing a network relationship between the appointed Managing Authority Information Officer and the information officers of the beneficiaries. With the establishment of an effective channel for dialogue and interaction, a Managing Authority can ultimately ensure compliance and consistent communication by beneficiaries. A consistent networking initiative produces new dynamism and additional motivation.

#### **4. A systematic dialogue and transparency of the Region**

Cohesion Policy touches **all regions** in the EU. This has created a new communication opportunity, to present Cohesion Policy as a policy for all regions as well as being the main vehicle for the growth and jobs agenda. Over this financial period we are responsible for the biggest part of the Union's budget and for the main instrument that directly serves the citizens. For those reasons our policy is perfectly suited to explain the European added value and the real benefits brought by the common participation in the European Union. Hundreds of thousands of projects already developed across Europe and those still planned give the best testimony and the practical face to the European Union.

In this context it is imperative that the positive role that is being played by the European Union which ultimately benefits all European Union citizens is fully understood and communicated to all citizens. The responsibility for delivering this message depends on the successful communication and delivery of information and publicity measures by individual Member States and regions. In other words responsibility lies with Member States and regions to get the message across and to develop and deliver a positive image of EU activities.

The EU brand should be something that is sought, admired/followed and understood by private individuals as a stamp of quality, integrity and recognised as the standard bearer when it comes to delivering a public good to the people of Europe. Information and publicity measures are key to marketing this brand. Article 69 of the Council Regulation 1083/2006 obliges Member States and managing authorities to provide information on the respective operational programmes and publicise co-financed operations. European Union citizens and beneficiaries are the main target groups of those information and publicity actions, whose aim is to highlight the role of the Community and to make sure that assistance from the Funds is transparent.

The detailed requirements have been addressed by Articles 2 to 10 of the Commission Regulation 1828/2006. These articles encompass the spirit of the Legislation which is to inform the public, create a positive

identity and ultimately to make them aware of activities and keep them up to date on the policies of the European Union.

Transparency should be the cornerstone of any EU activity as it is imperative for the successful use of the funds. Therefore it is obligatory to publish the list of beneficiaries. By doing so this removes any veil of mystery about the destination of funding and makes it clear to all citizens that the EU can deliver positively to their locality be it in the form of a new motorway or additional childcare places.

Beneficiaries also have a special role to play in this process. They can and should show through their projects, developed with the cohesion policy assistance, that the European Union is indeed present around us and supports the regions' economic development and improves people's lives. By fulfilling their responsibilities as laid out in these articles, the Managing Authorities and other responsible bodies can go a long way in ensuring that the success of EU structural funds is properly communicated in their respective regions.

Ad hoc contacts exist already between the Commission and the local and regional authorities, both directly and through their associations. In response to the commitment given in the White Paper on European Governance, the Commission wishes to make this dialogue systematic. The following principles justify the need to involve the regional and local authorities in the formulation of European policies:

**Openness improved information** and ownership of the Community's policy position are needed. Since they are democratically elected and close to the ground, the regional and local authorities are well placed to provide the citizen with information.

**Participation** - The White Paper on governance affirms the need for the European and national associations of regional and local authorities to be involved with due regard for the institutional architecture of the Union and the Member States' internal organisation.

**Coherence** - The Commission acknowledges the need for better assessment of the impact at

regional and local level of Community policies in areas such as transport, energy and the environment. Analysing the impact of measures proposed at Community level will contribute to inform the different actors of the effects of these measures and guide them in their implementation tasks.

**Effectiveness** - Some Community policies are implemented and/or have the greatest effect at regional and local level. Local government authorities are ideally placed therefore to assess the coherence and effectiveness of Community policies.

## 5. Conclusions

The purpose of national / regional aid is to support investment and job creation and encourage firms to set up new establishments in Europe's most disadvantaged regions. In order to support economic development in these regions during the period 2007-2013, the guidelines introduce criteria to assess the compatibility of national regional aid with the internal market.

The Romanian Regio Communication network could insert the information deep into local level, to involve local authorities to understand the EU financing principles. Also the network can present how Romanian institutions can help local administration to use the financial allocation for the local development.

If we don't communicate, if we don't involve we don't exist!

## 6. Bibliography

[1]C.Ionescu si N. Toderas, 'Politica de dezvoltare regionala', Editura Tritonic, Bucuresti, 2007, p86-88

Inforegio website:

[http://ec.europa.eu/regional\\_policy/country/commu/inform\\_meeting07062008\\_en.cfm](http://ec.europa.eu/regional_policy/country/commu/inform_meeting07062008_en.cfm);

[http://forums.ec.europa.eu/regional\\_policy/inform](http://forums.ec.europa.eu/regional_policy/inform)

[http://eurlex.europa.eu/LexUriServ/site/en/oj/2006/l371/l\\_37120061227en00010163.pdf](http://eurlex.europa.eu/LexUriServ/site/en/oj/2006/l371/l_37120061227en00010163.pdf)

National website: [www.inforegio.ro](http://www.inforegio.ro)

Regional website: [www.regioadrbi.ro](http://www.regioadrbi.ro)

## Regional Dimension of Romania in the New Global Context

MARIN Camelia

SIMA Isabella

CODREANU Diana

*Constantin Brâncoveanu University*

*cameliamarin81@yahoo.com*

*i\_onescu@yahoo.com*

*codreanudia@yahoo.com*

### Abstract

*When Romania's EU integration has brought joy to be apart became EU members and the responsibility to rise to the level of other EU countries. Fundamental challenge is for Romania, operating capacity of regional policy of arbitrary independent axes and influence the political dimension.*

*Regional development policy is a set of measures planned and promoted by local and central public administration authorities, in partnership with different actors (private, public, volunteers) to ensure economic growth, dynamic and sustainable by building effective regional potential and local, to improve living conditions.*

*Economy of a country, region or group of countries and the whole world, develops cyclically. This means that in certain periods of time, one country (a group of countries, etc..) Is characterized by a growing economy, followed by a limitation of extension, then a decrease, that stopping it.*

*A stronger integration at both regional and world countries and population following the widespread introduction of information innovations that have led to significant reductions in transport and communication costs, eliminate artificial barriers that hinder the movement of goods, services, capital, knowledge and people between countries is that globalization is called a complex phenomenon.*

**Keywords:** regional development, financial instruments, Regional Operational Programme

**JEL Classification:** R50, R58

The Treaty of Rome (1956), there were no express provisions relating to a joint regional development policy, as in 1974

created the European Regional Development Fund (ERDF), to support Italy and Britain.

Single European Act of 1986 raises the question of economic and social cohesion, representing the beginning of regional development policy. In February 1988 the European Council to extend the operation Brussels solidarity funds represented by the European Social Fund (ESF), European Agricultural Guidance and Guarantee (EAGGF), European Regional Development Fund (ERDF) now called Structural Instruments - namely to increase significantly their allocations from the Community budget. It is recognized and officially declared the importance of these instruments to reduce regional disparities

Regional policy was defined first in the Maastricht Treaty in 1992.

EU regional policy to reduce economic and social development disparities between regions of Europe, to encourage harmonious development throughout the whole EU and promoting equality. In 2009 adopted a new strategy EU sustainable development that is directed towards achieving long-term targets implementation of environmental actions, actions to counter the phenomenon of global poverty and begin preparation for inclusion [1].

EU regional development policy is based on financial solidarity and is supported by contributions from Member States to the Community budget, funded by Structural Instruments developed multi-regional development programs along with other regions, Member States and the Commission proposed by the Commission for all EU.

There are large differences in development between the Member States and between regions within them. These differences in development have widened with the accession of ten countries in 2004,

Romania and Bulgaria in 2007. Thus one of the most prosperous regions of Europe (London) has a GDP per capita of nine times higher than in the poorest regions of Romania.

The European Union took advantage of the accession of 12 new members to reorganize and regional policy for 2007-2013 has three main objectives: convergence, competitiveness and cooperation. This new approach was called Cohesion Policy[2].

When Romania's EU integration has brought joy to be apart became EU members and the responsibility to rise to the level of other EU countries. Fundamental challenge is for Romania, operating capacity of regional policy of arbitrary independent axes and influence the political dimension.

Regional development policy is a set of measures planned and promoted by local and central public administration authorities, in partnership with different actors (private, public, volunteers) to ensure economic growth, dynamic and sustainable by building effective regional potential and local, to improve living conditions.

Regional policy in February , to achieve its objectives, has provided more financial instruments - the Structural Funds and Cohesion Fund - which for 2007-2013 were allocated 348 billion from the Community budget.

For 2007-2013, three instruments will finance regional programs:

European Regional Development Fund (ERDF) - to finance infrastructure projects generated, innovation and investment.

European Social Fund (ESF) - finances projects for training and other assistance programs to employment.

Cohesion Fund (CF) - finance large infrastructure projects, environmental and transport in new Member States, Spain and Portugal (living standards are below 90% of EU average).

In addition to these tools is used complementary action undertaken by the European Fund for Agriculture and Rural Development (EAFRD) and European Fisheries Fund (EFF).

The Romanian Operational Programmes agreed between the European Union is the Regional Operational Program (ROP) [3] , which is a very important tool for implementing the national strategy and regional development policies. Is applicable to all the 8 development regions of Romania.

The overall objective of the ROP is to "support and promote local sustainable development, both economically and socially in their regions of Romania, by improving conditions for infrastructure and business environment, supporting economic growth. This program aims to reduce economic and social development disparities between the more developed regions and less developed.

Romania Regional Operational Programme is funded by one of the EU Structural Funds - European Regional Development Fund (ERDF). It supports EU regions have a GDP per capita below 75% of EU average.

The total budget allocated to this program is about EUR 4.4 billion in the first seven years after accession (2007-2013). EU funding represents approximately 84% of the Regional Operational Programme, the rest comes from national funding, public financing (14%) and private financing (2%).

Distribution of funds is done on the priority axes of the Regional Operational Programme. Each priority has allocated a budget and includes a number of key areas of intervention in pursuit of development objectives. Regional Operational Programme priority axes are presented below 4 :

Priority Axis 1: Support sustainable development of cities - urban growth poles (30% of the budget ROP). It aims to support urban development to enhance quality of life and creating new jobs.

Priority Axis 2: Improvement of regional and local transportation (20.35% of budget ROP). Aimed at rehabilitation and modernization of county roads, urban streets, including ring roads.

Priority Axis 3: Improvement of social infrastructure (15% of the ROP).

Its purpose is to improve social services infrastructure, health and public safety in emergencies; educational modernization.

Priority Axis 4: Strengthening regional and local businesses (17% of the budget ROP). The aim is finance for business development support structures, rehabilitation of disused industrial sites, supporting micro-enterprises.

Priority 5: Sustainable development and tourism (15% of the budget ROP). The objective of this axis is to help restore cultural and historical heritage, upgrading the tourist infrastructure, improving infrastructure quality natural areas that could attract tourists.

Priority Axis 6: Technical assistance (2.65% of the budget ROP). Provides support

for transparent and effective implementation of the Regional Operational Programme.

Proposed priority axes and areas of intervention included in the ROP are in line with the Lisbon objectives, the EU Cohesion Policy and the Community Strategic Guidelines. The program also is consistent with the principles of Structural Funds Convergence objective.

Regional Operational Programme 2007-2013 is a program that implements key elements of the National Regional Development Strategy of NDP, contributing, along with other sectoral programs to achieve the overall objective of the National Strategy - Regional, namely reducing disparities between regions of Romania. Regional Programme will be funded during 2007 - 2013 European Regional Development Fund, in proportion to 85% of the total eligible project cost and financing of national resources (state budget and local budgets or private contribution).

Comparative analysis highlights the Development Regions, after 1990, a growth process of economic and social development disparities between regions. Differences in development between the developed regions (Bucharest - Ilfov) and the least developed countries (North-East), in terms of GDP per capita increased almost threefold. At the same time, there is growing disparities between regions located in the western half of the country (Northwest, Central and West), with positive economic developments and increasing levels of numerous economic and social development indicators, and those in eastern half of the country (Nord-Est, Southeast, South and South-West), less developed.

As I said the main objective of the Regional Operational Programme is to help regions lagging behind in terms of development and the somewhat more prosperous regions, less developed areas, by exploiting their specific resources, hitherto underused to accelerate growth of these areas.

Identified the main route for achieving this goal is the allocation of funds regionally differentiated according to the general degree of development of Regions ie, inversely proportional to the size of GDP per capita, less developed regions so as to benefit proportionately from a financial allocation higher. These funds will be used to fund projects with major impact on regional and local development: the rehabilitation and upgrading transport infrastructure, educational,

social, health and public safety, improving the business environment through developing business support structures (industrial parks, technology, logistics, business, etc.) and private enterprises to support initiatives, tourism and cultural potential of developing tourism infrastructure and supporting business initiatives in this area, supporting the development of urban centers with growth potential, in order to create conditions to act as engines of regional and local development.

Calls for proposals will be released regularly in each of the key areas of intervention. When a call for proposals was launched, eligible projects that receive funding only key area of intervention.

Economy of a country, region or group of countries and the whole world, develops cyclically. This means that in certain periods of time, one country (a group of countries, etc..) Is characterized by a growing economy, followed by a limitation of extension, then a decrease, that a halt to its five[4].

In the intellectual world is about to produce a blockage of understanding, because they say and write so much about globalization in June, the visible sign of this truth is just to manage the crisis, from any perspective, the globalization project.

A stronger integration at both regional and world countries and the population as a result of widespread introduction of information innovations that have led to significant reductions in transport and communication costs, eliminate artificial barriers that hinder the movement of goods, services, capital, knowledge and people between countries is that globalization is a complex phenomenon called July.

Globalization has become the expression of a system that integrates the highest level and always remain open to integration because their intentions of running increasingly obvious. The exclusion the system is an exceptional opportunity and entry is liberalized, as the whole is designed to absorb changes in extremes, including failures, even if it is a party[6].

Globalization is shown as a new world order, one that is multidimensional in nature and corollary [7].

Given human development, globalization is not only trade markets, capital and financial, but everything that is fundamental to people, all things surrounding life: technology, environment, culture etc..

As a strategy, globalization is the direct expression, verifiable and substantiated the rationality and reason.

Globalization is definitely an ideal to meet the truth with freedom and justice, amid general prosperity production undertaken individually, not the best world, a world only possible long-prepared human nation.

Global ideas, global markets, global technology, global solidarity can IMB Ogata lives anywhere, but they can and poverty simultaneously. The key defining characteristics of globalization is the contraction of space and time, the disappearance of borders and the emergence of new markets, new rules, new players and new media. Promoting globalization of human perspective is to ensure that its benefits are shared equitably and that the growing interdependencies between countries working for people, not for profit.

Globalization has made communication easier or more regions of the world, it connected him to the economic reality - Social western countries.

Benefits of globalization are felt in all areas and numerous world and in all fields, with major influence not only in poor countries in the de veloped or developing countries but also in developed countries.

But as any phenomenon in addition to positive effects, globalization has brought a number of adverse effects. Today, as a result of the development of ties of interdependence, it becomes increasingly obvious that the world is gradually in one societal system, which affects us on all of us.

Looming global system is not only an environment where there are private companies that evoluează distinct systems. He is, by social ties, economic and political, through institutionalized forms common to communications systems and across boundaries between states, a new system, which tends to limit substantially subsequent action systems by providing a decisive fate of those living in each.

Also looming on the common consciousness globality, the planet on which we live and can not, the planetary system, the world's problems are going to find. With this phenomenon of globalization, we have found that people who live on the planet is one. Now we can only say that we are one human family and that we must overcome all national boundaries, linguistic, cultural, racial and religious. Globalization is by nature a human

dimension, regarded as the world as a whole, as humanity requires, besides the involvement of society, involving the destiny of the individual, the human species as a whole. It reduces the feeling of loneliness, isolation or exclusion.

Costs of this world view, globalization transcends appearances, it concerns all global, based on essences, on substance, in effect, means and purpose, seeking answers to the challenges posed to us design our common future.

Switching from bi-and tri lateral treaties to regional and global treaties, the laws and legal institutions, jurisprudence and doctrine Regional / globalization, the regional network to the Constitution - and "tomorrow" in a global - is also a major challenge alter the concepts, mentalities and structures. Thus, gradually, the new government will reach a common, global, which, in a given national governments will determine the (national), applying the principle of subsidiarity in a position of increasingly large in various fields .

Globalization, the process involves continuous motion as a source of progress and development, and a dual national and individual identity (citizenship). It requires an education beyond the requirements of the specific national education that values take into account relevant social validated regionally and globally such as cultural pluralism and intercultural learning, freedom, equality, solidarity, democracy and rule of law, alteralitatea market free, etc..

Globalization is a process that expands the determinant of social change in the world as a whole. It is an integrative process, thought many sides of knowledge attained, at the same time is syncretic, has a unitary (unity through diversity). Thus, while social change was first addressed in local and national context, globalization has increased the concern for interest in explaining the relationship between territorial units and the world as a whole, wearing discussions on problems relating to local report - Global and multilevel analysis.

Our planet is in fact a variety of a whole, an identity system consisting of different subsystems in September .

Potential, where we approach the world as a whole will be found in each subsystem and at the same time, each subsystem, locality, region or nation-state will be found anywhere in strengthening reg. Each component is dezindividualizează, is becoming more and more as whole, while the entire

manifest ever more the components and local conflicts are global social problems.

Globalization has often been what is called "book world" where mankind can write the most interesting episode in her life. It is therefore among the most important social changes facing the world today. Many of today's fundamental issues, such as organic, to avoid a military confrontation or global fight against terrorism are of global importance.

The study of globalization has assumed the character of fundamental research as a comprehensive investigation, multidisciplinary nature and human society, aiming to solve global issues vital to the conservation and sustainable development of our appliances.

Starting from the fact that globalization is stateless, it borders the designers get to our planet or its synthetic components - regional - managing the process of globalization is in fact our entire planet heritage management. It is therefore necessary to adopt coercive measures gradually, starting with protecting natural resources to establish the rules of economic and financial policy in the military field, research cosmos, etc..

Globalization and the introduction of market economy countries in the process of transition from a command economy to an invisible hand regulating the economic and social activity on the principle of efficiency has not produced the expected results. We believe that a rapid transition to market economy standard of living and prosperity will grow rapidly. Instead of the expected growth, poverty has increased - for many people the market economy creates greater restrictions than the command economy. This was possible to transition process by using shock-type therapies, which have forced a number of developing countries to open trade barriers, while developed countries have maintained for certain categories of goods and services could compete - thus preventing the former socialist states able to export agricultural products, depriving them thus the income of which were desperately needed.

To go beyond the old order, globalization is a tendency to reorder the world [8].

Currently, exploitation of natural resources is an important component of globalization, and in some respects failures in developing countries rich in resources are

representative of the failures of globalization [9]. West depends heavily on natural resources that it receives from developing countries and their motivations do not always coincide with the welfare of developing countries. However, for globalization to deliver good results long term, developing countries and their citizens should receive more favorable conditions.

If the benefits of globalization in many instances were small, Price Is I paid was much higher social costs are, in some cases, huge, natural environment, pollute, and too fast pace of change has not allowed countries to adapt to new system values.

But fortunately, there are successes that entitle us to be optimistic about the functioning of globalization.

## Bibliography

- [1] Marieta, OLARU Vasile Dinu, Ghiorghita, Stoleriu, Diana Sandru, Violeta, DINCA, commercial activity responsible for SMEs and sustainable development in terms of specific values of the European model of excellence, AE Magazine, ASE Publishing House, ISSN 1582 - 9146, Vol XII, no. 27 February 2010.
- [2] [www.euractiv.ro/uniuneauropeana/articole/displayArticle/articleID\\_12577/Politice-Uniunii-Europene](http://www.euractiv.ro/uniuneauropeana/articole/displayArticle/articleID_12577/Politice-Uniunii-Europene), last accessed 02/10/2010
- [3] [www.inforegio.ro/index.php?page=ABOUT\\_ROP\\_WHAT\\_IS](http://www.inforegio.ro/index.php?page=ABOUT_ROP_WHAT_IS), last accessed 04/04/2010
- [4] Isabella 5-Cristian Sima, Camelia, Aurelia Marin, The Social and of the economic Effects of World Financial Crisis on Eurozone, The Knowledge Based Organization, Land Forces Academy Publishing House, pp 341-344, 26 to 28 November 2009, Sibiu, ISSN 1843 - 6722.
- [5] Marin Dinu, Globalization and its approximation, Publishing House, Bucharest, 2004.
- [6] Dumitrache, CARACOTA Constantin Razvan, CARACOTA, contemporary dimensions of sustainable development and competitive (course notes), cap.7, subchapter. 7.1.
- [7] Marin Dinu, Globalization and its approximation Publishing House, Bucharest, 2004.
- [8] Marin Dinu, the world itself \*. Open reading of global transition, Theoretical and Applied Economics Volume XVII (2010), No. 1 (46), p. 74.
- [9] Joseph Stiglitz, globalization mechanisms, Polirom, Bucharest, 2008.

## The Analysis of Labour Regional Imbalance in Romania

NEGOTEI Ioana-Alina

BALABAN Georgiana

*The Bucharest Academy of Economic Studies*

*gina.balaban@gmail.com*

*ioanaalinanegotei@gmail.com*

### Abstract

*The paper analyses the directions of inter-regional migration in Romania in the years 2000-2007, taking into account the influence of economic factors on migration flows as gross wage, GDP per capita and regional unemployment rates. The influence of these factors can be justified in such a way that migrants move from poorer regions to richer ones, in search of better living conditions. Econometric model developed in this paper show that getting a higher salary was in the analysed period a significant factor for migration inflow. Following the results we conclude that regional imbalances in the Romanian labour market leads to a deepening of regional disparities.*

**Keywords:** inter-regional migration, labour market, regional imbalances.

**JEL Classification:** J61, J68

### 1. Introducere

Migration is not a recent phenomenon, but is a permanent one, that has occurred all over the history of mankind, most countries of the world are increasingly affected by international migration: either as senders of emigrants, receivers of immigrants, or in many cases as both.

The most studies on international migration focus on the national level, while impact assessments at local or regional scales are rather rare, an overview in Gorter (1998); and more recently Nathan (2008) on the local impacts in the UK; and Partridge (2008) and Chappell(2009) on outcomes in rural America and rural UK). The predominantly national focus is intriguing as most problems –but also opportunities-associated with international

migration are experienced at local or regional level.

To migrate or not, is determined by a number of factors, that can be different, from economical aspects to personal or even political aspects. One's decision to migrate or not is due to the difference which can be viewed as the result of gains or costs that migration involve. While the gains are usually more easily to work out, the costs contain some elements that are hard to quantify, having a high subjectivity element.

In order to take the decision of migrating or not, one should take into account the next elements: direct costs (for instance the cost related to transport), the lost gains and the psychological costs (usually related to the loss of friends and loneliness). The family concept can be important in taking a decision because migration costs for a whole family is faraway more expensive than those for a single person (McConnell& Brue1995).

An important factor in taking or not this decision is represented by the person preparation level. Specialist showed that there is a strong connection between one's preparation level and the migration probability. This result is due to the fact that the persons with a high preparation level are more efficient in identifying the alternatives on the labour market, in this way the migration costs being reduced.

Internal migration means people moving between various places in the same country, which leads to permanent or longlasting changes in their place of residence (Holzer, 1994), a significant element of internal migration is inter-regional migration, which consists in people moving from one region to other. One important aspect of migration is labour force migration for occupational reasons, people aim at getting better access to the labour market, higher wages or better conditions for starting up their own businesses



compared with their previous regions of residence.

The purpose of the analyses undertaken in this paper is to determine the directions of inter-regional migration in Romania in the years 2000-2007, pointing the major factors that cause her, and to observe how inter-regional migration can influence regional imbalances.

Analysing the determinants of inter-regional migration I take into consideration macroeconomic variables as: relative gross wage, relative per capital GDP and regional unemployment rates.

E. Kwiatkowski, L. Kucharski, T. Tokarski (2004) consider that, the influence of these factors can be justified in such a way that migrants move from poorer regions to richer ones, in search of better living conditions. The variation of regional unemployment rates can affect inter-regional migration in a similar way, because some migration are dependent upon the situation on the labour market. In the regions whose unemployment rates are high, the migration outflows should also be comparatively high. This happens because, after losing hope of finding a job in their resident region, some jobseekers start to look for a job in other region, which should translate itself into streams of inter-regional migration.

## 2. Model

Studying the influence of economic factors on migration flow, according to the study of Tomasz Tokarski, we have estimated the parameters of equation using fixed effects method estimation:

$$mn_{i,t} = k_0 + k_1 \frac{y_{i,t}}{\bar{y}_t} + k_2 (u_{i,t} - \bar{u}_t)$$

where:

$mn_{i,t}$  =  $mi_{i,t} - mo_{i,t}$ , - net migration inflow into region i in year t.  $mi_{i,t}$  - gross migration inflow into region i (i=1,2,..8) in year t (t= 2000,2001,...,2007 ) per 1.000 inhabitants of region i;

$mo_{i,t}$  - gross migration outflow from region i in year t per habitants of region i;

$\frac{y_{i,t}}{\bar{y}_t}$  - ratio of variable y in region i in year t over the average value of variable y in year t. Variable y is respectively gross wage or GDP per capita.

$(u_{i,t} - \bar{u}_t)$ -difference between the unemployment rate of the i region and the average unemployment rate of Romania in year t.

$en_{i,t}$ -error terms assumed to be white noise  
 $k_0$  -intercept devoid of direct economic interpretation.

$k_1$  - show the extent to which net migration change due to the changed variable y from de average value

$k_2$ - show the extent to which net migration change due to an increase in the difference between the unemployment rate in a given region and the national average.

### 2.1. Data

The data for our empirical analysis is obtained from the National Institute of Statistics and has annual frequency, it is used series that are both time series and cross-sections type series; analyzed period time is 2000-2007, cross sections refers to the eight development regions in which our country is divided.

### 2.2. Empirical results

Applied the unit root test for the time series used in model estimation, we found that time series are non-stationary; data series become stationary ones by applying first order module differences, so we test the relationship between the intensity processes. The results are:

**If GDP per capita plays the role of y variable we have:**

$$N\_NE = -1.1612 - 3.3371 + 19.4888 * P\_NE - 0.1554 * S\_NE$$

$$N\_SE = -1.3861 - 3.3371 + 19.4888 * P\_SE - 0.1554 * S\_SE$$

$$N\_SM = -0.9009 - 3.3371 + 19.4888 * P\_SM - 0.1554 * S\_SM$$

$$N\_SV = -1.3733 - 3.3371 + 19.4888 * P\_SV - 0.1554 * S\_SV$$

$$N\_VE = -1.8186 - 3.3371 + 19.4888 * P\_VE - 0.1554 * S\_VE$$

$$N\_NV = -0.9327 - 3.3371 + 19.4888 * P\_NV - 0.1554 * S\_NV$$

$$N\_CE = 8.1042 - 3.3371 + 19.4888 * P\_CE - 0.1554 * S\_CE$$

$$N_{BI} = -0.5311 - 3.3371 + 19.4888 * P_{BI} - 0.1554 * S_{BI}$$

Akaike info criterion = 6.87

Schwarz criterion = 6.97

F-statistic = 11.25

Durbin-Watson = 2.28

**Taking into consideration the influence of the gross wage we obtain:**

$$N_{NE} = -1.8148 - 4.1153 + 24.1366 * V_{NE} - 0.1556 * S_{NE}$$

$$N_{SE} = -1.1358 - 4.1153 + 24.1366 * V_{SE} - 0.1556 * S_{SE}$$

$$N_{SM} = -0.8998 - 4.1153 + 24.1366 * V_{SM} - 0.1556 * S_{SM}$$

$$N_{SV} = -1.3090 - 4.1153 + 24.1366 * V_{SV} - 0.1556 * S_{SV}$$

$$N_{VE} = -1.4727 - 4.1153 + 24.1366 * V_{VE} - 0.1556 * S_{VE}$$

$$N_{NV} = -0.9776 - 4.1153 + 24.1366 * V_{NV} - 0.1556 * S_{NV}$$

$$N_{CE} = 7.8907 - 4.1153 + 24.1366 * V_{CE} - 0.1556 * S_{CE}$$

$$N_{BI} = -0.2807 - 4.1153 + 24.1366 * V_{BI} - 0.1556 * S_{BI}$$

Akaike info criterion = 6.84

Schwarz criterion = 6.93

F-statistic = 13.46

Durbin-Watson = 2.24

Positive relationship between  $Y_{i,t}$  represented by the gross wage ( $k_1 = 24.13$ ) or GDP per capita ( $k_1 = 19.48$ ) and net migration flow show that as the value of  $y$  (gross wage or GDP per capita) in the region „i” is close to the average of the year, the entire flow will increase.

Concerning the influence of unemployment rate, the value of  $k_2$  close to 0 value ( $k_2 = -0.15$ ) shows that unemployment rate has no significant influence, negative value can denote the fact that, the more unemployment was higher than average unemployment rate the more outflow will increase, population tending to migrate to regions with a smaller unemployment rate;

Result of the econometric analysis shows that gross wage has a greater influence on net migration than GDP per capita. Labour force migrate from one region to another due to

difference of earning, getting a higher salary was a significant motivational factor.

For both type of models F-statistic and T-statistics shows that parameters are significant. We notice that  $R^2$  have small value which means that we face labour market rigidity.

The labor market is characterized by the fact that labor demand does not change equally with nominal wage changes, and any supply of employment does not evolve in relation to price and cost. The labor market in Romania is characterized by limited relevance of education to labor market requirements, few jobs, which is looking and well paid, and a large number of occupations with excess supply, a monopoly market consolidation of economic agents, high labor taxation, high administrative and legal barriers affecting the firms activity and thus the creating of new jobs.

Given that development region of Romania are large size, we can say that migration is a phenomenon that occurs especially intra-regional that inter-regional.

### 3.The effect of migration on convergence process

According to neoclassical models, wage and unemployment differentials are the driving forces for labour mobility. The liberalization of labour mobility between regions will trigger a reallocation of production factors among regions marked by disparities in labor market conditions. Labor will move from low-wage regions to high-wage areas. The reallocation of production factor leads to declining disparities in factor remuneration. According to traditional neoclassical approaches, there will be a migration equilibrium if no more wage disparities exist between any regions.

The opposite neoclassical framework literature suggests that migratory behavior and the migrant's characteristics are important in the convergence process. The exit of labor from poorer economies lowers gross fixed capital formation in such region.

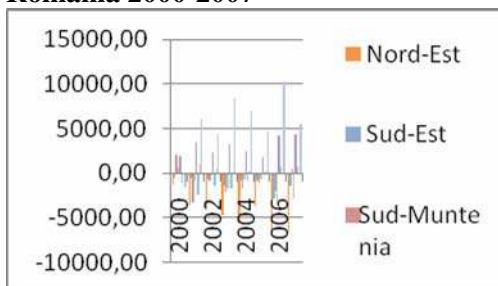
Peter Nijkamp (2009) support that are two major impact of labour market: the scale (size) and the composition effect. Migrants with higher human capital endowments are expected to search for job-opportunities over wider geographical areas and are clearly more mobile. Labour flow influence the human capital endowments. Flow of skilled labour can lead to an upward shift in the production of the recipient region. The skills of the migrants

determine what happens to the economic opportunities in a source region when a selected subsample of its population moves elsewhere.

The removal of regional disparities through migration and local labour market adjustment takes a long time that relying exclusively on this adjustment mechanism may lead to underutilization of resource in depressed region (Pissarides and McMaster, 1990).

Barro, and Sala-i-Martin (2004) suggest that the effect of migration on convergence between region is very small. Cardenas and Ponton (1995) reported a negligible impact of migration on income convergence in Colombia (1960-1980). Similarly, Gezici and Hewings (2004) find similar no effect of migration in reducing regional disparities in Turkey (1987-1997), but in contrast, Kirdar and Saracoglu (2008) detect a strong impact of migration on regional growth rates and on the speed of convergence in Turkey (1975-2000).

**Figure 1. Net inter-regional migration in Romania 2000-2007**

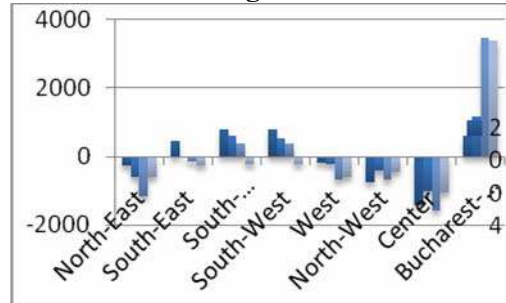


Own calculations using data from National Institute of Statistics.

We can notice that in the period 2000-2007, the region with highest net migration flow are develop region, characterized by a high GDP per capita and implicitly high level of wage, we refer to the region like Buchareast-Ilfov, West as we can observe from the figure 1., while the region with low net migration flow are less developed regions typified by large shares of the employed in agriculture (North-East, South-West)

Migration inflow was from poor and agricol regions to industrial ones, so we can say that migration process leads to deepening regional imbalances, because this lack of human resources will affect economic activity.

**Figure 2. External migration (2004-2007) Deviation from average**



Own calculation using data from National Institute of Statistics

In terms of external migration, regions with the largest negative deviation from the average outflow were North East and Centre regions also faced with strong intra-regional migration.

At national level, migration of people like researchers, doctors, engineers and other qualified persons are a significant problem, because there is a major loss for the country, regarding the potential intellectually, scientifically and economically it represents them, and the loss on investment in their education.

#### 4. Conclusions

The result of study shows that getting a higher salary was a significant motivational factor for migration inflow, according to neoclassical models, labor force follow the direction of moving from low-wage regions to high-wage areas, people left poor region like North-East, South-East, South-West, that was characterized by a large share of employment in agriculture and went to the developed regions as Bucharest-Ilfov and West, which have a large share of employment in trade, construction, industry (see appendix table 1) or migrate to other countries

During the analyzed period, migration process leads to deepening regional imbalances, because migration flows went to developed regions, especially in the capital of Romania which has become a polarizing zone, focusing the benefits; the less developed regions recorded losses due to the fact that the outflow of labour from poor economies

lowers gross fix capital formation in such regions.

## 5. Acknowledgements

This article is a result of the project POSDRU/6/1.5/S/11 „Doctoral Program and PhD Students in the education research and innovation triangle”(DOC-ECI) and POSDRU/88/1.5/S /55287 „Doctorat în economie la standardele Europei cunoașterii”(DoEsEC). This projects are co funded by European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies.

## 6. References

- [1]Barro R.J., Sala-i Martin X:“Economic Growth”. 2nd edition. MIT Press, Cambridge Mass, 2004
- [2]Cardenas M, Ponton A:“Growth and Convergence in Colombia: 1950-1990”, Journal of Development Economics, 1995
- [3]Ceren Ozgen, Peter Nijkamp și Jacques Poot, ”The effect of migration on income convergence: meta-analytic evidence”, Tinbergen Institute Discussion Paper, 2009
- [4] Chappell, L.,Lattore, M., Rutter, J. and Shah, J. “Migration and Rural Economies: Assessing and ddrressing Risks”, Institute for Public Policy Research, London, 2009
- [5]Eugeniusz Kwiatkowski, Leszek Kucharski, Tomasz Tokarski:”Regional economic and labour market performance and inter-regional labour market balance- the case of Poland”, Z.A.F. 4/2004 , pp.409-424.
- [6]Gezici F, Hewings G.J.D:“Regional Convergence and the Economic Performance of Peripheral Areas in Turkey,”Review of Urban and Regional Development Studies” 16 (2): 113-132, 2004
- [7]Gorter, C., P. Nijkamp and J. Poot, “Crossing Borders”, Aldershot, UK, 1998
- [8]Holzer J.,Pissarides CA, McMaster, “Regional Migration, Wages and Unemployment: Empirical Evidence and Implications for Policy”, Oxford Economic Papers, 42: 812-831, 1990
- [9]Karoly Fazenkas,”Low participation and regional inequalities - interrelated features of Hungarian labour market”, Z.A.F. 4/2004, p.375-392.
- [10] Kırdar MG, Saraçoğlu D.S.,”Migration and regional convergence: An empirical investigation for Turkey”Papers in Regional Science, 2008, 87 (4): 545-566.

[11] Nathan, M. “Your Place or Mine? The Local Economics of Migration” London: Institute for Public Policy Research,2008

[12] Per Thulin ”Labor mobility, knowledge diffusion and regional growth”, CESIS Electronic Paper Series.

## 7. Appendix:

**Table 1. Employment structure.**

2000-2007	Agriculture	Industry	
North -West	37.27	23.81	
Center	28.73	30.69	
North-East	34.35	15.33	
South-East	33.26	18.45	
Bucharest-Ilfov	5.27	24	
South-Muntenia	34.76	19.64	
South-West	35.88	16.58	
West	29.47	28.65	
2000-2007	Construction	Trade	Other
North -West	3.7	10.25	61.5
Center	4.22	11.81	43.6
North-East	2.94	7.05	55.2
South-East	4.75	8.76	41.9
Bucharest-Ilfov	9.13	17.03	38.9
South-Muntenia	3.16	7.5	52.4
South-West	3.56	7.08	64.0
West	4.55	12.02	83.3

Own calculation using data from National Institute of Statistics.

# Portuguese Regional Unemployment Patterns: A k-Means Cluster Analysis Approach

NUNES Alcina

BARROS Elisa

*Instituto Politécnico de Bragança*

[alcina@ipb.pt](mailto:alcina@ipb.pt)

[ebarros@ipb.pt](mailto:ebarros@ipb.pt)

## Abstract

*The k-means cluster analysis technique is an important ally in the study of economic patterns in a multivariate framework. Aware of its analytical importance this paper adopts such method of study to identify groups of Portuguese administrative regions that share similar patterns regarding the characteristics of unemployed registered individuals. The regional distribution of the unemployed individual characteristics is of core importance for the development of public policies directed to fight the unemployment phenomenon, especially in times of crisis. Preliminary results show a clear division of the territory into four regions – north and south and urban and rural areas - that stresses the importance of designing well-directed public labour policies.*

**Keywords:** regional unemployment, labour market, regional dissimilarities.

**JEL Classification:** J64

## 1. Introduction

A study of the regional dissimilarities in a labour market can not be limited by a simple descriptive analysis of the associated phenomena. It should establish standards for spatial comparison of the territories subject to analysis in order to develop public policies of both central and regional scope. These policies should be the most appropriate to fight the associated unemployment problems. The generation of employment public policies, used to fight the persistent phenomenon of unemployment, have deserved a particular attention in the Portuguese economy over the last decades, however, little is known about the profile of the registered unemployed individuals along the national administrative

regions. That knowledge is of crucial importance to develop public labour market policies specifically targeted to the regional unemployment profiles.

This type of analysis begins to be developed in some economies since it is believed to be of core importance for understanding the phenomenon of unemployment at the aggregate level. Moreover, according to authors like Marelli [4] economies that observe substantial changes in its GDP (a fast growth of the GDP levels, for example) do it at the expense of some regions over others. The consequence is the promotion of the observed regional disparities that could be observed, namely, throughout different profiles of regional unemployment. The so-called European Union enlargement countries had experienced this phenomenon which led to the production of various studies on the phenomenon of regional unemployment [1, 2 and 5].

In this research work, it will be aimed to bound regions of the country - using the district as the territorial unit - according to a specific profile of registered unemployment. So, it will be applied a classification analysis where the territorial units are grouped into classes, according to their similarities observed through the set of explanatory variables presented. The aim is to detect the presence of homogeneity among different districts based on a multivariate statistical method – the k-means clusters analysis methodology – for the year 2009. To reach the mentioned goal it will be taken into account a set of variables made public by the institution that administrates the registers of unemployed individuals in the Portuguese economy – the *Instituto de Emprego e Formação Profissional (IEFP)*.

The article is presented as follows. The next section presents a description of the registered unemployment rate in Portugal taking into

account a set of characteristics that describe the unemployed individuals registered in the national employment services. In Section 3, it is explained, briefly, the methodology selected for the empirical analysis presented in Section 4. This section presents and describes the results obtained there. Section 5 presents the average cluster unemployment profiles and section 6 concludes.

## 2. Registered unemployment data

The unemployed individuals registered in the Portuguese public employment services of the *IEFP* present a given set of distinctive characteristics that make each of them different from the others. Such features are related with the gender, age, formal education, unemployment spell and relation to a first or new employment. The data concerning these characteristics are openly available in a monthly period base. The data concerning the month of December collects information about the stock of registered unemployed individuals at the end of the respective year.

**Table 1. Description of the registered unemployed individuals in Portugal**

Characteristics		2009
Gender	Male	236.791
	Female	267.984
Age	<25 years	64.116
	25-34 years	119.441
	35-54 years	229.054
	>=55 years	92.164
Education	Less than 1° CB	27.408
	1° CB	142.665
	2° CB	96.529
	3° CB	99.976
	Secondary	94.442
Position relating labour market	Superior	43.755
	First Employment	37.556
Unemployment duration	New Employment	467.219
	Less than 1 year	329.358
	More than 1 year	175.417
<b>Total</b>		<b>504.775</b>

The registered values, here applied, were collected in December of each one of the referred years and represent the stock of register unemployed individuals in the public employment services during the year that did not found a formal employment or other solution to their lack of job problem.

## 3. Brief introduction to k-means cluster analysis

The seminal work of Tryon [7] introduced the cluster analysis. Such methodology is composed by a set of multivariate statistical methods that include different classification and optimization algorithms which intend to organize information concerning multiple variables and shape homogeneous groups.

In other words the *cluster* analysis develops tools and methods that, given a data matrix containing multivariate measurements on a large number of individuals (or objects), aim to build up some natural groups. The groups or *clusters* should be as homogeneous as possible and the differences among the various groups as large as possible. The *cluster* analysis does not make conjectures about the number of groups or its structures - the groups are based on the similarities among the groups characterized by different ways of calculating the "distance".

Being the adopted variables quantitative variables, the application of the Euclidian Distance method is advised [3]. The distance is defined as the square root of the sum of the squared differences between the values of  $i$  and  $j$  for all the selected variables ( $v = 1, 2, \dots, p$ ):

$$d_{ij} = \sqrt{\sum_{v=1}^p (X_{iv} - X_{jv})^2}$$

Besides the settlement of the distance among observations, computation method is still necessary to settle the computational method to calculate the distance among groups. Non-hierarchical methods choose in advance the  $k$  number of groups which will comprise all the observations. Then all the observations could be divided by the predefined  $k$  groups and the best partition of the  $n$  observations will be the one that optimizes the chosen criteria. One of the processes that could be applied is the k-means interactive partition method. The method follows the next steps: starts by dividing an initial partition of individuals by the number of clusters previously defined; computes for each cluster the respective centroid and the distances between each individual and the centroid of the various groups; transfers each individual to the cluster relatively to which presents the minor distance; re-computes the centroids of each cluster and repeats the previous steps until the moment each



individual belongs to a stable cluster and, therefore, it is not possible to carry out more individual transfers among cluster. The method presents the disadvantage of limiting the search for an optimal partition of individuals since it restricts the number of predefined clusters. Still, it has the advantage of defining the regions belonging to each cluster as well as the distance of each group.

#### 4. Empirical Application

The empirical application of the cluster analysis present in this research work follows the methodological steps suggested in the cluster analysis literature.

First of all the observations in analysis where selected. Considering the availability of the number of register unemployment individuals by municipalities, and its characterization throughout a range of distinct variables, was possible to aggregate the municipality observations by district - the object of study in this research work. Such geographical option is explained by administrative reasons concerning the political and social cohesion of these geographical areas.

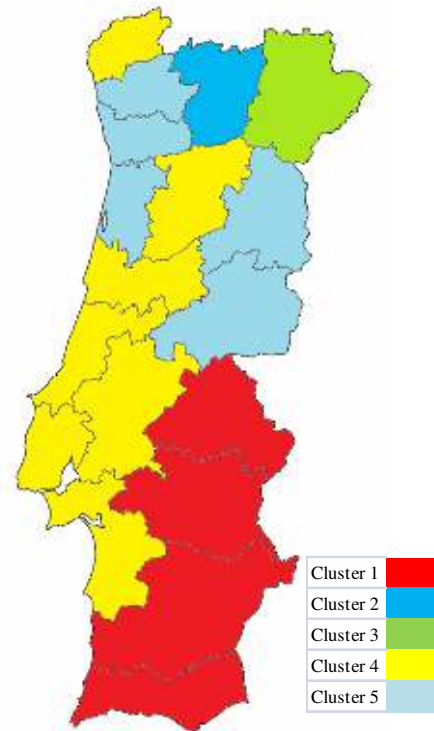
In a second step was made the selection of variables that offer the required information for the districts clustering. The selected variables comprise individual and labour characteristics. Regarding the individual characteristics is available information related to gender, age and education of the register unemployed individuals. Regarding labour characteristics is known the duration of the unemployment register period and the unemployed individual experience concerning the labour market (looking for a first employment *versus* looking for a new employment). Since the variables are defined in different measurement scales it was important to transform them in such a way that they could appear with the same standard measurement scale. This transformation avoids that some of the measures of similarity/distance reflect the weight of the variables with bigger absolute values and dispersion. In particular the standardization applied measures the relative weight of each variable in the total of the unemployed individuals register in the public employment offices, by district. This is, was computed the ratio of registered unemployed, by variable, regarding the total number of registered unemployed individuals.

This k-means algorithm assumes that the

number of groups (clusters) is previously known. However such assumption is rather unrealistic for most analysis problems since, normally, the data properties are not known. Thus the estimation of the number  $k$  of clusters is a frequent problem not only when applying the k-means algorithm but also other methods of clusters generation. In Stata, two testing methods for the optimum number of clusters were consider. Both Calinski-Harabasz pseudo F-test and Duda-Hart pseudo test point out for 5, 7 or more clusters. Following a parsimony rule, to avoid excessive information lost, the option was to divide the districts in 5 clusters.

The results for the 5-means methodology are presented in Figure 1.

**Figure 1. Spatial distribution of districts by cluster**



The analysis of the Portuguese territory allows concluding that exist a clear distinction between the north and south districts and between littoral (more urban) and inland (more rural) districts.

The visual results do not clarify, however, which is the mean profile of a registered unemployed individual. This mean profile was obtained through the estimation, in each cluster, of the mean values for the variables. The aim is to understand which variables better characterized the unemployed individual register in the public employment services of

each district.

The mean profiles of the registered unemployed individuals, for each cluster, are described in Table 2.

**Table 2. Average proportion of each variable, by cluster (%)**

Cluster		1	2	3	4	5
Gender	Male	48,6	47,0	43,2	47,4	44,7
	Female	51,4	53,0	56,8	52,6	55,3
Age	<25 years	16,4	15,7	15,2	13,1	13,4
	25-34 years	26,3	23,5	24,5	25,3	21,6
	35-54 years	41,8	43,9	41,9	43,7	45,2
	>=55 years	15,6	16,9	18,4	17,9	19,8
Education	Less than 1° CB	8,1	6,7	9,0	5,0	5,6
	1° CB	24,4	32,5	27,4	25,2	32,9
	2° CB	18,7	19,1	20,4	18,8	18,4
	3° CB	20,5	16,8	17,2	21,2	19,1
	Secondary	21,0	16,3	15,4	20,1	15,5
	Superior	7,3	8,7	10,6	9,6	8,5
Position in the labour market	First Employment	9,1	16,9	17,6	7,9	9,4
	New Employment	90,9	83,1	82,4	92,1	90,6
Unemployment duration	Less than 1 year	76,0	62,9	69,3	69,6	61,4
	More than 1 year	24,0	37,1	30,7	30,4	38,6

## 5. Cluster unemployment profiles

Cluster 1: *Beja, Évora, Faro* and *Portalegre*. This cluster is characterized by the fact that it is the one with the biggest proportion of unemployed men and young individuals with an age inferior to 34 years. Maybe due to the youth of its registered unemployed individuals it is the cluster with higher levels of formal education and lower duration spells. The national increase of the number of registered unemployed individuals should have had as consequence the increase of proportion of individuals looking for a new employment

after losing their ties with the formal labour market.

Cluster 2: *Vila Real*. The cluster presents specificities that transform the region in a particular one. It is the district with the bigger proportion of unemployed individuals with age between 25 and 34 years and the bigger proportion of unemployed individuals with the first basic schooling cycle. It is also one of the regions with the bigger proportion of individuals looking for a first employment but with unemployment spells bigger than 1 year.

Cluster 3: *Bragança*. Like the district of *Vila Real*, *Bragança* appears in 2009 with special features. The rise in the broad registered unemployment stressed the proportional number of unemployed women with age superior to 35 years. It is the region in which the proportion of those without any formal education is higher but it is also the region where it is possible to find the bigger proportion of registered individuals with an university formal education. In 2009 it is also possible to notice that *Bragança* becomes the district with the bigger proportion of individuals looking for a first employment most of them with unemployment duration spell lower than 1 year.

Cluster 4: *Coimbra, Leiria, Lisboa, Santarém, Setúbal, Viana do Castelo* and *Viseu*. This group includes the districts with the lower proportion of unemployed young individuals (those aged less than 25 years). With a close relation to the previous fact, it should be noticed that it is the cluster with the bigger proportion of unemployed individuals looking for a new employment. The cluster aggregates regions close to the littoral and in the centre of the country suggesting that the changes in the number of registered unemployed had similar consequences in the unemployment profile of this contiguous geographical region.

Cluster 5: *Aveiro, Braga, Castelo Branco, Guarda* and *Porto*. Even if the cluster geographical dispersion is large, the five districts share among themselves the following characteristics. In 2009 they lose, for the benefit of *Bragança*, the bigger proportion of unemployed women even if the difference between male and female unemployment is the biggest in the whole country. It is the cluster with the bigger proportion of registered individuals aged more than 55 years and also the one with lower levels of schooling among the unemployed population. Due to the previous characteristics it is not strange to



observe that this is the group of districts with the higher proportion of long duration unemployed individuals (individuals with unemployment spell longer than 1 year).

## 6. Final Remarks

From the results analysis the main conclusion to withdraw is that there is a clear distinction among different regions of the country. This is particularly true when we analyse the littoral and the inland regions and the north and the south of the country. It is possible to identify different unemployment regional profiles according to the geographical areas. Other studies, applying the same methodology here adopted, had reached the conclusion that the littoral regions present development features different from the ones that could be found in inland areas. Those studies have alerted that any regional development policy should pay attention to this reality [6]. The previous mentioned authors advise to the particular fact that any regional development policy should prevent the youth migration from the inland (rural areas) to the littoral (urban areas) throughout the creation of employment opportunities in the less development areas of the country. This research work stresses that conclusion and highlights this fact.

The second conclusion to withdraw is that there is a window of opportunities to implement different labour market public policies in the Portuguese territory. It was possible to find regions where the youth unemployment, the long-term unemployment

or the female unemployment are concentrated. There are also regions characterised by a registered unemployed population with low levels of formal education, without any previous connection to the labour market or, in opposition, with previous links to labour market experiences.

## 7. References

- [1] M. Arandarenko and M. Juvicic, „Regional Labour Market Differences in Serbia: Assessment and Policy Recommendations”, *The European Journal of Comparative Economics*, 4(2), 2007, pp. 299-317.
- [2] A. G. Babucea, “Using Cluster Analysis for Studying the Proximity of Registered Unemployment at the Level of Counties at the Beginning of the Economic Crisis”, *Annals of the “Constantin Brâncusi”, University of Târgu Jiu, Economic series*, Issue 1/2009
- [3] P. Giudici, and S. Figini, “Applied Data Mining for Business and Industry” (2nd Ed). London, John Wiley & Sons Ltd., 2009
- [4] E. Marelli, “Specialization and Convergence of European Regions”, *The European Journal of Comparative Economics*, 2, 2007, pp. 149-178.
- [5] D. Nadiya, “Econometric and Cluster Analysis of Potential and Regional Features of the Labor Market of Poland”, *Ekonomia*, 21, 2008, pp. 28-44.
- [6] J. O. Soares, M. M. L. Marques and C. M. F. Monteiro, „A Multivariate Methodology to Uncover Regional Disparities: A Contribution to Improve European Union and Governmental Decisions”, *European Journal of Operational Research*, 145, 2003, pp. 121-135.
- [7] R. C. Tryon, “Cluster Analysis”, New York, McGraw-Hill, 1939

## A Cost Benefit Analysis on Developments in the EU Regional Policy

ORAC Madalina  
STEFANICA Virginia  
DAMASARU Costin  
*Academy of Economic Studies*

### Abstract

*The measurement of the effects of regional policy basically means to compare costs with the results of these policies. The most often used indicator for this purpose is the number of jobs created on the basis of costs incurred in this respect, at regional level.*

*The cost of implementing a specific regional policy is already known by the government and can be easily quantified. Where regional policy expenditures are reflected in the classification of the work factor and in the substitution of companies' location, number of jobs directly created is also easy to estimate.*

*But reality shows that the effects of regional policies are more complex than those related to the number of new jobs created. Moreover, the initial costs of regional policy can have positive multiplying effects more difficult to quantify.*

**Key words:** cost benefit analysis, regional policy, European Union

**JEL classification:** O18, R1

### 1. Introduction

The requisite to implement a regional policy in the EU arguments is based on social, political and economic points of view. These arguments can be summarized as [1]:

- the inefficient spatial distribution of the income: there is an inverse connection between economic growth and inequality in income distribution. However, improving interpersonal income distribution may lead to a less efficient allocation of resources affecting the welfare level. For this reason, the argument of equity in income distribution has more a social than an economic connotation;

- the more easily adjustment of the economic structures to major changes or to

macroeconomic shocks: issues related to EU enlargement. Thus, a candidate state may face more serious problems after its accession to the EU, such as the increase of unemployment. Therefore, Member States may grant aid to the state that has just joined the Union to overcome these problems;

- the optimization of the allocation of the work factor and mitigation of unemployment: in areas where economic activity is insufficiently developed, the unemployment rate is high. Regional policy may contribute to economic development and to the reintegration of the employment factor underused, whilst ensuring its high mobility and activation costs lower than the benefits obtained from this reintegration.

Although regional policy is implemented at the EU Member States level, the need of a common regional policy is arising from:

- the need of greater resources for implementing an effective regional policy, resources that not all EU member states have. The financial argument is fairly correct. Greece, for example, had to spend in the '80 - '90 period, a much larger part of its GDP on state aid than the whole EU.

On the other hand, Greece and Ireland have allocated a much smaller part of their GDP on infrastructure and research - development compared to the other Member States [2].

- the reason that the settlement of regional problems in a state is also good for other Member States. This consideration is related to the fact that any EU Member State shall enjoy the same welfare benefits;

- the benefits of integration within U.E. requires an equitable distribution, which may be provided by the regional policy;

- the necessity to provide compensation for some Member States, which have suffered from implementation of other EU policies such as CAP, transport policy and research - development policy. This argument

is often linked to the need for regional transfers within the EU, especially towards the peripheral regions, which have suffered most.

Regional Policy U.E. is implemented based on the allocations from the Community budget and only in the designated areas within Member States. This implementation should be monitored at EU level since:

- the net funds donors for regional policy are seeking to ensure that these funds will be used to increase the economic potential of regions lagging behind. It is intended as a temporary support for the regions which have a lower competitive level;
- regional authorities of several EU Member States cannot be sure of the application of the most effective measures for the development of their countries. As a result, the European Commission becomes viable to solve this inconvenience;
- as regional policy measures in a Member State have an impact on other Member States, it is necessary to coordinate regional policies at the Community level;
- regional policy approach only at national level can lead to the emergence of a race between different locations to obtain subsidies as large as possible.

The main challenges which the European Union currently has to face refer to:

- globalization;
- economic restructuring;
- trade liberalization;
- technological revolution;
- population ageing;
- labor migration;
- slow pace of economic growth;
- rise of unemployment in the global crisis context.

## 2. Cost – Benefit Analysis

Cost – benefit analysis at the regional policy level was introduced by Armstrong and Taylor [4], as highlighted in Table 1.

The first benefit (B1) is the result of regional expenditure policy. These costs have two categories of effects: the direct ones, linked to the level of economic activity in developed regions and, secondary, indirect, which takes the form of a benefic multiplying influence at regional level. Regional economic multiplier value is crucial in determining the actual costs of expenditure policies. The

greater the value of the multiplier will be the greater will be the overall positive effect of regional expenditure policy. If the regional expenditure policy is successful, it will have the effect of reducing interregional differences related to employment opportunities and income levels.

As a consequence, the benefits B2 and B3 will also be achieved due to the reduction of interregional migration. Where employment opportunities and incomes are higher, more and more immigrants will arrive from less developed regions. Migration imposes costs for both immigrant (private costs of migrants) and society (social costs of migration). A decrease of interregional migration flows will result in a reduction of migration costs at private and social level. Private costs are the financial ones (related to moving the house) and those related to leaving social environment (family and friends). Social costs of migration concerns the construction of more housing, schools, hospitals in a given region.

The following benefit (B4) of the regional policy arises from a spatial distribution of the negative externalities, e.g. pollution. If pollution is considered to have a cumulative effect on the environment, then it will be pursued the reduction of the concentration of polluting firms in a given area.

The B5 benefit refers to the fact that regional policy reduces the expansion of the differences in income and of its distribution. Concentration of revenue from the economic activities in a spatial subsection of economy is not fair. Therefore, the presence of policies such as progressive income taxes will have a benefic effect on mitigating inter-regional differences.

But inter-regional differences in income levels may reveal other sources of spatial inequality such as differences in regional access to better paid jobs, education or health care.

Finally, an active regional policy also allows the achievement of political benefits (B6). Interregional differences lead to a political cohesion of the whole nation. Thus, in Italy, Northern Areas have politically allied in the early '90s, as a result of higher fees they are required to pay to support the development of southern regions.

**Table 1:** The main costs and social benefits of regional policies

Benefits (B)		Costs (C)	
B1	The degree of employment factor, production and additional income achieved from increased economic activities;	C1	Loss of production, income and labor factor due to the diversification of conventional resources that are now used;
B2	Decreased number of migrants, which leads to reduced costs in public sector for services and infrastructure implementation;	C2	Infrastructure costs resulting from the effects of regional policy on development of economic activities;
B3	Decreased number of migrants, which leads to reduced private costs of migration;	C3	The costs of moving the production capacities to a new location;
B4	Decreased externalities;	C4	Increased externalities (e.g.: environmental protection);
B5	Fair benefits;	C5	Administrative costs;
B6	Political benefits.	C6	Political costs.

Therefore, national economic unit will contribute to a political unit. Thus, regional politics will get political benefits, as well as economic and social ones.

Often, regional policies lead to the employment of resources that, until then, were never used. In such cases, additional economic activity that will occur will not be independent from political intervention. Creating these additional economic activities leads to the achievement of some economic and social benefits with very low costs.

If the resources are drawn from an economic activity to another, regional policy will invoke a certain opportunity cost (C1). Political benefit will appear as the net benefit due to the increased economic activity, as a result of redirecting the resources from less productive activities to the most productive ones.

When regional policy is aimed at transferring resources from productive

activities to the least productive, the society will bear a net cost that will exceed the benefits obtained.

The second category of costs identified in the table (C2), are those associated to infrastructure elements. Thus, in predominantly rural areas infrastructure elements such as proper roads, are not sufficient, while, in industrial areas, raise the question of the road relocation to optimize access. The relocation involves additional items of expenditure. These costs include labor factor moving costs in the new locations of production capacity (C3) and not in all cases they are covered by governmental funds. In addition, there are costs related to the attraction of labor force necessary to replace workers who do not want to change their jobs, and expenditure on construction of new buildings and modernization of related. All the relocation costs are associated with a regional policy.

The fourth category of costs (C4) draw attention to the potential impact of regional policy on the environment for the benefit of the region analyzed. These costs should be reduced where relocation causes extensive retooling of existing industrial capabilities.

Cost category (C5) are those related to administrative costs associated with implementing regional policies. The absence of these policies implies the lack of such costs.

Finally there appear the political costs (C6) related to active regional policies, as in regions of northern Italy, previously analyzed. In general, regional political costs may be attractive to those who vote (voters) in areas covered by these policy measures.

All these elements show that regional policy is not implemented at low cost. It is therefore important to create additional economic activity instead of diversifying the existing ones, and money spent should allow the maximization of the benefits available to the region concerned.

### 3. Conclusions

A first conclusion that should be drawn concerns the increasing interregional disparities that will be generated by lower living standards in disadvantaged areas, and the tilt of balance of regional effectiveness towards the more developed areas.

The present paper aims to address various aspects of the regional disparities

issues and how to implement regional policy in the EU.

The implementation process of regional policy is based on cost benefit analysis as a key element for achieving sustainable economic development.

#### 4. References

[1] Temple M., *Regional Economics*, St. Martin's Press, New York, 1994

[2] Martin R., *The Regional Dimension in European Public Policy*, Macmillan, Basingstoke, 1999.

[3] Weise C., *EU-Politik zur Steigerung regionaler Wettbewerbsfähigkeit*, Vierteljahreshefte zur Wirtschaftsforschung, vol. 64, no.2, 1995.

[4] Armstrong H., Taylor J., *Regional Economics and Policy*, Blackwell, 2<sup>nd</sup> edn., 2000

## The Importance of Intangible Resources in Regional Developing: human capital, social capital

POPA Florina  
Institutul de Economie Națională  
florinacarina@yahoo.com

### Abstract

*A region's competitiveness is the product of its creative, attractive and maintenance activities which may increase its influence, assuming that for a sustainable economic development there are needed both the existence of resources and the implementation of some policies conducive to growth, employment and stability.*

*The study focuses on the importance of intangible resources highlighting – human capital, social capital, the relationships they create within the region and the influence they have on whole region's development.*

*The human capital constitutes a central element of the development's endogenous resources; the functioning of human resources is a basic element of performance to any organization. Skill level is part of the competition between firms, so human resources become a central factor in achieving competitiveness, also taking into account the new opportunities offered by technology.*

*The social capital - also a key factor in the development of the region, represents the relations of authority, trust and norms of reciprocity which develops in the organizational, institutional and social framework, within the individuals do their activities. The term of social capital can be understood as a product of the interaction between institutions (formal or informal) and labor processes in a society that can be exogenously or endogenously determined.*

**Key words:** regional development, competitiveness, intangible resources, human capital, social capital.

**JEL Classification:** R – R0; R1 – R11; R5 – R58

### 1.1. Introduction

Competitiveness depends on achieving the most valuable and distinctive goods, requiring the initiative and strenuous efforts of the participants, their representation in the modern economy being given by knowledge, skill and creativity, values which ensures priority in competition (as opposed to traditional factors - land and natural resources) .

Within a region, competitiveness expresses the product of its creative, attractive and maintenance activities, which may increase its influence. For a sustainable regional development, policies are needed to create national favorable conditions and to lead to growth, occupation and stability. A region can be considered competitive if it has resources and it has useful features for the business which should motivate its location and investment decisions.

Among the conditions of interest for localization of companies and thus, important for successful regions are also the intangible factors of competitiveness. These include the ability of regional economy to generate and use knowledge and to give priority to innovation, to encourage entrepreneurship and creation of cooperation networks. These are factors to be integrated within the area development strategy; each one has to find an appropriate policy, according to its own economic, social, cultural and institutional characteristics.

Theories of endogenous economic growth stress the importance of intangible resources for competitiveness: human capital, technological capacity and innovation, social capital (networks, relationships between firms, between firms and institutions, between individuals and firms).

The economic performance assessment of a region takes into account the dynamic

development of its resources, the pace at which they develop and combine to produce competitive advantages, taking into account the economic, social and territorial characteristics.

Intangible assets such as human capital, social capital are in the interaction, allowing for development in a mutual way.

## 1.2. The Human Capital

It constitutes a central element of the development's endogenous resources; the human resources cause the economic growth and are also a result of this.

The functioning of human resources is a basic element of performance to any organization and the human resources management must be an integral part of corporate strategy and not merely a functional strategy. Skill level is part of the competition between firms, so human resources become a central factor in achieving competitiveness, also taking into account the new opportunities offered by technology.

The correlation of human capital with technology development is motivated by the fact that both are formed through education and based upon the investments made in research. The concentration of associate enterprises in an urban environment confers them the advantage of using a well-qualified workforce and access to experts' services.

The difficulty of verifying the relationship between human capital and development lies both in the mobility of human resources in the local systems and the impossibility of a statistical measurement of human capital and regional comparisons.

While tangible assets dynamics can be quantified more easily, the time change of the capital being expressed by quantitative additions, the intangible aspect of the assets is more complex, and measurement is more difficult.

As for human capital, the assessment of intellectual capacity or the ability to adapt to changes has drawbacks; the human dexterity, intelligence and culture through which human capital manifests develops over time and the measurement of the processes is more difficult, development being not constant. Intangible human capital stock assessment involves analysis of local history and of the cultural and social framework. On the one hand, human

resources have a high mobility from one region to another, due to the salary opportunities and, on the other hand, they are related to the development degree of the region: the workers' knowledge and skill level depend on local conditions which were created, on investments in education (conditioned by the level of development), the renewal capacity of local entrepreneurial resources, economic relations between local actors, also influenced by current social model.

The attempt to assess human capital considers a number of its measurable issues that shape some characteristics which may have implications upon the socio-economic system and it can represent resources or constraints, depending on the area.

● **Education.** Human capital represented by a higher level of formal education can be a competitive advantage in urban centers, but in other areas formal education does not have the same consequences and may even be a constraint. A greater welfare level can provide more advanced studies and it is associated with a higher level of employment. In areas where small production firms prevail, average education level is lower, the training is informal (at workplace), the employment level being based on this criterion.

At national level, such an intangible asset may be an economic advantage for a country or a disadvantage to another, depending on the conditions of each country. Thus, the knowledge of a particular technology can become a competitive advantage if it is useful for the existing production system and there are skilled human resources, or it may be a constraint, if the new technology does not correspond to the productive system or to the local traditions. As such, economic performance and competitiveness of a country depend on tangible and intangible assets it possesses and which enable its adaptation to changes. In assessing the level of human capital according to the education level, it should also be noted that not all the basic knowledge acquired through the education system becomes resources for growth and development, but only part of it is an advantage to companies and regions.

● **Family relationships** are correlated with the level of employment in an area. Extended families, with strong links, represent a main input channel on the labor market, without

being a determinant factor of the employment level.

- **Entrepreneurial ability** has a significant role, being in a directly proportional relationship to the employment level, especially in industry and not in services.

- **Organization of production - social capital** has importance in areas with a high level of specialization and density of relations between firms, having higher employment levels and a higher gross domestic product. Larger cities are open economic systems, developing relations with the rest of the region and beyond. Networks are more extensive than small business systems, which may constitute a guarantee for continuity in their performance over time.

### 1.3. Social Capital

The organizational, institutional and social context, in which individuals operate, condition and determine their choices in developing relationships that serve their interests. These relations of authority, trust and norms of reciprocity represent the social capital - also a key factor in the development of the region.

Viewed from the angle of individual, the social capital is "the set of relational resources which, in part, an individual inherits and largely builds them by himself within the family and other social circles".<sup>1</sup> From the collective perspective, it is a set of "structural and regulatory features of a given social system: organizations, rules, institutions, etc."<sup>2</sup>

The term of social capital can be understood as a product of the interaction between institutions and labor processes in a society that can be exogenously or endogenously determined. Institutions can be formal, such as the government and the legal system, regarded as having an exogenous origin, or informal, such as rules of conduct, related to culture, essential for social interaction within the community.

---

<sup>1</sup> Lorenzo Bacci, in "The Intangible Determinants of Competitiveness and their Measurement: The Case of Regional Analysis", WP3 Unit PRISM Project, 2003, [www.en.intangibles.net](http://www.en.intangibles.net), he quotes Picelli, 1991.

<sup>2</sup> Idem 1.

The qualification of the workers, the ability to learn and adapt their knowledge to new information, formal and informal set of relationships that contribute to regional economic performance, also represent the social capital of the region.

As such, the human capital, as endogenous resource, it is considered within the context of relations between elements of the system, which can increase or diminish its potential in the region.

The main influence factors involved in the development of social capital are networks and creativity.

- **The networks** include links which are created among businesses, government, universities, research institutions, development agencies, telecommunications and other technological networks, inter- and intra-company networks, various forms of community networks regarding individual citizens. As a result of trust and effective communication, the networks allow individuals and organizations to reduce the cost of transactions. The network effects are felt by increasing benefits for its members, as a consequence of increased network size. Thus, generating increased revenue, networks help to stimulate endogenous processes that lead to social capital formation. Negative consequences may occur, as a result of practices that impede innovation or change.

- **Creativity** includes both appearance of new ideas, projects, inventions, discoveries and ongoing adaptation or application of ideas and technologies in new ways. This leads to development of social capital provided that it involves a cooperative or complementary effort.

Creativity can thrive in an open, tolerant environment, where creative tension is manifested, as well as contrasting ideas that are submitted to a continuous attention. Manifested in various areas, creativity helps to contribute to the stimulation of cities' economic development, and to the economic success of nations.

Networks and creativity generates endogenous effects by the means of new ideas and higher incomes, increasing the social capital, which also means innovation growth.

The innovative environment expresses a distinctive feature on regional level and it refers to the ability of a community to generate ideas or to apply the existing ones. Since



innovation is related to the work process, knowledge and experience have significant importance in the context. Spreading of knowledge through networking and cooperation, promotes the emergence of a creative environment, which contributes to strengthening of the link among networks, creativity, social capital and innovation.

The social capital dependant innovative environment contributes to the competitiveness of the region, if it develops a good location for innovation and it has a positive reputation in this respect.

Depending on the size of the urban area and business diversity, specialization opportunities arise, as well as establishment of contacts between companies, encouragement of personal relationships and information sharing, all these factors being favorable for diffusion of innovations. A highly qualified staff is an important resource for companies and their location in an area where opportunities for good employment are combined with a high living standard represents an asset to that area.

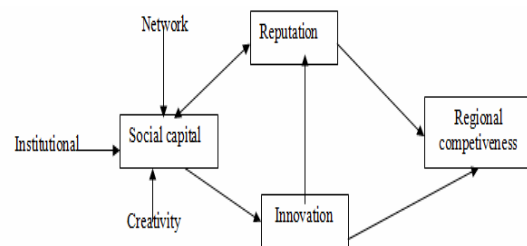
Innovation represents a priority, regional competitiveness being dependant upon productivity and market availability, on the skill level of labor force and institutional factors, namely, social capital endowment by the means of entrepreneurial culture that encourages cooperation and initiative. There should be an emphasis on high-tech research development, increased investment in research and development and on intellectual property rights.

The formation of reputation, crucial for the competitiveness of the region, is necessary for achieving benefits within the innovative environment, and as it has been commented, the latter one is consolidated by social capital.

It is characteristic that the establishment of good reputation requires long time, it builds itself on past achievements, which are reflected in its current status and it consolidates on continuous success; there is a chain of dependencies in which a sequence of present events is based on particular past elements. For example, a region whose reputation has been affected by a damaging legacy of the past, it hardly leaves this condition, even if new contradictory evidence appears. Therefore, in order to have an increased regional competitiveness, building of a reputation is complementary to creating innovation.

Thus, we can say that networks and creativity can accelerate the appearance of the social capital which, in turn, creates an endogenous change that leads to innovation, reputation and regional competitiveness, according to the diagram below:

Figure 1. The relationships among networks, creativity and social capital.



**Source:** Andrew Harrison, “Social Capital as a Determinant of Regional Competitiveness”, [www.3ekftuke.sk](http://www.3ekftuke.sk)

**In conclusion,** the analysis of the influence which the intangible resources have in regional development takes into account some observations such as:

The common element of the intangible resources is knowledge created by human mind, and as such, directly related to human capital; the knowledge communication occurs through interactions between individuals, so innovation occurs only if human capital and social capital are present (relationships, trust, behavioral norms and rules which guide the interactions among individuals). The consequence is that intangible resources are complementary.

The intangible assets can be resources for some areas, or constraints for others, caused by socio-economic characteristics of the local system.

#### 1.4. References

[1]Andrew Harrison, “Social Capital as a Determinant of Regional Competitiveness”, [www.3ekftuke.sk](http://www.3ekftuke.sk);

[2]Comisia Europeană, Inforegio, “Un nou parteneriat pentru coeziune. Convergență competitivitate cooperare”. Al treilea raport de coeziune economică și socială, Partea I - Coeziune, competitivitate, ocupare și creștere – Analiză și prognoze, Comisia Europeană, Belgia, 2004, [www.ec.europa.eu](http://www.ec.europa.eu);

[3]Larry Dwyer, Chulwon Kim, “Destination Competitiveness. Determinants and Indicators”,

Current Issues in Tourism, Volume 6, Issue 5, Routledge, 2003, [www.multilingual.matters.net](http://www.multilingual.matters.net);

[4]Lorenzo Bacci, “The Intangible Determinants of Competitiveness and their Measurement: The Case of Regional Analysis”, WP3 Unit PRISM Project, 2003, [www.en.intangibles.net](http://www.en.intangibles.net);

[5]Thimothy Edmonds, Tim Jarvis, Stephen McGiness, “Regional Competitiveness & The Role of the Knowledge Economy”, House of Commons

Library, Derby Gate, London, 2000, [www.parliament.uk](http://www.parliament.uk);

[6]\*\*\* “Competitivitate versus dezvoltare regională – ce primează în strategia de coeziune economică și socială pentru 2007-2013?”, EurActiv, 2008, [www.euroactiv.ro](http://www.euroactiv.ro);

[7]\*\*\*“Regional Competitiveness”, 2007, [www.portofolio.pilotturku.com](http://www.portofolio.pilotturku.com)

## Green Certificates – An Incentive For Investors

RISTEA Luminița  
CEAUȘESCU Andreea  
CEAUȘESCU Leonardo Petre  
*Universitatea Spiru Haret*  
*Universitatea Creștină Dimitrie Cantemir*  
*National Bars Association*  
*Constanța Bar*  
*luminita.ristea@crgnexus.ro*  
*leonardo.ceausescu@avocatceausescu.ro*

### Abstract

*In a global economy, the energetic strategy of a country is realized taken into account every change or evolution in the world. Countries, as China or India, or countries with economies in transition put a higher pressure on the supplied quantity of energy, due to their economic growth and/or economic structure change. In fact, between 1994-2004, these countries doubled their request for oil, and in 2006, their request was over 20 mil. Barils per day, which is about 40% of the global oil production.*

*The forecast shows that in 2030, it is quite possible that they will double again their oil needs, which will be over the actual, know oil reserves of the Planet.*

*In this situation it is a must to reorient the energy policy of all countries, in such a way that they will take into consideration the renewable energy sources and improve their energy efficiency. Romania has made its first step by entering in the green certificates programme in 2005 and has as objective to reach at a level of green energy production of 38% of gross internal consumption.*

**Keywords:** green certificates, electricity market, renewable resources

**JEL Classification:** Q27, Q28, Q40, Q43

### 1. Introduction

In a global economy, the energetic strategy of a country is realized taken into account every change or evolution in the world. Countries, as China or India, or countries with economies in transition put a higher pressure on the supplied quantity of energy, due to their economic

growth and/or economic structure change. In fact, between 1994-2004, these countries doubled their request for oil, and in 2006, their request was over 20 mil. Barils per day, which is about 40% of the global oil production.

The forecast shows that in 2030, it is quite possible that they will double again their oil needs, which will be over the actual, know oil reserves of the Planet. In this situation it is a must to reorient the energy policy of all countries, in such a way that they will take into consideration the renewable energy sources and improve their energy efficiency.

### 2. Green Certificates System

The main objective of a system of tradable green certificates is to stimulate the penetration of green electricity into the electricity market and to promote renewable generation. In a green certificate system, certification serves two purposes. It functions as an accounting system to verify whether the obligations have been met and it facilitates trade in electricity from renewable energy sources. Thus, through the establishment of a green certificate system a separate market for renewable electricity will originate besides the market for conventionally produced electricity.

Green certificates are created by the producers of electricity. Producers receive a certificate for each pre-defined unit of electricity produced from renewable energy sources that is put on the grid. Consumers of electricity are allotted with targets for the consumption or sale of electricity from renewable sources. In order to show that they meet their targets, these consumers have to hand over certificates at a given point in time. Penalties are set if they are not able to fulfill their obligations. Therefore, consumers have an incentive to buy certificates from the

producers and the certificates become valuable. It is expected that competition between producers and increasing supply of green certificates will lead to a decline in the price of electricity from renewable sources. In this respect, the green certificate system is considered as a cost effective way to meet the renewable energy target.

Consumers will pay a price for the certificates in order to meet their target. The price will depend on the market, i.e. on demand (that is fixed by the target) and supply. With low supply of green certificates, price will be high, which will be an incentive for new producers to provide renewable electricity. Moreover, in theory renewable energy will be provided in an efficient way because those producers who can provide renewable electricity at the lowest price will be able to sell their labels.

It is expected that both a spot market and a forward market will develop for green certificates. On the spot market, consumers or supply companies will trade green certificates that have been issued in the past. This market will be used to buy certificates to fulfill their obligation. On the forward market consumers or supply companies can negotiate about long-term contracts i.e. they trade in green certificates that will be issued in the future. The forward market will be used to hedge for price risks, therefore securing investments into renewable electricity projects.

### 3. Green Certificate System in Romania

Romania got involved in promoting the use of renewable resources for the electrical energy supply and its first step in this way was to adapt the provisions of the EU Directive 77/2001 regarding the promotion of production of electricity from renewable energy sources on the internal market to the internal specific conditions. It also establishes the promotion system for the electricity produced from renewable energy sources.

Currently Romanian produces energy from renewable sources as follow:

- 25 - 30 % of generation is from hydro sources, depending on the hydrological factors;
- about 95 % of hydro generation is in large hydro power plants and only 5 % in small hydro;
- wind generation is under 1 % of total production.

Romania uses a green certificate system with mandatory quotas for suppliers. In this system, a green certificate is a document proving that 1 MWh electricity is produced from RES and supplied into the grid.

This type of system has advantages and disadvantages. The main advantages are:

- good control of the share of green electricity in final consumption;
- equitable share of promotion costs between captive and eligible customers;
- possible future integration in a European wide Green Certificates Market;
- and the disadvantages:
- not very attractive for investors;
- complicate penalizing system.

The RES-E producers may sell the green certificate within bilateral contracts to electricity suppliers at negotiated prices or monthly, on the centralized market of green certificates organized and administrated by the Green Certificates Market Operator (OPCOM SA).

The prices are to be comprised between the minimum and maximum values. Minimum and maximum price levels on the market established by the regulator are:

- minimum value 24 Euro/MWh, for the period 2005-2012 and 27 Euro/MWh, after 2012
- maximum value 42 Euro MWh, for the period 2005-2012 and 52 Euro/MWh, after 2012

If the annual offer of green certificates is lower than the annual demand, in the following year the E-RES producers will receive from the Transport and System Operator (TSO) the minimum price set by the National Energy Regulatory Authority (ANRE) for each unsold green certificate.

But who can get these green certificates? The answer may be quite simple: the producers of green energy, but only from:

- wind;
- biomass;
- solar;
- hydro in power plants with less than 10 MW installed power.

Producers receive a green certificate for each MWh of produced energy, issued by Transport and System Operator (TSO). No producer who imports the energy or exports the green energy is qualifying to obtain these

certificates.

Supplier's mandatory quotas, obligation to buy Green certificates according to total annual electricity selling to final customers are:

- 2005 - 0, 7%
- 2006 - 1, 4%
- 2007 - 3, 74%
- 2008 - 5, 26%
- 2009 - 6, 78%
- 2010 - 8, 3%

The regulator can modify, in certain circumstances, these quotas established by Government Decision.

Also, a penalizing mechanism is applied for non-compliance, but it is also true that the extra certificates can be used in the next year.

Expected income for promoted green electricity, taking into consideration a market price for green certificates between 24-42 Euro/MWh and a market price for electricity of 36 Euro/MWh is of 60-78 Euro/MWh, which is an encouraging price for the potential investors.

#### 4. Conclusion

Liberalization is being implemented on a fast pace, while fulfilling environmental targets is at the top of the energy agenda. Renewable energy generation is at the heart of both issues, and policy on the subject is shaped and implemented as of this moment. Currently, three distinctive incentive schemes for renewable energy generation exist in Europe: fixed feed-in tariffs for produced electricity, a competitive bidding system for renewable energy generation capacity has been implemented and a green certificate system. Being a market-oriented incentive scheme instead of a subsidy based scheme it attracts international attention.

Romania has a significant potential of renewable energy sources, its potential being practically unused, excepting for the hydro potential for ESRE, which is around 50% and biomass for individual heating. The existing promotion system for E-SRE through green certificates start showing its attractiveness for new investments, even if this system is highly contested by investors, which leads us to the

idea that the existing promotion system for E-SRE is going to be improved. It is a must to develop promotion mechanisms also for heat production from renewables.

#### 5. References

- [1] Romanian Academic Society, Romania 2007. Policy Warning Report (PWR), 2007, <http://www.sar.org.ro/files/Romania%202007-Cover+Index1.pdf>
- [2] <http://www.opcom.ro>
- [3] The Electricity Law no. 13/2007
- [4] GD no. 1535/2003 regarding the approval of the Strategy of uses the renewable energy sources
- [5] GD no. 443/2003 regarding the promotion of electricity produced from renewable energy sources amended by GD no. 958/2005
- [6] GD no. 1429/2004 regarding the approval of the Regulation of guarantees the origin of electricity produced from renewable energy sources
- [7] GD no. 1892/2004 regarding the system for promotion of electricity produced from renewable energy sources
- [8] The Procedure for monitoring the issuance the guaranties of origin, approved by ANRE Order no. 23/2004
- [9] The Regulation of organization and functioning of the green certificates market, approved by ANRE Order no. 22/2006
- [10] The Procedure for allocation the amount of money collected from the suppliers for quota non-compliance, approved by ANRE Order no. 45/2005
- [11] ANRE Order no. 46/2005 for the approval of the modification of the mandatory quotas for acquisition of GC by the electricity suppliers for 2005
- [12] ANRE Order no. 37/2006 for the approval of the modification of the mandatory quotas for acquisition of GC by the electricity suppliers for 2006
- [13] ANRE Order no. 52/2005 for establishing the acquisition tariff for the electricity produced by hydroelectric producers with no portfolio contracts and by the producers which benefit, according to the law, of the E-RES promotion system
- [14] Procedure for monitoring the green certificates market, approved by ANRE Order no. 38/2006
- [15] The Regulation for qualification of the electricity priority production from renewable energy sources, approved by ANRE Order no. 39/3006

# Review of environmental issues in sustainable strategic development of România and analysis of the connection between ethics and sustainable development

ROF Letitia Maria

Universitatea „1 Decembrie 1918” Alba Iulia  
letitiamariorof@yahoo.com

## Abstract

*With no intention to exhaust the limits of the subject, I chose as the topic for my scientific approach the connection between ethics, sustainable development and economic interests, the desire to gradually emphasize the implications of this connection in our country.*

*Therefore, I started from the key issues dealt with in specialised literature on the influence of environmental component in sustainable development and translating this influence in the environmental accounting. In the first part of my scientific approach, I proposed to put the concept of sustainable development within non-financial concepts, to review the main conceptual boundaries of sustainable development and to formulate a series of critical ideas focused on this issue. In the second part of the paper, I gradually analysed the implications of the National Strategy for Sustainable Development of Romania in our country and I proposed a business model based on ethical principles for enterprises in our country.*

**Keywords:** ethics, sustainable development, economic interests.

**JEL:** Q 01

## 1. Introduction

Protection of the environment is one of the current concerns of modern societies. Ecology means living wisely, living harmoniously with nature, partnership between human society and natural environment, economical growth in terms of proper environmental management, management that must become priority and responsibility.

Any economic activity is like a human intervention in natural environment, but this intervention should not be an aggressive one, leading to degradation of natural environment, but on the contrary. Starting from this, the relationship between economical growth and natural environment was designed in different ways, synthesizing itself into three distinct approaches: geocentric biocentric and anthropocentric.

Sustainable development approach is a factor of innovation, of launching new products and services involving a societal or environmental added value. In management, care to achieve long-term profits could mean using only the quantities of resources that can regenerate naturally. The interest to stabilize the income source would be compatible with the objective of sustainable development. Applying a homogeneous environment and international accounting, based on works of the UN, would not be regarded as a source of cost, but rather as a means to better use of resources in an economically sustainable future.

## 2. Framing the concept of sustainable development within non-financial concepts

Sustainable development and other approaches based on similar themes: corporate social responsibility, business ethics and socially responsible investment occurred in late 80s and early 90s, growing lately.

Determining the value of a business is based 35% on non-financial elements. In this perspective, in the consequences of a commitment to sustainable development in the profitability, risk and competitive

advantage there are factors that have an impact on profitability. Among such factors, there are:

- *sustainable development* with its three aspects: economic (which concerns growth and economic efficiency), social (with a goal of equity and social cohesion) and environmental (which takes into account valuation, improving the environment and preserving natural resources for future). These three requirements correspond to a triple bottom line or the 3Ps (planet, people, profit) of Anglo-Saxon society;
- *business Ethics*, literary translation of the expression “*business ethics*” involves analyzing the implementing measures of moral norms of individuals to specific decisions taken by the enterprise;
- *corporate social responsibility* is the enterprises’ response to sustainable development concerns. The societal term used here designates the responsibilities of enterprises to multiple business partners (stakeholders) strictly professional relationship employers/employees, according to a usage which designates the term social responsibility;
- *socially responsible investment* involves integrating into the analysis of investment the social, philosophical, cultural or environmental values, which are not considered directly in financial analysis. Basically, these socially responsible funds are elements of the application of the concept of sustainable development.

Environmental performance evaluation (EPM) – ISO 14031 is based on “what can be measured can be managed”. This type of evaluation is seen globally in all sectors to improve environmental performance, for providing information for settling the “best practices” through Performance Benchmarking to demonstrate compliance and operational efficiency.<sup>1</sup>

EPM is a relatively new concept, used to describe the measuring process, analysis and communication of environmental performance of the company.

### 3. Brief overview of the conceptual boundaries within sustainable development and environmental accounting

Human society today resembles less and less with the previous one, even at an interval of 100 years. In the last 100 years, world population has tripled, global economy has increased 20 times, fossil fuel consumption by over 30 times, and industrial production over 50 times.

Stockholm Conference on Human Environment, organized by the United Nations in 1972, decided to create the United Nations Environment Programme, considered a significant moment in the history of planet saving. Called eco-development, in Stockholm Declaration, then translated by the Anglo-Saxon through the term *Sustainable Development*, this concept is known today as sustainable development.

Brundtland Report of the World Commission on Environment and Development, proposed by the General Assembly of UN, in 1987, identifies the main environmental problems, defines sustainable development as “a development that meets the needs of the present without compromising the ability of future generations to meet these requirements.”

Sustainable development, through the economic literature, “*is defined by a natural dimension - meaning that there is only as long as man-made environment is compatible with the natural environment - an economic dimension based on competitive competitiveness, a social-human dimension - meaning that all exits from man-made environment must respond directly to the needs and interests of present and future generations which coexist and succeed – a national-state dimension, regional and global – meaning the compatibility of optimization criteria both nationally and at regional or global level.*”<sup>2</sup>

This concept involves a new set of values to be achieved within a general process of transition towards a sustainable society. It is

<sup>1</sup> Tabără Neculai, Horomnea Emil, Mircea Mirela Cristina, *International Accounting*, Tipo Moldova Publishing House, Iași, 2009, p. 539

<sup>2</sup> Angelescu Coralia and staff, *Economics*, Seventh Edition, Economic Publishing House, Bucharest, 2005, p.231

an economic growth strategy designed to reconcile economic and social progress without jeopardizing the natural balance of the planet.

There are several elements that define sustainable development, including:

- permanent and safe compatibility of the man-made environment with the natural environment;
- *equal opportunities* of succeeding generations which coexist in time and space;
- interpretation of present in terms of future, admitting *natural and human security* as a purpose of sustainable development, instead of maximizing monetary profit;
- *introducing compatibility of national development strategies* as a result of increasingly strong interdependencies on geo-economic and environmental level;
- *moving the centre of gravity* in the general welfare, from the quantity and intensity of economic growth to its quality;
- *environmental (natural) capital* is interdependent and it integrates organically with the man-made capital, human (cultural) capital within a global category;
- *transition to a new strategy with natural and human nature*, in which the economic and social development objectives to expand the horizon in time and space, called sustainable development;

One of the major consequences of increasing pressure on the natural environment was the change in atmospheric chemistry component and increasing the concentration of carbon dioxide and reducing the ozone layer. Increasing atmospheric CO<sub>2</sub> concentration has had negative consequences on the world by increasing temperature. Research has shown that a real threat to mankind would be to increase the concentration level at twice the level of pre-historic period, which would cause drastic climate changes with irreversible consequences. According to Professor Niță Dobrotă, sustainable development *"implies economic growth (not zero growth or negative growth) in accordance with the requirements of ecological balance (not simply preserving nature), but with all human development, which means that there are regarded all aspects of progress within and for human - culture, science, civilization,*

*equality and equity among people, ethnicities, nations, peoples."*<sup>3</sup>

The relationship between economic growth and natural environment, seen in the light of the three concepts raised, respectively geocentric conception, biocentric and anthropocentric conception, is as follows:

- **geocentric conception** regards as priority in human activity unreserved land protection, for *"nature to remain untouched in its purity."* Of course, the excessive conservatism of this concept is questionable, having in mind that sometimes human intervention is absolutely necessary to prevent the disasters that can be caused even by nature;
- **biocentric conception** aims to protect especially living organisms which usually can not defend themselves against human aggression, the man having to intervene in species' life only to ensure their preservation;
- **anthropocentric conception** is based on the idea that everything must be sacrificed for the satisfaction of growing and diversified needs of people. And this objective seems to be absurd and irrational as immediate interests are clearly in conflict with those of perspective.<sup>4</sup>

Sustainable development *"is a strategy by which communities seek economic development paths, benefiting also by the local environment or which will benefit the quality of life."*<sup>5</sup> Many communities have concluded that the interpretation of traditional planning and development, creates rather than solves environmental or social problems.

The three areas of sustainable development referred to in the literature take into account economic, environmental and cultural resources. A widely accepted view of sustainable development assigns it the interaction of four systems: **economic,**

<sup>3</sup> Niță Dobrotă, *Political Economy*, Economic Publishing House, Bucharest, 1997, p.335

<sup>4</sup> Taking over after, Burja Vasile, *Economy II*, Department of Distance Learning, Alba Iulia, 2009, p. 33, 34

<sup>5</sup> Rojanschi V., Grigore F., etc., *Quantifying Sustainable Development*, Economic Publishing House, Bucharest, 2006, p.15



**human** (social), **environmental** (or ecological) and **technological**.

Developing economic and environmental accounts provides synthesized information to makers, regarding the natural assets of the environment, being necessary to determine environmental costs and to their consequences on production, income, economy.

#### **4. Continuous improvement of quality of life seen through the light of the National Strategy for Sustainable Development of Romania (2008)**

National Strategy for Sustainable Development of Romania is a national document that complies with EU sustainable development strategy. Its main objective is continuous improvement of quality of life, creating sustainable communities, able to capitalize on the environmental and social innovation potential of the economy, to manage and use resources effectively, to ensure prosperity, environmental protection and social cohesion.

In November 12, 2008, was approved by the Romanian Government the National Strategy for Sustainable Development in the horizon years 2013-2020-2030. The document is a joint project of the Romanian Government through the Ministry of Environment and Sustainable Development, and United Nations Development Programme, through the National Centre for Sustainable Development.

Starting from this strategy, within a reasonable time, Romania should move to a new development model, characteristic of EU, namely that of sustainable development generating high value added and focused on continuous improvement of people's lives and their relationships, on the interest in knowledge and innovation.

The strategy proposes a vision of Romania's development in light of the following two decades, with goals that transcend electoral cycles and circumstantial policy preferences.

**Horizon 2013:** Organic incorporation of principles and practices of sustainable development in all programs and policies of Romania, as EU member state;

**Horizon 2020:** Achieving the current average level of EU countries to the main indicators of sustainable development;

**Horizon 2030:** Significant approach of Romania to the average level in that year of EU countries in terms of sustainable development indicators;

Achieving these objectives will ensure our country a substantial reduction in economic and social disparities, compared with other EU Member States, and hence a high economic growth. The main directions of action, detailed by sectors and time horizons are:

- rational correlation of development goals, including investment programs in inter-sectors and regional profile, with potential and capacity to support natural capital;
- accelerated modernization of education and training, public health and social services, taking into account demographic trends and their impact on labour market;
- widespread use of best available technologies in investment decisions; firm introduction of criteria for eco-efficiency in all production and service activities;
- predicting the climate change effects and early development of action plans for crisis situations caused by natural or anthropogenic phenomena;
- assurance of safety and food security by exploiting comparative advantages of Romania, without compromising the requirements for maintaining soil fertility, biodiversity conservation and environmental protection;
- identifying additional funding sources for completion of major projects and programs, particularly in infrastructure, energy, environmental protection, food security, education, health and social services;
- protection and enhancement of the cultural and natural national heritage; connection to European norms and standards on quality of life.

For accomplishing the objectives and measures set out in the Strategy, there are established mechanisms for implementation, monitoring and reporting to the government and to the civil society and citizens' consultation throughout the entire process. Since 2009 will begin the process of

comprehensive review of programmatic documents, strategies and national programs, sector and regional policies to bring them into line with the principles and practices of sustainable development and the dynamic development of EU regulations.

### **5. The connection between ethics, sustainable development and economic interests. The business model suggested to enterprises that engage in sustainable development action**

First and foremost, the concept of sustainable development lead to the emergence and proliferation of the issues related to destructive activity of the company. Without the existence of a permanent control of the state, it is difficult to understand that it may have responsibility for environmental problems. If the damage caused by an entity to the environment is automatically passed on humans, then the entity may become morally responsible. This argument is based on the ethical principle not to harm future generations. The concept of economic ethics aims to define, promote and disseminate the economic life of rules, principles and ethical norms universally acceptable, which can support on a medium-term the economic reconciliation of social, cultural and eco-friendly, and, on a long-term, assuring co-determination in matters of globalization, based on the principle of the inalienable right of every human being to life and liberty (Garabanghi N., *Présentation. In l'éthique économique: une contrainte méthodologique et une condition d'effectivité des droites humanis.* Economie Ethique, no5., France, UNESCO, 2003 ).

A close coordination between the entity, state and UN allows:

- on one hand, awareness of governments, entities, shareholders and consumers in general, on their ability to destroy the habitat by unfortunate use of resources and excessive consumption;
- on the other hand, facilitating the generalization of an environmental accounting, as it currently happens in EU, in order to ensure continuity of the entities referred to;

Environmental accounting expresses the emergence of a new ethic which responds to citizens' concerns, regarding the becoming of the

Earth. Therefore, the principles of sustainable development, through these records, meet these anxieties refocusing environmental concerns of states and firms. An OECD report in 2004 states that, after the conference in Rio de Janeiro in 1992, environmental accounting is considered an instrument of sustainable development. However, its implementation cannot be similar from country to country. In underdeveloped countries it is used quite hesitantly, while in others it is already applied to incorporate environmental principles of sustainable development (Germany, Scandinavia).

After presenting the Brundtland Report, the mentality of various entities that engage in an action for sustainable development was influenced. The principles of sustainable development made by the report set a number of ethical rules and take into account the interests of all partners, communicating in a transparent manner, without forgetting their economic role.

At the Rio Conference in 1992, WBCSD has published an argument for sustainable development based on examples of achievements of its members who support the credibility of the approach. This appeals to previous outlook, in which industry appears in ecological sphere, especially through its impact on pollution. WBCSD opinion is that sustainable research is a trend that tends to generalize. Now it is more preferable and more profitable to anticipate. The first to do these things will be able to create special advantages. Currently, many entities have developed new technologies and industrial processes to reduce pollution and other negative impacts. Now we talk about clean production, about organic farming. There were established environmental protection services. There were published directives and codes concerning product safety, plant operation, business practices, technology transfer and international cooperation. The results were different, and successes were achieved mainly in the industrialized countries. Worldwide, there were formed four types of behaviour that allow delineation of large trends adopted by enterprises on the concept of sustainable development:

- proscriptive behaviour (without any environmental measure);

- reactive behaviour (compliance with regulations set);
- prescriptive behaviour (application of environmental policies with a legal vision);
- proactive behaviour (prediction and prevention of concerns for sustainable development).

The enterprise is moving slowly towards a logic of responsibility. Implementing an *ecological and responsible model of business* takes into account criteria such as: establishing an environmental policy that respects the vision and mission of the entity, allocation amounts for environmental management, HR involvement in process, using various tools.

A successful assimilation of the concept of sustainable development will result in options that change the business model of the enterprise, in a spirit of long-term vision and a mission of sustainability.

## 6. Conclusions

The concept of sustainable development expresses the emergence of an optimistic new model of development, which records and keeps in mind all this moving around the environment, responding to increasing regulations, to some political issues but also to some natural maturity. Planet is an ecosystem composed largely of natural resources which are not renewable. This fact, long recognized by the work of the Club of Rome, leads to understanding the need for extensive management of resources and global approaches.

The real stakes of future are not related to the action value and environmental performance, but especially to the big issues that climate change is a reality, access to water resources, inadequate funding, energy depletion, increased CO2 concentration. All these problems are also felt in our country. Sustainable development is a framework, and not a possible way of usage, allowing a rational development which will prevent degradation of eco-Earth system.

To avoid this degradation it is necessary to use an ethics of management both at our state and multinational level, compliance must be established and a connection between environmental protection and socio-economic situation of countries. The nature of capitalist system that emphasizes competition without boundaries, often irrational, maximizing profits

and reducing costs drastically, constitute a fundamental structural barrier in adopting ethical practices.

In conclusion, meeting the present needs, without compromising the ability of future generations to meet their own needs, is a priority objective of the next century, but not one easily to be achieved. Even if at a conceptual level, sustainable development has been accepted and supported worldwide, this objective being taken from a report to the United Nations Conference in Rio de Janeiro (1992), achieving an optimal correlation between the four systems, economic, human, environmental and technological has encountered and still encounters difficulties.

"Acknowledgements: Financial support for this article has been provided through the project Bursele doctorale, premiza pentru cresterea competitivitatii si competentelor in cercetare stiintifica, IDPOSDRU/88/1.5/6326 9 implemented under the Sectoral Operational Program for Human Resources Development and financed by the European Social Fund and Government of Romania."

## 7. References

- [1] Angelescu Coralia and staff, *Economics*, Seventh Edition, Economic Publishing House, Bucharest, 2005
- [2] Burja Vasile, *Economy II*, Department of Distance Learning, Alba Iulia, 2009
- [3] Burja Vasile, *Political Economy, fundamental structures*, Risoprint Publishing House, Cluj-Napoca, 2003
- [4] Nită Dobrotă, *Political Economy*, Economic Publishing House, Bucharest, 1997
- [5] Pohoantă Ion, *Economic philosophy and policy for sustainable development*, Economic Publishing House, Bucharest, 2003
- [6] Popescu Ion A., Bondrea Aurelian A., Constantinescu Mădălina I., *Sustainable development. A Romanian perspective*, Economic Publishing House, Bucharest, 2005
- [7] Rojanschi Vladimir, Bran Florina, Grigore Florian, Ioan Ildiko, *Quantifying Sustainable Development*, Economic Publishing House, Bucharest, 2006
- [8] Tabără Neculai, Horomnea Emil, Mircea Mirela Cristina, *International Accounting*, Tipo Moldova Publishing House, Iasi, 2009
- [9] *National Sustainable Development Strategy of Romania 2008*, Bucharest, 2008
- [10] <http://strategia.ncsd.ro/>
- [11] <http://www.euractiv.ro/>
- [12] <http://www.mmediu.ro/>
- [13] <http://www.stopco2.ro/>
- [14] <http://www.ecomagazin.ro/>

## Resources and Priorities in Maramureş County

SABOU Simona

ZIMA Liliana Adela

HAHN Rada Florina

*Universitatea de Nord Baia Mare*

*simona.sabou@gmail.com*

*lili\_zima@yahoo.com*

*hahn\_florina@yahoo.com*

### Abstract

*Maramureş County is quite endowed with natural resources. Together with quantity, the quality of resources must also be considered. The SWOT analysis helps identify other resources that, together with the natural ones, can support development in the county.*

**Keywords:** natural resources, SWOT, development strategy

**JEL Classification:** R10

### 1. Introduction

In Maramureş County underground resources are not available in large quantities, fact that imposes the existence of well-developed commercial flows with other regions, to support economic activity. The least available ones are energy resources – coal, oil and natural gas – intensely needed by the economy and existing in quantities far from satisfying the need. However, following are some of the resources that are well represented:

- complex and gold-silver ores (in the Oaş-Gutâi-Țibleş-Rodna zones), found in the same quantities only in the South-West Region;
- salt (in the Maramureş Basin).

Together with quantity, quality of resources, mining technological conditions and profitability must be considered. The effects of decision-making in resource exploitation, at a local, regional or national level, can seriously influence the economic and socio-human aspects and the environmental impact.

Regarding agriculture, the share of cereal crops is high (48.59%) even if the required

climate and soil conditions are not met. In 2007 the total cultivated surface was 74524 hectares, from which 36957 hectares were cultivated with cereals [6]. As a result, one of the lowest average yields per hectare was reached in Maramureş County (compared to the figures from the rest of the country) for wheat, rye, barley, oats and corn (measures should be taken to optimize cultures based on the existing climate and soil).

Fruit tree growing occupies 6012 hectares (1.935% of the total surface of the County) which represents an advantage over the other counties, with lesser figures. As the climate and soil are favorable for this branch of agriculture, this advantage should be further exploited.

Another important advantage of the county is wood – as raw material and also for the activities linked to it. On the other hand, there is the risk of over-exploitation that can, because of the lack of forestry management, lead to de-forestation.

Areas with the greatest turnover and investment are manufacturing, wholesale and retail trade, repairing of motor vehicles and personal and household goods, as can be seen in Table 1 [4] [5].

Table 1. Turnover and investment amounts for active local enterprises from industry, constructions, commerce and services fields, categorized by national economy branches, in 2007

<b>Maramureş County</b>	<b>Turn-over (million RON)</b>	<b>Gross Investments (billion RON)</b>
<b>Total</b>	<b>10102</b>	<b>1390</b>
Extraction industry	36	24
Processing industry	3840	517
Electric and thermal energy, natural gas and water	166	38
Constructions	916	139
Wholesale and retail trade, repairing of motor vehicles and personal and household goods	3941	355
Hotels and restaurants	118	37
Transport, storage and communications	650	173
Real estate transactions, rental and services mainly targeted towards enterprises	326	93
Education	2	1
Health and social security	16	3
Other activities of collective and personal services	91	10

## 2. The specificities and fields of excellence of Maramureş County

The development strategy for Maramureş County is prioritized towards increasing competitiveness and economic development, with the following identified strategic objectives:

- providing the infrastructure needed for the investor's activities;
- supporting small and medium enterprises as a local development engine, creation and development of original products;
- promoting research and innovation activities in the technology field;

- promoting imports that carry technological value, with the ultimate result of accumulating technological know-how;
- eliminating the raw material exports and supporting exports that carry technological value;
- eliminating the lohn cases and enhancing creativity and innovation for own creations.

Through a SWOT analysis, the strong and weak points, the opportunities and threats concerning the development of Maramureş County were identified. The contributing factors can be categorized in factors that are common with the whole country and factors that are specific to the county. Following is an enumeration of these factors, categorized by fields of development [1].

Strong points in human resources:

- common with the rest of the country:
  - cheap qualified labor, generally well trained;
  - existing industrial tradition;
- specific to the county:
  - north-western mentality;
  - will to work and succeed;
  - existing entrepreneurship tradition;
  - multi-lingual population.

Strong points in the institutional field:

- specific to the county:
  - art school in Baia Mare specialized in painting;
  - Universitatea de Nord Baia Mare.

Strong points in natural resources:

- specific to the county:
  - favorable position close to Central Europe and Ukraine;
  - developed forestry field;
  - mineral water natural springs;
  - underground resources (ores, kaolin, marble, rocks);
  - soil and geologic conditions favorable for orchards;
  - developed animal husbandry field.

Strong points in infrastructure:

- common with the rest of the country:
  - existing airport.

Strong points in the institutional field:

- specific to the county:
  - balanced industrial development.

Weak points in human resources:

- common with the rest of the country:
  - weak work discipline;

- low productivity;
- limited use of managerial initiative;
- limited market and management experience;
- limited information for planning/financing;
- low level of consumer knowledge.

Weak points in the institutional field:

- common with the rest of the country:
  - education system still not adapted to the market demands;
  - weak economic coordination/planning according to the rules of market economy;
  - limited local authorities autonomy (concerning taxes, spending, etc.);
  - weak government policy regarding industry and agriculture;
- specific to the county:
  - weak institutional ties to other countries;
  - weak services in the business field.

Weak points in natural resources:

- specific to the county:
  - weak positioning relative to the internal market;
  - weak ties to the rest of the country;
  - soil that is less fit for agriculture;
  - polluted environment.

Weak points in infrastructure:

- specific to the county:
  - weakly developed infrastructure (in transports, communications, utilitarian networks);
  - too few points for crossing the border;
  - the absence of international flights;
  - weak railway links (excepting those with Bucharest and Cluj).

Weak points in the general economic development field:

- common with the rest of the country:
  - insufficient funding;
  - weak coverage against economic shocks and system changes;
  - relatively weak product quality;
- specific to the county:
  - low export level;
  - weak economic ties to the rest of the country.

Opportunities:

- common with the rest of the country:

- low competitiveness level on the internal market;
- the possibility of learning from the market leaders (especially from the West);
- increasing incomes in Eastern countries;
- export in the EU;
- reinstatement of historic ties (economic, educational, cultural, touristic, etc.) with Austria, Germany, Hungary, Italy, etc.;
- promoting local specialties (plum brandy, berries, mushrooms, etc.);
- the possibility of promoting the county's image.

Threats:

- specific to the county:
  - competition with Hungary, Turkey, the Far East;
  - restricted access on the unified European market;
  - political instability;
  - exhaustion of mineral resources;
  - increasing social tensions because of the restructuring of heavy industry;
  - competition from other regions of the country (Arad – industry, Braşov – tourism, etc.).

Many opportunities that can be exploited and that can stimulate economic development exist. For a number of food products demand is not satisfied. There also is great potential for wood product exports – either raw, semi-manufactured and finished. Touristic potential is continuously expanding.

The fact that Baia Mare and surrounding areas are seriously affected by pollution (as a result of the long period in which the enterprises processing ores were active), fact that has a negative health impact, has to be mentioned. The responsibility for the future was ignored. This can influence the way the county is perceived from the outside, slowing the development process, as, for example, buyers can avoid purchasing food products originating from the county.

Unfortunately, Maramureş County is unfavorably positioned relative to the internal market – as it is quite isolated, in the North-West of the country. There are several territories that it competes with that are more favorably positioned, like Braşov, Sibiu, Cluj, Timişoara.

### 3. Conclusions

Maramureş County is characterized by an extreme specialization in mining and processing non-ferrous metals; the production units, with large numbers of employees, suffered massive layoffs as a result of the termination of mining activity in the area; massive restructuring took place in the machinery manufacturing industry (Baia Mare) and lumber industry (Sighetu Marmăţiei); in Maramureş County the ecologic balance has been heavily affected, with negative international impact, by residues leaking from mining enterprises' tanks, leading to the pollution of several rivers (Tisa, Săsar); in Baia Mare there is high air and soil pollution, caused by non-ferrous ore processing activities.

Maramureş County has development potential in the following fields:

- traditional handicrafts – metal, wood and wool processing;
- tourism – it has a rich ethnographic heritage that can attract tourists;
- education – the existence of “Universitatea de Nord Baia Mare” and other universities ensures superior professional qualification of the workforce (Cluj, which is another education center, is close by).

### 4. Bibliography

- [1] R. F. Hahn, Problemele managementului dezvoltării unui teritoriu, cu exemplificări în județul Maramureş, Teză de doctorat, Universitatea de Vest Timişoara, 2006.
- [2] S. Sabou, Managementul constituirii și utilizării surselor de finanțare ale dezvoltării în profil teritorial (cu exemplificări în județul Maramureş), Teză de doctorat, Universitatea de Vest Timişoara, 2008.
- [3] Guvernul României, Planul Național de Dezvoltare 2007-2013, decembrie 2005.
- [4] Institutul Național de Statistică, Direcția Județeană de Statistică Maramureş, <http://www.maramures.insse.ro/main.php?lang=fr&pageid=495>
- [5] Institutul Național de Statistică, Direcția Județeană de Statistică Maramureş, <http://www.maramures.insse.ro/main.php?lang=fr&pageid=497>
- [6] Institutul Național de Statistică, Direcția Județeană de Statistică Maramureş, <http://www.maramures.insse.ro/main.php?lang=fr&pageid=424>

# The Speleological Tourism Developing Strategy in the West Development Region

SAVA Cipriana  
"Dimitrie Cantemir" Christian University  
cipriana.sava@gmail.com

## Abstract

*The development of a region according to the durability principles may be accomplished both on a general and a sector level with the help of well researched strategies. Tourism is an activity based on environmental issues and the sustainable development is the only solution for its protection and for the protection of tourist resources. The exploitation of the speleological potential in order to develop the speleological tourism in the West Development Region could be a possible variant which needs the planning and the set up of an adequate strategy.*

**Key words:** speleological tourism, sustainable spatial development strategy, environment

**JEL Classification:** L83

## 1. Introduction

The economical development is continuous and therefore the strategies should be changed so that they fit the ecological limits offered by the environment and by the resources of the planet.

The sustainable development is considered a new way of development which is able to support the human progress for the entire planet and for a long period of time.

This type of development is a response to the current problems and tries to act as an intermediary between the socio-economical development and the restrictions imposed in order to protect the environment. At present, researchers in this field focus on the spatial coordinate (territorial and regional).

The set up of a sustainable spatial development strategy requires the existence, besides those explicit criteria of environmental protection, of some fundamental criteria such as:

1. exterior circumstances which refer to:
  - the demographic evolution, the migration of the population, all the changes related to workforce and quality of life;
  - the developmental phase at a macroeconomic level, the international evolutions and the balance of forces, alliances;
2. spatial arrangement, more precisely:
  - changes occurred within the degree of concentration and spatial diversification of economical activities;
  - changes appeared within the complex patterns situated in the urban areas, suburban and peripheral;
3. mobility patterns which concern:
  - the attitude of the population regarding commuting, recreation, the frequency of movements;
  - the appearance of qualitative changes in the distribution of the merchandise
4. technological transformations which regard:
  - technological achievements in automotive industry;
  - the improvement of the general infrastructure network;
  - the introduction of data communications for the naval transport management
5. the transport system scale which regards:
  - the existence of longer national and local roads
  - the transeuropean transport network
6. transport-related intervention politics regarding:
  - prices and current fiscal reglementations



- organizational and institutional rules for the transport system.<sup>1</sup>

The concept of sustainable development requires economical and social achievements. As far as tourism is concerned, these ones could be:

- the increasing of the level of resource exploitation and capitalization, without altering their value;
- the preservation of trades;
- the access of population to tourist facilities;
- the extension of the life expectancy;
- the improvement of people's health;
- the avoidance of the environmental deterioration;
- the decrease of the withdrawal of land from the agricultural circuit.

The protection of the environment and of the tourist potential is necessary for both the tourist areas already included in a circuit and for those which aren't yet exploited so that they can attract more tourists.

The accomplishment of a perfect combination between tourism and environment supposes certain planning devices from the part of the tourism organisers, the inhabitants of those areas and environmentalists.

## 2. The Speleological tourism in the West Development Region

Even if there is sufficient potential, tourism is not the best represented economical activity in the West Development Region, which includes the Arad, Caraş-Severin, Hunedoara and Timiș counties.

This region is characterized by the diversity of its natural tourist resources. Studying this type of resources reveals the fact that the natural elements within this region represent an attractive tourist potential, which can be

developed in different forms by organizing tourist activities from the simplest to the most complex ones.

The value of the tourist entropic potential of the region is conferred, to a decisive extent, by the existence of several urban and rural establishments that include significant historical, architectural or cultural vestiges.

The development of the sustainable tourism in the region may take several directions, one of them being the niche tourism such as the rural, religious or speleological tourism.

Speleological tourism supposes visiting all types of caves together with a specialized guide.

This type of tourism may take several forms:

- collective;
- ecological;
- specialized;
- for adventure;
- scientific;
- speleological therapy.

Caves are classified, depending on their chronological appearance, in primary (in volcanic rocks and in limestone) which developed at the same time with the rock evolution and secondary, developed in time, after the rock evolution and caused by the movement of the rocks, by erosion or dissolution.

Taking into account their degree of difficulty, there are caves that:

1. may be arranged for tourist purposes;
2. do not need any special equipment for visiting;
3. need special equipment for visiting;
4. may be active;
5. partially or totally flooded.

Depending on their importance caves may be classified in the following categories:

1. A. - caves that display an exceptional value which, through their scientific interest and the uniqueness of their resources, are representatives for the national and international speleological patrimony;

2. B. - caves that have a national importance and they are remarkable due to their size, scarce resources and tourist potential; they are perceived as natural monuments or natural reservations;

3. C. - caves that present local importance and are protected by their geological, hydrological and historical significance or by their sizes; they may be the object of speleological exploits, scientific research,

---

<sup>1</sup> Nijkamp, P., Baggen, J., Van der Knaap, B., SpaSpatial Sustainability and the Tyranny of Transport: a Causal Path Scenario Analysis, the 34<sup>th</sup> European Congress of the Regional Science Association, Groningen, the Netherlands, August, 1994 și Masser, I., Wegener, M., Sviden, O., The Geography of Europe's Future, Belhaven, London, 1992, și Constantin, Luminița, Economia regională, Ed. Oscar Print, București, 1998, p.197

tourist development or of other means of exploitation;

4. D. – caves that do not meet all the conditions to be included in A, B and C class.

The West Development Region offers the place for activities on behalf of associations and gatherings of speleologists who, besides their current practice, design projects in the view of protecting the caves and the karst environment and familiarize people with these issues. We mention Speowest Arad, Speo-Caraş from Oraviţa, Explorers from Reşiţa, Clubul Sporturilor Montane Hunedoara, Speotimiş, SpeleoTeam and Prusik from Timișoara.

The existence of such caves and associations in the region offers a range of possibilities for the tourist speleological development.

In the Arad county there are caves and swallow holes (103 identified groups) placed in its mountainous region. Three of the caves of this county are protected areas: Valea Morii belonging to the Moneasa village, Duțu and Sinesie, belonging to Săvârșin village.

The Caraş- Severin county has a mountainous landscape where there are numerous attractive caves (approximately 1500 caves and swallow holes). Within the category of natural and protected areas there are included the Comarnic cave and the Popovăț cave in the Carașova village, Buhui, belonging to Anina town, Bârzoiu on the territory of the villages Cornereva and Mehadia.

With an important mountainous area, the Hunedoara county possesses caves and swallow holes. Some of them have already been declared protected areas such as the Coral Cave and the Zeicului Cave near the village Câmpul lui Neag, the cave assembly Ponorici – Cioclovina near the Boșorod village, Șura Mare which belongs to the Pui village, Tecuri near Baru Mare village, Cizmei and Podul natural from Grohot situated on the territory of Bulzeștii de Sus village, Dealul and Cetatea Bolii from the Bănița village.

In the Timiș county the number of these natural attractions is more limited because of the predominant plane landscape. We may only mention the caves from Românești, Albastră, Cioaca Birtului situated in the Poiana Ruscă mountains but which are not considered natural protected areas.

Even if there is a significant number of caves on the territory of the analysed region,

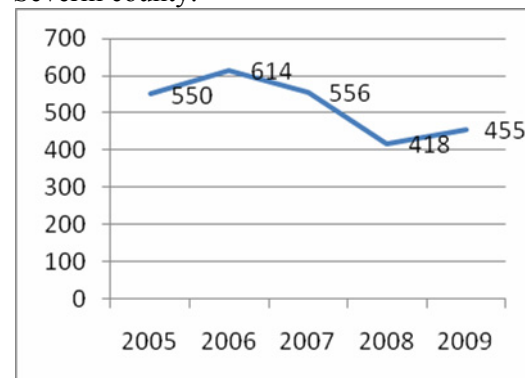
none of them is organised or exploited from a tourist point of view and at international standards.

However, besides the members of the above mentioned associations which explore this phenomena, there are also some tourists eager to discover the beautiful underground landscapes and reach the less accessible caves.

We can identify a popular cave for tourist in each county of this region.

The Comarnic cave, within the management of the National Park Semenic, is unelectrified and unequipped for practising sustainable tourism. Due to the forest exploitation, the access to the cave is possible only by means of off-road vehicles and the guide is available only for the summer period. According to the data offered by its keeper, the number of tourists between 2005 and 2009 was very low (picture 1)

Picture 1 The evolution of number of tourists who visited the Comarnic cave, the Caraş-Severin county.



According to these data we may say that few tourists come and see the beauty of this place because reaching this place is difficult and there is no signalling.

The Românești cave, situated near the monastery with the same name in the Timiș county, may be easily reached, but does not present any special characteristics. Annually (beginning from 1984), a symphonic concert takes place in October due to the extraordinary acoustics of this place. This event gathers more than 3000 tourists every year. During the rest of the year those who want to visit it (pilgrims at the Românești monastery, tourists who come to the Liman's Valley) have a marked track.

The most visited cave in Hunedoara county is considered to be Cetatea Bolii which has two

access ways and is situated at only 6,5 km from the town of Petrosani.

A part of the tourists arrived at the Moneasa spa resort. Try to visit the cave from Bai, situated in the centre of this resort which, however, offers a modest view.

A first step towards the surpassing of the current phase of exploitation of these natural resources is the planning of a tourist strategy for the development of the speleological tourism.

The main motivation to accomplish this task would be the increase of the number of caves in the region.

Some objectives of this strategy may be:

- the diversification of the regional tourist offer;
- the attraction of a higher number of tourists of different ages and social categories;
- an appropriate and sustainable exploitation of the caves;
- the compliance to international standards of caves' development;
- the organisation of courses for the specialization of tourist guides for these caves;
- the planning of some impact studies on environmental issues;
- the consolidation of the infrastructure development regarding accommodation and public food services;
- the planning of some tourist activities;
- some activities aiming the promotion of these caves: leaflet publishing, brochures;
- the publishing of materials for the tourists' information and education;
- the attraction of tourism agencies for the sale of tourist programmes

The responsibility of the tourist speleological development is attributed to the speleological associations, guardians or cave administrators, to City Halls and Prefect's Offices of the

designated area. Moreover, the volunteers and the inhabitants also play an important part in the strategy setting up.

The planning and the setting up of such a strategy would have the following effects:

- the diversification of the tourist offer;
- the increase of the number of visitors;
- the development of the general infrastructure and of the specific tourist infrastructure in these areas;
- the economic growth;
- raising awareness about the protected areas among the local population and tourists;
- drawing attention upon the importance of these caves and upon the other tourist objectives from the appointed areas.

The development of speleological tourism may contribute to the environment protection and to the development of the West Development Region.

### 3. Bibliography

- [1.] Cocean P., The Caves of Romania, Ed.Dacia, Cluj-Napoca,1995;
- [2.] Constantin, Luminița, Regional Economy, Ed. Oscar Print, București,1998;
- [3.] Masser,I.,Wegener,M.,Sviden,O., The Geography of Europe's Future, Belhaven, London, 1992;
- [4.] Nijkamp, P.,Baggen,J.,Van der Knaap,B., SpaSpatial Sustainability and the Tyranny of Transport: a Causal Path Scenario Analysis, the 34<sup>th</sup>European Congress of the Regional Science Association, Groningen, the Netherlands, August, 1994;
- [5.] Sava, Cipriana, Development Strategies of the Tourism, Ed.Aprilia Print, Timișoara,2007;
- [6.] \*\*\*Ordinul Ministrului mediului și gospodăririi apelor pentru aprobarea Clasificării peșterilor și a sectoarelor de peșteri - arii natural protejate nr.604/2005, Monitorul Oficial 655/22.07.2005.

## The impact of cultural diversity on ecotourism – an opportunity for regional development

SOIMU Oxana,  
TROFIMOV Victoria  
*Deusto University, Spain, Bilbao*  
*Academy of Sciences of Moldova, Chisinau*

### Abstract

*In Culture matter time, space, location, possibilities, needs, scarcity of goods, technologies, destination and the scope.*

*By this article, authors begin from the hypothesis: how culture is linked to environment and ecology? As a result, key-point ideas of the work suppose that this link (Ecotourism) defines a contribution to mutual understanding and respect between peoples and societies, a vehicle for individual and collective fulfillment, a user of the cultural heritage of mankind and contributor to its enhancement, a beneficial activity for host countries and communities obligations of stakeholders in tourism development.*

*Likewise, “The International Ecotourism Society” states that Ecotourism activities imply the fulfillment of the following principles, to name some:*

- *Minimize environmental negative impact, protecting the regional culture and environment.*
- *Provide positive experience to visitors and hotel owners.*
- *Economically benefit local inhabitants by enhancing their self-esteem.*
- *Support human rights and labor agreements.*

*Finally, main expectation from work are some proposals as matter to promote heritage conservation and environmental sustainability, to create an intellectually challenging and stimulating environment and provide educational benefits to local community. Such aim addresses to Republic of Moldova too. Also, authors notice that ecotourism development in Moldova is possible and would promote its easier and better integration in Euro-zones.*

**Keywords:** cultural diversity, ecotourism, regional development

**JEL Classification:** L83, R58

### 1.Introduction

Tourism is a relatively new social activity that has recently emerged as a global phenomenon. Long before tourists began traipsing all over the world, social interactions involving different cultures usually occurred in the context of commercial trading, wars or migrations. As a result, cultural exchanges were relatively restricted, occurring in specific geographical regions or within the expanding limits of political and military empires.

However, with the advent of technological advances in communications and transportation came a shift in people's attitudes towards travel. People (namely westerners) began to travel for the sake of traveling, which launched a process of cultural globalization. This process has accelerated in recent decades as a result of further technological breakthroughs in the airplane and information industries.

According to the “World Commission on Environment and Development a sustainable development implies **“meeting the needs of the present without compromising the ability of future generations to meet their own needs”**. Eco tourism can have many definitions and we can apply this one: *Ideally, ecotourism satisfies several general criteria, including the conservation of biological diversity and cultural diversity through ecosystem protection, promotion of sustainable use of biodiversity, share of socio-economic benefits with local communities through informed consent and participation, increase in environmental and cultural knowledge, affordability and reduced waste, and minimization of its own environmental impact. In such ways, it contributes to the long term benefits to both the environment and local communities.”*

Actually Eco tourism creates a triangle of criteria:

1. conservation - conserve biological (and cultural) diversity, by strengthening protected area management systems (public or private) and increasing the value of sound ecosystems;
2. sustainability - promote the sustainable use of biodiversity, by generating income, jobs and business opportunities in ecotourism and related business networks
3. biological diversity - share the benefits of ecotourism developments equitably with local communities and indigenous people, by obtaining their informed consent and full participation in planning and management of ecotourism businesses.<sup>1</sup>

## 2. Mobility and cultural diversity

Agenda 21 of Culture (“We, cities and local governments of the world, committed to human rights, cultural diversity, sustainability, participatory democracy and the creation of the conditions for peace, assembled in Barcelona on 7 and 8 May 2004, at the IV Porto Alegre Forum of Local Authorities for Social Inclusion, in the framework of the Universal Forum of Cultures – Barcelona 2004, agree on this Agenda 21 for Culture as a guiding document for our public cultural policies and as a contribution to the cultural development of humanity.”) with its principles 1 and 2 is a real reflection on cultural diversity though mobility issue and its relationship with environment.

*Second principle of Agenda (Clear political analogies exist between cultural and ecological questions, as both culture and the environment are common assets of all humanity. The current economic development models, which prey excessively on natural resources and common goods of humanity, are the cause of increasing concern for the environment. Rio de Janeiro 1992, Aalborg 1994, and Johannesburg 2002, have been the milestones in a process of answering one of the most important challenges facing humanity: environmental sustainability. The current situation also provides sufficient evidence that*

*cultural diversity in the world is in danger due to a globalization that standardizes and excludes. UNESCO says: “A source of exchange, innovation and creativity, cultural diversity is as necessary for humankind as biodiversity is for nature” (UNESCO Universal Declaration on Cultural Diversity, article 1)) reflects the relation between culture and environment. And it is very important to note that even this issue should be seen through anthropological point of view, where it stars and which the limitations are. Maybe, environment is not always seen as determining factor for culture but rather as limiting factor. Environment influences the social and cultural process and determine individuals to act in such manner to be satisfied, to confront, or to change given environment.*

For instance a real example could be Mark Q. Sutton and Eugene Newton Anderson work: *Introduction to Cultural Ecology* with its relevant ideas that the culture is that one that could make a choice of which of possibilities to employ and not environment. An example could be building a house. Culture chooses materials like wood, iron, stone and other materials and it has a direct impact on the ecology.

So, if we talk about choice then we already mean the relation between culture and possibilism and technology. So culture is not accidental, but is subject of choice. The best choice implies best environment, best ecology. But these choices are available in the environment that can be limited by the capabilities of culture.

Or, environment is the nature; the increasing level of pollution directly is connected to the used technology. Technology is a result and same time a promoter of cultural diversity.

As a result the interplay between environment and culture increase the mobility, technical process and diversity of economic patterns.

Now let's think why do we need cultural diversity for human being as biodiversity for living? First, we could say that the level of ecology is related to multi-linear evolution of culture. This evolution is the result of mobility. Meantime, mobility is the result of technology expression as universal, creativity, specialty and diversity. Technology as it was said before is an expression of miniaturization and portability, people increasingly interacts and form communities: real and virtual. So, culture

<sup>1</sup>

<http://www.travelwebdir.com/travelarticles/Ecotourism---The-Must-be-Principles-1015.html>

becomes more and more sophisticated and we already have virtual issue despite of performing arts (selective idea from: *Mobilities, immobilities and moorings*, by Kevin Hannam, Mimi Sheller and John Urry).

This performance of mobility and technology, increase the opportunity cost of cultural diversity and its multi-linear evolution, that directly or indirect has an impact upon environment and its state. Of course cultural development is linked to economic patterns and the risk increase in a very modern pattern, but also is very discussed as a possibilism of materials chose to less affect the environment.

Even human body is considered as material culture. Demonstrative point could be the passage from *Introduction to Cultural Ecology* by Mark Q. Sutton and Eugene Newton Anderson: “Biological evolution and natural selection are the forces that shape organism. Beginning sometime in the distant past, culture began to influence human development, changing the relationship of humans to their environment from one of strict biology to a mixture of biology and culture.” Continuing with same idea, in *Visions of Culture*, by Jerry D. Moore, Bronislaw Malinowski comes to conclusion that “culture is utilitarian, and functionally integrated”, it means that culture is that determines which set of solutions will be utilized. In addition to meet biological needs, culture impose other needs, thus increase the search, the look for and the most important the mobility towards satisfaction from consumption. An instrument is technologies which impact upon environment in a positive or negative manner. So, practically human being is forced by his needs to perform technologies to be satisfied. And here we are again confronting the parallelism among cultural diversity, performing technologies, environment and our needs.

To conclude directly with the second principle and its meaning about how culture is linked to environment and ecology we could mention a very important result of this relationship that aims world high level of ecology – ECOTOURISM, which is linked also to mobility. Finally, the Global Code of Ethics for Tourism enacted by the World Tourism Organization (WTO) defines the concept of Ecotourism (Ecological Tourism) as follows:

- A contribution to mutual understanding and respect between peoples and societies
- A vehicle for individual and collective fulfillment
- A user of the cultural heritage of mankind and contributor to its enhancement
- A beneficial activity for host countries and communities obligations of stakeholders in tourism development.

### 3.Sustainable Tourism Strategies

For these reasons, the development of a sustainable approach to tourism must be based on strategies that protect and strengthen both natural and cultural diversities. It should avoid the clash of conservation-versus-people — which has become particularly common in Africa. It needs to integrate the rights of local communities to use and manage natural resources. And it should ensure that any profits from tourism are used by the local populations as well as for the conservation of natural resources.

Ecotourism has the potential to help preserve and enrich local indigenous cultures not only in the short term, but also from a transgenerational long-term perspective. Indeed, the development of a sustainable tourism model could play a valuable role in the development of more sustainable societies worldwide. There are, however, significant risks involved in any tourism or ecotourism initiative. When developing an ecotourism strategy, the vulnerability of the natural or cultural resource being promoted must be carefully assessed to ensure that any planned activities do not threaten or undermine it. Furthermore, it is absolutely critical that local communities, in their struggle for sustainable livelihoods, be involved in integrating ecotourism activities into self-reliance projects that benefit both the community and the natural environment.

“The participants to the World Ecotourism Summit from August-September, 2002 in Johannesburg, aware of the limitations of this consultative process to incorporate the input of the large variety of ecotourism stakeholders, particularly non-governmental organizations and local and indigenous communities:

- Acknowledge that tourism has significant and complex social, economic and environmental implications;
- Consider the growing interest of people in traveling to natural areas;
- Emphasize that ecotourism should contribute to make the overall tourism industry more sustainable, by increasing economic benefits for host communities, actively contributing to the conservation of natural resources and the cultural integrity of host

communities, and by increasing awareness of travelers towards the conservation of natural and cultural heritage;

- Recognize the cultural diversity associated with natural areas, particularly because of the historical presence of local communities, of which some have maintained their traditional knowledge, uses and practices many of which have proven to be sustainable over the centuries;

- Reiterate that funding for the conservation and management of biodiverse and culturally rich protected areas has been documented to be inadequate worldwide;

- Recognize further that many of these areas are home to rural peoples often living in poverty, who frequently lack adequate healthcare, education facilities, communications systems, and other infrastructure required for genuine development opportunity;

- Affirm that different forms of tourism, especially ecotourism, if managed in a sustainable manner can represent a valuable economic opportunity for local populations and their cultures and for the conservation and sustainable use of nature for future generations;

- Emphasize that at the same time, wherever and wherever tourism in natural and rural areas is not properly planned, developed and managed, it contributes to the deterioration of natural landscapes, threats to wildlife and biodiversity, poor water quality, poverty, displacement of indigenous and local communities, and the erosion of cultural traditions;

- Acknowledge that ecotourism must recognize and respect the land rights of indigenous and local communities, including their protected, sensitive and sacred sites;

- Stress that to achieve equitable social, economic and environmental benefits from ecotourism and other forms of tourism in natural areas, and to minimize or avoid potential negative impacts, participative planning mechanisms are needed that allow local and indigenous communities, in a transparent way, to define and regulate the use their areas at the local level, including the right to opt out of tourism development;

- Note that small and micro business seeking to meet social and environmental objectives are often operating in a development climate that does not provide suitable financial and

marketing support for this specialized new market, and that to achieve this goal farther understanding for the ecotourism market will be required through market research at the destination level, specialized credit instruments for tourism businesses, grants for external costs, incentives for the use of sustainable energy and innovative technical solutions, and an emphasis on developing skills not only in business but within government and those seeking to support business solutions.”<sup>2</sup>

#### **4. Some benefits of tourism' development in Moldova**

All the above are true for Moldova also, because the tourism industry is not fully recovered. Especially, it is necessary in conditions where in our country lack natural resources on the one hand, but on the other hand, it has a very important resource - both favorable natural environment and its human potential. Unfortunately, ecotourism is still little practiced in our country. But already are developing other types of tourism - rural tourism, cultural tourism, historical, etc., that promote important values, including environmental conservation. On the base of these types of tourism already in place, there may be special programs that would specifically protect certain areas, such as, natural reserves. Notorious advantage of such tourism is the fact that it can be done in specific natural environment, contributing to its sustainable development.

Another important advantage is that ecotourism is focused mainly in rural areas, traditionally disadvantaged in Moldova, where the standard of living of the population is substantially lower and, moreover, holds about 60 percent of national habitat. But the massive exodus of population from the country's large majority occurs on account of the rural population (which, according to assessments, tend to figure about 1 million people).

Also important is the impact and cultural exchange offered by tourism for a country like our, which has set as its primary objective - the European Union integration. And the exchange of tourists leads to the imminent intensification of interpersonal communication and in the longer time

---

<sup>2</sup> FENNELL, David A. “Ecotourism”, Third edition, 2007, 282 pages

perspective between peoples. As a result, it is achieved a complex process of system of values' homogenization, perceptions of the reality between local people and outsiders. And finally, it is logical to expect homogenization of mentality, influenced in particular and quite inadequate by the former economic system (central planned and command system) and, why not ideological.

Nowadays, types of tourism that allows the environment support and contribute to rural areal development, become those alternative avocations that allow diversifying the rural habitat, to retain young people in the area and provide opportunities to the native self-assertion. Important fact it is especially in times of crisis, when it is among the few susceptible areas likely to support the economy through the importation of foreign currency and eventual occupation that they can provide to labor resources in the country.

## 5. Conclusion

It is from this perspective that one can begin to comprehend the cultural impact of international tourism. When tourists arrive at their destination, they bring with them different beliefs and behaviors, which to some extent influence the host culture. At the same time, tourists are changed by their experiences. In short, tourism is an interactive phenomenon, affecting both the hosts and the visitors.

But this effect is lopsided. The influence of tourists on the societies they visit is generally more pronounced than vice versa. The majority of global tourists come from a few affluent countries (dominant cultures), which are relatively unaffected by visitors from smaller local cultures. On the other hand, tourism increases the risk of irreversible cultural and eco-systemic disruptions in smaller societies.

Generally, the formulation of ecotourism implies by itself the problem of cultural interaction, as well of cultural impact and vice versa. Sometimes this impact could be positive, because it enhances the role of ecotourism, its meaning and development. On

the other hand its impact could be negative, because it could create the situation when meanings and values are misunderstood.

With regard to Republic of Moldova we would like to mention that a substantial contribution for solving problems on ecotourism development can bring financial and information opportunities that it offers the Euro-region creation, which have the potential to lead to the widening tourism sphere development, including those ecological in Republic of Moldova. But for this aim, the respectively field needs to become a state priority, which will elaborate concrete economic policies and mechanisms to support it (creating a favorable economic environment through incentive tax, preferential credit, proper training of personnel to be involved, advertising, etc. ).

## 6. Bibliography

1. FENNELL, David A. "Ecotourism", Third edition, 2007.
2. HANNAM, Kevin, SHELLER, Mimi and URRY, John, *Mobilities, immobilities and moorings*.
3. MEURS, Paul, VERHEIJEN, Marc, BOELENS, Luk *in Transit: Mobility, City Culture and Urban Development in Rotterdam*, NA Publishers, 2003.
4. MOORE, Jerry D., *Visions of Culture*, Rowman Altamira, 2004.
5. SUTTON, Mark Q. and Eugene Newton ANDERSON, *Introduction to Cultural Ecology*, Rowman Altamira, 2004.
6. TROFIMOV, Victoria. *Sustainable Development and Rural Tourism in Republic of Moldova in the Context of Siret-Prut-Nistru Euroregion: Deficiencies, Management, Opportunities for Human Resource*. Materials of Scientific International Conference – „Academic days of Iasi. Sustainable economic and social development in Euro-regions and trans-border zones”. The Institute of Economic and Social Researches „ Gh. Zane”, Romania, Iasi, Tehnopress, 2009.
7. UNESCO, International declaration on cultural diversity.



# The Role of SMEs in the Development of Romanian Rural Areas Case Study: Sucarpathian Rural Area between Buzău and Slănic Valleys (Buzău Subcarpathians)

STOICA Ilinca-Valentina  
MITA Simina  
PUNCIOIU Ana  
*University of Bucharest,*  
*e-mail: stoicailincavalentina@gmail.com*  
*simina.mita@petrom.com,*  
*ana\_puncioiu@yahoo.com*

## Abstract

*Romanian rural areas are a sector that, in the context of transition from socialist economy to market economy, has accumulated numerous dysfunctions, whose resolution requires the identification of viable solutions that are compatible with local potential and at the same time preserve traditional features.*

*In this context SMEs play an active part and are very important because they allow the absorption of a percentage of the population laid off in the wake of economic reorganization that plagued post-1989 Romanian society, as well as the rapid diffusion of innovation in the territory. They can be considered local sources of discontinuity, which serve to enhance and propagate economic growth in the territory, implicitly bringing about a rise in living standards.*

*After 1989, the rural sub-Carpathian area between Buzău and Slănic valleys was characterized by changes in economic structure, with a strong impact on the population and on the organization of rural communities. In this context, the features of SMEs during 1994-2006 were analyzed, which highlighted their increase in numbers, more than threefold, during the respective period.*

**Key words:** *rural area, small and medium - sized enterprises, development strategies*

**JEL Classification:** *I30, M13, M21, O1, R00*

## 1. Romanian rural areas – features and outlooks

Up to 1989, rural areas were viewed in Romania as merely a source of manpower and a raw material supply [1], a situation that, for certain reasons, continued after 1989, and, although on a smaller scale, has endured through into the present.

As a residue of the communist era in the mindset of a large part of Romanian population, urban areas are considered the standards in development and wealth, where living standards and therefore access to services is much higher. For all purposes, after decades of socialist economy, when the bulk of the young and adult population wanted to migrate to cities, after 1989 the rural areas had lost their bearings; the population could no longer head for the cities, where available jobs dropped in numbers (because of economic reorganization) and where potential migrants' access was much more difficult than in the previous period. In this context, solutions must be found in rural areas in order to raise living standards and improve the conditions of rural population.

Unfortunately, the bulk of the population in rural areas is not aware of the resources available in the village where they live, nor is it able to identify ways to capitalize on those resources [2]. Development of rural areas should be tackled while bearing in mind the resources of those areas and preservation of traditional customs and local rural nature, so as to preserve their identity. Actually, no single universal approach can be found to solve the existing dysfunctions and drawbacks in that

type of area; the plans for development must offer viable solutions that match the specific features of each particular rural region [6].

## 2. The role and part of SMEs as vectors of local and regional development

Rural development policy is closely linked to two concepts: diversity (multi-functionality) and sustainability, as achieving optimal diversity at community level is a key in the rural development problem [5]. Rural development programs therefore have to consider a multifunctional approach that would encompass the competitiveness of the agrifood sector, rural infrastructure, alternative sources of income (others than agriculture) and measures to raise mobility of manpower [2].

Opportunities for multifunctional development are grounded in generating many-sided activities, with a view to generating alternative incomes [3].

Diversification of activities in rural areas will result in creating new jobs for the population, which might lead to a drop in emigration and to stabilizing the population in those areas, because one of the main problems faced by rural areas is that most of those who left have not returned to their birthplaces but preferred to settle in towns.

An important part in the development of rural areas can be played by SMEs, which can act as vectors of rural development. They can be deemed drivers (local sources of discontinuities), which can be converted into vectors of innovation and economic growth.

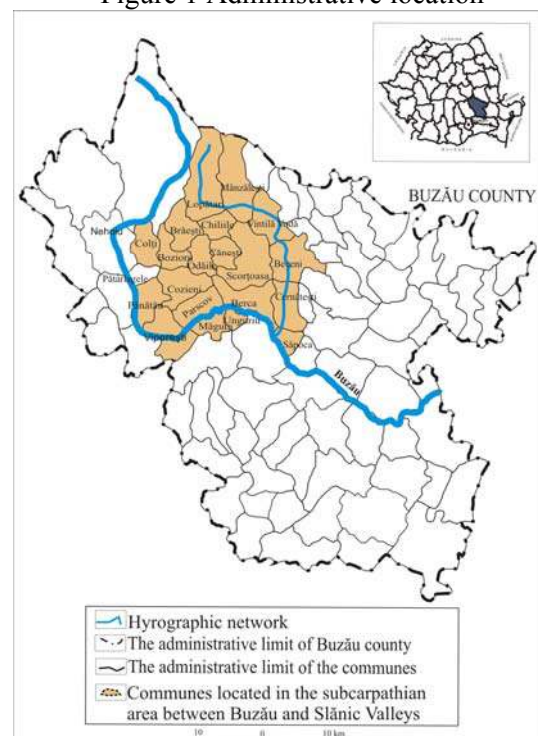
After 1989, increasingly more attention has been paid to SMEs in Romania, and the Romanian Government alongside various partners, usually European institutions has taken a series of measures to encourage and support the development of SMEs. However, SMEs are found in rural communities in small numbers in general, the reasons being that rural areas lack basic infrastructure (roads, water and sewers), the rural population's generalized shortage of money, and the archaic rural mindset [2].

## 3. Characteristics of the Subcarpathian rural area between Buzău and Slănic valleys

The subcarpathian rural area between Buzău and Slănic Valleys is located in Buzău Subcarpathians, which are included in Curvature Subcarpathians.

From administrative point of view this is located in the north central area of Buzău county (figure 1).

Figure 1 Administrative location



Thus, in this area there are located 9 villages, but there are going to be studied other 11 administrative units that are only partially located in the analyzed area, which approach this area through the economic activities developed there. In this area, small and medium rural establishments prevail, being an obvious difference regarding the development level of the villages located in Buzău and Slănic valleys and those located in the tributary streams' valleys, which are less developed, even marginalised. In the most cases, living standard and accessibility degree are diminishing proportional to the distance between the two polarizing axes [4].

On the whole, in these villages, as the entire subcarpathian rural area, there are serious problems which have influence on the rural life quality and there should be found some viable

solutions that are fit for a territorial balance from both economic and social points of view.

Thus, one of the main disfunctionalities is the high level of the population ageing in 11 villages out of the 20 localities, the population share of 60 years being over 30 %. In 17 localities, the age class between 15 and 59 prevail; this aspect related to the low natality demonstrates that the employment will decrease more and more in the future.

On the whole, the living standard is low and even very low, as well as the education level, especially in the localities located within the analyzed area, in this way being partially explained the low initiative level; in the most localities not even one type of European funds being accessed by the natural persons.

Agriculture, in the economic sectors, represents the greatest share, the only exception being Berca locality, where the industrial activities prevail, within those, the oil and natural gas extraction having the greatest share. The practical agriculture is one of subsistence, in small areas, especially by traditional means, being only associations for the land owned in the plain area. At the same time, another problem is the absence of local outlets that should permit a proper capitalization of the products obtained.

Non-agricultural activities are slightly represented, the most part of the existent companies being oriented to retail, due to the fact that is an activity implying a low risk by comparison with other economic sectors, an initial low investment rate and minimal economic knowledge being needed.

#### **4.Changes in the economic structure of the rural areas between Buzău and Slănic valleys**

The economic structure of the area analyzed underwent several changes starting 1994 and through 2006, some of them of special importance because they triggered radical changes.

As far as the number of active companies is concerned, it rose more than three times over during the period analyzed, which caused many-sided modifications in the structure of the region, in the context of the economic reorganization that brought about the bankruptcy or downsizing of some of the

companies set up during the communist period; in many instances there was a conversion of companies to new trades, or the emergence of new ones, especially in services.

Economically speaking, Berca is the most developed commune, with more than 20% of all companies, most of them active on the premises of Berca, which polarizes a significant percentage of the active population in - not exclusively - neighbouring communes. Berca has permanently been a center of attraction for inhabitants of the Central-Northern part of Buzău county, and it was a destination for migrants even as early as the communist period.

While in the case of the above-mentioned administrative unit, the companies' ratio of the total in the two reference years was roughly the same, in the case of Pârscov (the second commune in importance, in terms of total ratio), a 3% plus increase is registered, as a result of the inclusion of several companies in the trade registry, plus certain companies involved in processing timber.

By 1994 the two settlements accounted for more than 30% of all small and medium-sized enterprises in the region (table 1), between them, and they were centers that polarized the population in neighbour rural areas, a state of things that continued throughout 2006 (33% of all SMEs), a trend enhanced by infrastructure and ease of access, much better than the other townships'. In these two instances, commune seats are the drivers of economic growth, and they are much better developed as compared to the surrounding region, a situation that has persisted since the communist period; the two settlements have been nominated for elevation to the status of towns.

In most communes SMEs are involved in retail, but there are some exceptions, such as the Lopătari commune, where, in addition to retail-specialized companies there is strong economic activity based on exploiting and processing timber; there are more than 30 saw mills in the commune. This is a traditional field of work in the area, favoured by the commune's geographical location, as the piedmont border with the mountains features vast forest areas, supplying the raw material needed for such an operation.

Table 1 Employee numbers (1994, 2006)

Commune	<49		50-249		>250	
	1994	2006	1994	2006	1994	2006
Lopătari	19	93	1	0	0	0
Mânzălești	13	37	0	0	0	0
Beceni	45	55	1	0	0	0
Cernătești	29	14	0	0	0	0
Vintilă Vodă	13	76	0	0	0	0
Săpoca	26	84	1	0	0	0
Berca	68	224	2	1	2	2
Unguriu	22	43	0	0	0	0
Măgura		74		0		
Scorțoasa	14	34	0	0	0	0
Viperești	17	49	0	0	0	0
Cănești	1	13	0	0	0	0
Chiliile	1	7	0	0	0	0
Pârscov	37	151	1	2	0	0
Cozieni	8	29	0	0	0	0
Colți	5	27	0	0	0	0
Pănătău	10	46	0	0	0	0
Bozioru	1	9	0	0	0	0
Odăile	3	12	0	0	0	0
Brăiești	18	37	0	0	0	0
Total	350	1114	6	3	2	2

Source: 2006: Buzău Trade Registry; 1994: the National Trade Register Office; processed data

The lowest number of SMEs is located in the communes of Bozioru and Chiliile, which are more isolated and suffer from deficient infrastructure. By the beginning of the time period analyzed, each of the two communes had a single company, active in services and retail, respectively; in the long run, more companies involved in retail trade were set up. Cănești and Odăile were in the same situation; by 1994 they had 1 and respectively 3 companies involved in retail. Nowadays most companies continue to work in retail.

Economic activity in the area analyzed consists in microenterprises and small enterprises (0-49 employees and average annual net turnover or total assets of no more than EUR 2 million in the case of microenterprises and no more than EUR 10 million in the case of small enterprises); by 1994 they accounted for more than 95% of all

SMEs. At the moment there are only 3 medium-sized institutions (with 50-249 employees and an average annual net turnover of up to EUR 50 million, or total assets worth less than EUR 43 million); their number dropped to half as compared to 1994's, because of economic hardships, which brought about their privatization and subsequent bankruptcy, or their subdivision into smaller units, which meant their inclusion in the lower tier of small and medium enterprises.

The 2 large companies in service by the onset of the period analyzed endured; they operate in industry; however, the number of employees dropped, in the context of the reorganization that encompassed all of Romanian economy. They are located in Berca, and specialize in crude oil drilling and the construction material industry, respectively.

As far as *turnover* is concerned (table 2), one can notice several variations from one reference year to the second, in the sense that if by 1994, 99.7 % of companies registered turnovers below RON 500,000, by 2006 their number had dropped to 89.9%, which proves increased profit for companies active in that field. Only 0.3% of the companies posted RON 500,000 to 1 million in 1994; by 2006 their number had risen to include 5.9% of companies.

4.2% of all companies posted turnovers bigger than RON 1 million, as compared to not a single company in this category in the previous time period.

Among communes, Berca and Pârscov stand out; they have the highest number of SMEs with turnovers bigger than RON 500,000; the other companies fall way short of the figures that would include them among large enterprises (with the exception of the two companies in Berca, which qualify as large enterprises thanks to their number of employees). In 40% of the communes all companies posted turnovers lower than RON 500,000, due to the fact that microenterprises are predominant on the premises, which mainly focus on retail commerce [4].

Table 2 Companies' turnover (1994, 2006)

Comuna	<500 000 RON		500 000 - 1 000 000 RON		>1 000 000 RON	
	1994	2006	1994	2006	1994	2006
Lopătari	20	90	0	2	0	1
Mânzălești	13	35	0	2	0	0
Beceni	46	55	0	0	0	0
Cernătești	29	14	0	0	0	0
Vintilă Vodă	13	70	0	4	0	2
Săpoca	27	75	0	6	0	3
Berca	71	187	1	21	0	19
Unguriu	22	38	0	4	0	1
Măgura		56		10		8
Scorțoasa	14	34	0	0	0	0
Viperești	17	47	0	1	0	1
Cănești	1	13	0	0	0	0
Chiliile	1	7	0	0	0	0
Pârscov	38	132	0	10	0	11
Cozieni	8	27	0	2	0	0
Colți	5	27	0	0	0	0
Pănătău	10	42	0	3	0	1
Bozioru	1	9	0	0	0	0
Odăile	3	12	0	0	0	0
Brăiești	18	36	0	1	0	0
Total	357	1006	1	66	0	47

Source: 2006: Buzău Trade Registry, 1994: the National Trade Register Office, processed data

Analyzing the ratio in terms of *sectors of activity* for each of the 20 settlements in the region analyzed, one can notice significant changes in the two reference years:

-the steep rise in the number of companies involved in retail was first of all due to the need for such units that would supply the population; their development was also stimulated by the large degree of isolation that characterizes a big part of the rural settlements in this area. A great inflow of such units was noticed right after 1990, when the purchasing power was great, and the rapid success of some owners launched an upward trend, also emphasized by the fact that the initial

investment was small and it could be relatively easy recuperated. In the longer run, some of them stopped being self-sufficient so they were either closed down or they reoriented towards other fields of trade: services, transport or the timber industry. This was easy especially for those companies that had had several fields of activity listed upon their setting up;

-In industry, the number of companies rose by around 30%; the growth occurred in the context where many were closed down (for instance, Berca-based "Rubinul", active in the glassware sector), but many endured and other new ones were launched, especially in the timber processing industry;

-In agriculture, the ratio rose by 0.1%, which was due to the fact that several farms were post-1990, especially in the land close to the plains region, which have survived through to the present time;

-A significant ratio - 5.2% - consists in construction companies, typically specializing in building construction and civil engineering. This sector of the economy is a clear example of economic diversification, considering that by 1994 there was no company of this type in the area analyzed;

-A process to implement new subdomains also occurs in the service sector, as new companies were created to offer business and management consultancy, ambulatory medical assistance, veterinary activities and others;

-The number of companies involved in transportation doubled in the 12-year time span analyzed, mainly due to the fact that long-distance travel to other counties was previously handled by a single, state-owned company, and several companies have been set up in the past few years, which handle the transport of both people and commodities;

-Hotels and restaurants are in a special situation; by 1994 they consisted in a few restaurants, plus a single accommodation facility in the Fișici resort (the Bozioru commune), now no longer in service, with the central building in an advanced stage of decay left as a sign of past activity. By 2006, in addition to bars and restaurants, several pensions had opened, rated one or two flowers, with one exception – a four-flower pension in the village of Berca. Pensions partly capitalize on the existing tourist potential; resources compatible with touristic usage that stand out include some special ones such as the Mud Volcanoes, the Meledic plateau, the cave

dwellings in Aluniș, Nucu, Fișici, and the 16<sup>th</sup>-17<sup>th</sup>-century wooden churches in Bozioru, the Amber Museum in Colți and the karst complex in Meledic among others.

## 5. Conclusions

Although transition from centralized economy to free market economy opened the way for the development of a wide range of non-agricultural activities suited to rural areas, involvement in such activities has been – and still is – limited by social, economic and technical factors.

SMEs are present in the area under analysis, but they are able to only partially absorb the existing workforce in the area; it is necessary to identify viable strategies for development that match local specific features and the strengths of the region. One of the drawbacks is the population's mindset, grounded in rural tradition; it finds it very hard to think of a way of life where agriculture would not play an important part. This is the challenge for local decision-makers: economic development of this type of space by finding those solutions that would allow improvement of living standards by a gradual transformation, so as not to harm rural identity.

The bottom line is that SMEs can act as vectors of multifunctional sustained development, able to propagate innovation in the region and bring about an uptrend in living standards.

## 6. Bibliography

- [1] Ianoș I., Tălângă C., Orașul și sistemul urban românesc în condițiile economiei de piață, Institutul de Geografie, București, 1994;
- [2] Gavrilesco D. et. al., Agricultura și spațiul rural românesc din perspectiva dezvoltării durabile, Ed. CIDE, București, 2006;
- [3] Manole V., Stoian M., Dezvoltarea multifuncțională a spațiului rural românesc, Ed. ASE, București, 2006;
- [4] Mita Simina, Stoica Ilinca-Valentina, "Rolul economiei rurale nonagricole în dezvoltarea durabilă a așezărilor rurale din spațiul subcarpatic cuprins între Buzău și Sărățel (Subcarpații Buzăului)", Comunicări de Geografie, vol. XIV, Ed. Universitară, București, 2007, pp. 441-449;
- [5] Rizov M., "Rural development and welfare implications of CAP reforms", Journal of Policy Modeling, 26/2004, pp. 209-222;
- [6] Stoica Ilinca-Valentina, Organizarea spațiului geografic și dezvoltarea rurală în bazinul hidrografic Sărățel, manuscris, 2009;

## Considerations Concerning the Economic Regional Situation on the Verge Of Global Crisis-the Maramures Area County

TOHATAN Ana Maria  
Western University "Vasile Goldis" Arad  
anatohatan@yahoo.com

### Abstract

*Studying the economic environment of the region is a necessary condition for emphasizing certain specific characteristics. Analysis involves drawing conclusions normally by reporting to some references. In terms of economy the results obtained through careful analysis cannot be reported only to references whose meanings are, most often, debatable, despite of the improvement of the statistical information content.*

**Keywords:** *economic crisis, economic analysis, statistic-economic indicators.*

**JEL Classification:** R 10;

Today, at the height of the economic crisis, as we look "in the mirror", that is to statistic-economic situation, we wonder:

Could one have foreseen the decline of the economy in 2009, and at the same time diminished somehow the effects of the global economic crisis?

What we are trying to highlight here is precisely the following: the abilities of predicting the future through the global results as obtained from economic analysis.

Studying the economic environment of a region is a necessary condition for emphasizing certain specific features of that precise area.

The importance of analyzing regional economy makes itself a necessary condition through the very way in which economy is structured in micro, mezo, macro and mondoeconomy.

Thus, mezoconomy studies the economic processes and phenomena on the economic level, territorial-administrative, etc.

Economic processes and phenomena are a complex phenomena generated by many main and secondary reasons, essential or non-essential, all these being in terms of mutual conditioning.

The various forms of connections between these phenomena are being established by a comprehensive qualitative analysis.

Regional economy state of things is analyzed in terms of the economic movement, which reflects in relation to space and time factors, the way in which the economy exists and functions, as a whole and at the same time at each and every particular level. Thus the economic movement emphasizes changes in terms of quantity, quality and structure of the economy.

The very source of the economic movement is mainly the interaction of the economic processes and phenomena, whereas its impulse is being given by the multitude of necessities, interests, desires and goals of the economic agents.

Taking a step back in time, we could say that the regional economic analysis meant what we can translate from *oikonomia* mainly the way in which a house or a community is being managed-with specific references in this case to how the territorial administrative region is being managed.

The economic analysis is the complex activity as it is done on the economic-administrative level of a certain region and has its main goal reflecting-through syntetic indicators-the state of the economy.

The statistic indicator is the numerical expression of an objective-qualitative measurements-as it is obtained by carefully examining the economic situation and related to a certain,specific time,space and management conditions.

Being a result of the research, the indicator has a real content, a determined goal, its own calculation formula and the specific form of expression. It characterizes an economic or social phenomenon which repeats itself regularly. It expresses numerically a certain economic category.

Expressing in numbers certain economic categories involves using several indicators, each emphasizing different essential aspects of it, such as primary (absolute) indicators and derivatives; relative indicators.[8]

Analysis through indicators is based on techniques used for evaluating economic position of the results obtained and the changes in economic position.

The Maramures County, as a separate administrative-territorial economic entity, is characterized by the following economic issues:

- Lies in the north of Romania
- Its total surface is: 6304,4 square km, representing 2,6% of the country's territory, ranking the 15th among the country's counties in terms of size.
- The capital city of the county is Baia Mare
- There are 76 administrative/territorial units in Maramures, of which 2 cities, 13 towns, 61 communes and 225 villages.[13]

In 2008, a year on the verge of the economic global crisis, in the local economic environment 3404 firms were supposed to successfully function, economically speaking. It is to be mentioned that these data subjected to analysis refers to comparative results between 2007-2008 as retroactive statistic-economic data.

Their situation is synthetically shown in the summary table nr.1. and graphic nr.1.[12]

Through analysis of the results and economic performances of the firms subject to research, we can see the following aspects:

- The industrial production in 2008 was 6,5% higher in absolute volume as compared to 2007, and 6,3% under comparable conditions from the point of view of working days;
- The total turnover (the total turnover originates both from the primary activity and the secondary activities of the companies within the industrial field) of the companies mainly active in industry in 2008 was 2,7% higher as compared to 2007;
- Investments in 2008 increased with 21,5% as compared to 2007;
- Exports and imports of goods between 1 January 2008 and 31 October 2008 grew with 19,9% and 10,6% respectively as compared to the same period in 2007;
- The turnover from market services directed towards the population grew with 8,6% in 2008 as compared to 2007;
- The possibility to offer accommodation in tourism-specialised facilities in 2008 was 10,8% higher tourism as compared to 2007;
- The average national nominal gross salary in December 2008 grew with 9,7% while the average nominal net salary grew with 9,4% as compared to November 2008. The ratio between the index of the average nominal net salary and the index of consumption expenditure in December 2008 was 110.6% as compared to the same month in 2007;

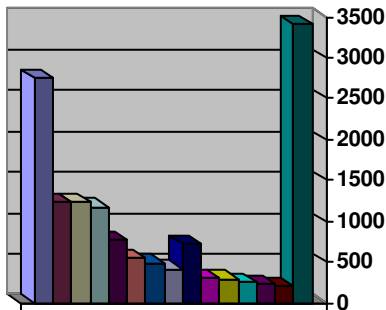
Numbers of Companies according to CAEN  
Divisions conforming  
to 2008 Balance sheet  
Table nr.1

Division CAEN	Name	Number of companies
47	Retail trade, except, of motor vehicles and motorcycles	2745
46	Wholesale trade, except of motor vehicles and motorcycles	1240
41	Construction of building	1231

49	Land transport and transport via pipelines	1174
43	Specialised construction activities	770
56	Food and beverage service activities	547
45	Wholesale and retail trade and repair of motor vehicles and motorcycles	496
16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting material	420
68	Real estate activities	317



71	Arhitectural and engineering activities; tehcnical testing and analysis	307
10	Manufacture of food products	293
70	Activities of head offices;management consultancy activities	262
25	Manufacture of fabricated metal products, except machinery and equipment	231
55	Acommodation	216
	Other activities	3404
	TOTAL	13.653



Graphic nr.1 – Numbers of Companies according to CAEN Divisions conforming to 2008 Balance sheet

- The inflation rate, determined on the basis of the increase in the population consumption expenditures, as 6,3% in December 2008, as compared to December 2007, which corresponds to a monthly average of 0,5% (0,5% in the previous year);

- The numbers of unemployed people at the end of December 2008 was 7577 people, 357 people less than in the previous month, but 509 more than in December 2007. The unemployment rate in December 2008 was 3,75 (3,9% in November 2008 and 3,4% in December 2007). For women the unemployment rate in December 2008 was 3,5% (3,6% in November 2008 and 2,9% in December 2007);

- The number of business with foreign capital (data supplied by the National Trade

Register) registered in 2008 was 173 with an invested capital of 42.196 Euros. [12]

## Conclusions

As it results from the evolution of the main statistic-economic indicators of the economical state of Maramures region, at the end of 2008 no economic downturn could have been foreseen. And this is because the indicators of economic and financial performances are retroactively calculated, reflecting the situation as shown through the financial activities from a past point of view.

Drawing conclusions through analysis usually means reporting to some kind of references. In economy results obtained through analysis can be reported only to references whose significance is often questionable, despite of the improvement of the statistical information content.

Changing the idea, Gheorghe Băilașteanu used to say that “no indicator or economic category can reflect everything, the complexity of real phenomena or economic process”.

And this is in fact our own conclusion as drawn through this research.

We would conclude paraphrasing Leucip, by saying that “*nothing happens without a reason but happens as necessity imposes itself*”.

## Bibliography

- [1] **Băbăiță I., Imbrescu I.** – Bazele *microeconomice ale activității agenților economici*, Editura Mirton, Timișoara, 2008.
- [2] **Bădiță M., Baron T., Korca M.** – *Statistică pentru afaceri*, Editura Eficient, București, 1998.
- [3] **Băileșteanu GH.** – *Diagnosticul și evaluarea firmei*, Editura Mirton, Timișoara, 1994.
- [4] **Cabariu L** – *Analiza și evaluarea societăților comerciale*, Editura Expert, 2002
- [5] **Niculescu, M.**- *Diagnostic economic*, Editura Economică, București, 2003.
- [6] **Păvăloaia W, Pavaloaia D** - *Diagnosticul și evaluarea întreprinderii*, Editura Tehnopres, 2006.
- [7] **Thibaut, J.P.** – *Le diagnostic d'entreprise*, Paris, 1989.
- [8] **Tohătan A.** – *Analiză economică globală a întreprinderii*, Vol I., Editura Risoprint, Cluj Napoca, 2009, pg.66-67.

[9] **Tohătan A.** – *Analiză economică globală a întreprinderii*, Vol II., Editura Universitatii de Nord, Baia Mare, 2010.

[10] **Vasilescu G.** – *Analiza statistico economică*. Editura Didactică Pedagogică, București.

[11] **Zaiț D., Zpalanzani A.** - *Cercetare în economie și management*, Editura Economică, București, 2006.

[12] **xxx** – *Topul firmelor d in Maramures*, Camera de Comerț și Industrie Maramures, Baia Mare, 2009, pg.13.

[13] **xxx** – *Directia Judeteana de Statistica Maramures.*, [www.djsmm.ro](http://www.djsmm.ro)

[14] **xxx**- *Registrul Comertului Maramures.*

## Purging Wastewater – a Priority for Romania

VOICU Ioana-Iulica  
ANTONESCU Eugenia  
*Constantin Brâncoveanu University from Pitesti*  
*ii\_voicucb@yahoo.com*  
*eugenia\_antonescu@yahoo.com*

### Abstract

*Considering the global diminishing of water resources, treating and purging the waters represents a desideratum for all of us, as water quality is affected most of all by the spill of wastewater.*

*Water is essential to life and the lack of it or drinking polluted water generates negative consequences for a person and his health. That is why EU lays emphasis on creating performing purging stations according to the latest quality standards.*

*Of the 2,605 cities in Romania, only 505 are equipped with sewage systems, out of which only 18 are in concordance with the requirements of the European norm in this field. The percentage of connections to the sewage network was, in 2008, of 49.46% and by the end of 2010 it has to reach 60.8% - in order meet the terms of the EU agreement. Out of the already mentioned total number of cities, only 390 are served by 337 purging stations – only 14 of them are in concordance with the European norms and have the secondary level of purging.*

*The year 2010 is the first deadline at which Romania has to report about the progress made with the implementation of the European Norm concerning the purge of wastewater. The public eye has to convince itself about the gravity of the current situation. The mass of the polluting substances we spill in waters grows each day and if no measures are to be taken in order to prevent this danger, the pollution today will be insignificant in comparison with the one from tomorrow.*

**Keywords:** wastewater, European norms, resources

**JEL Classification:** Q27, Q28, Q40, Q43

### 1. Conceptual approaches – historic, evolution, regulations

Considering the global diminishing of water resources, treating and purging the waters represents a goal/ desideratum for all of us, as water quality is affected most of all by the spill of wastewater.

Apparently *the first sewers* were built 5000 years ago in Mohenjo-Daro, on the Indus valley, and the roman canals are still in use nowadays, technically being an excellent execution. *The first purging stations* however appeared in England in the 19<sup>th</sup> century, and in 1984 in the USA there were 15438 purging stations serving to 73.1% of the population[1]. Technically speaking, the first step in the purging process is collecting, through the sewage systems, the wastewater, also known as used water or sewer water. For the industrial polluters these systems are simpler, but for the sewage of a locality, they are vast and complicated. Practically water purging is the process of removing from potable, industrial, canal waters the substances that make them inappropriate for certain uses.

The principle of building a purging station for wastewater is based on a close building scheme, although they differ in dimensions and the applied technology. As a rule they consist of: a primary level, mechanical; a secondary level, biological; and for some stations a third level, biological, mechanical or chemical. There are also vertical purging stations, tour-like, but most of them are horizontal. They occupy a relatively big surface, but part of the plumbing can be done under-ground, with green-spaces on the ground.

Purging wastewater is a technical discipline, in which the sciences of engineering, physics, biology and chemistry collaborate. There is a big amount of specialized literature on how to

operate purging stations, based on detailed legal and technical regulations.

The main normative specific act is H.G. Nr 188 / 28<sup>th</sup> February 2002 for the approval of norms concerning the conditions of discharging wastewater in the aquatic environment, published in *Monitorul oficial*, 1<sup>st</sup> part nr. 187 of March 20<sup>th</sup> 2002.

According to the Adhering Treaty, Romania has to assume the compulsivity of the approximation of the national legal frame and the EU legislation in the field of water as well, this meaning 18 directives (17 plus the 91/271/EEC).

Moreover, in the context of European integration the rational use of both knowledge and technology transfer is imposed, as well as promoting the standards and the existing norms at an European level.[2]

## **2. Water, an universal substance.**

Water is essential to life it is the most common substance on Earth. She fulfills several functions in the organism and basically, without water, all biological reactions become impossible. The lack of water or the consumption of polluted water has multiple negative consequences on persons and their health.[3]

Moreover, the human body is two thirds water and needs, in order to be healthy, 2.5 liters of water a day. In western societies about 250 liters of water are used daily for body hygiene and domestic consumption to which the industrial and agricultural consumption are added. In order to grow the wheat necessary for a white loaf of bread 400 liters of water are needed and 279 tons of water are required for the production of a ton of steel. Naturally, water appears in three different forms: solid (frozen or as ice), liquid (water) and gaseous (vapors of water in the air). It can dissolve more substances than any other liquid.

The sea level is raising, the glaciers are melting and the Earth is under the threat of a possible flood until the end of the century. The irony is that the planet is now confronting a scarcity of water that may become a serious crisis in the near future.

Water, universal substance, covers 70% of Earth's surface, that is over 1.4 billion Km<sup>3</sup>, but only a small part of it is used by man. Sea water represents approximately 97% of world water supplies and it contains up to 35 kilos of mineral salts dissolved in every 1000 liters of

water. This is up to eight times saltier and it cannot be used for consumption or irrigations. Fresh water only represents 3% of world water supplies and 97% is sea water. 77% is blocked in ice caps or mountain glaciers, 22% is underground waters and the remaining per cents represent 0.05% vapors of water, 0.2% soil humidity, 0.35% lakes and rivers, 0.4% salty water rivers and inner seas.[4]

While UN requires a minimum consumption of 50 liters of water daily for drinking, cooking, washing and sanitary use, billions of people worldwide don't even have access to sources of fresh water of safe water for minimum sanitary use. If the world population continues to grow in the same rhythm as it is now doing, the water consumption will be in 2030 of about 40%. In this case between 2 and 7 billion people worldwide will suffer the consequences of the irrational use of water up until the middle of the century.[5] Moreover, nowadays even the most pure water sources have become inappropriate to be used because of the pollution and of the contamination that resulted from human activities and from industrial wastewaters. The industrial progress of the last decades has led to the increase of the amount of polluting substances that are hard to be detained using classical technologies. Industrial and domestic wastewater that have been insufficiently well purged, or not purged at all, affect the quality of water resources.[4]

## **3. The particularities of purging wastewater in Romania – somber realities.**

Studies have shown that, at a national level, the sewage network measured almost 17,000 km in 2004. In five years, the network has increased with only 3000 km, serving localities comprising 51% of Romania's population. For the almost 20,000 km of pipes still necessary, we would need 29 more years. Two decades later than the commitment Romania took in front of the EU.

The total sum required to finalize the sewage network and the purging stations in Romania has been estimated by the National Administration of Romanian Waters (ANAR) to 9.5 billion euros. At the end of 2008, according to ANAR data, in Braila County only 2.6% of the population were connected to

the purging stations, in Mehedinti only 2.7%, in Caras Severin 2.8% and in Galati 5.9%. The wastewaters in these regions go unfiltered in the Danube and then in the Black Sea, affecting the environment on a long-term.

The Danube is polluted and according to the data from the Ministry of the Environment, the biggest polluting factor is Bucharest. Only in 2008 in Dambovita have been discharged over 370.000 m<sup>3</sup> of wastewater, containing over 25,000 tons of phosphates, 500 tons of detergents, a ton of cyanide and the quantities of nitrogen, ammoniac, urea or phosphorus were 30-40 times over the imposed norms.

The pollution of the Dambovita leads to the pollution of the Danube and currently the people of Calarasi have severe problems with the quality of the potable water in the town. In this vicious circle an important part is played by the Purging Station of Bucharest which normally should filter the wastewater of the capital city before they reach Dambovita.

Although investment has been made at the Purging Station of Bucharest of 2003 by using European funds, the complete modernization of the filters of the purging station will take place in 2013. According to the Monitoring Report of the National Administration of Romanian Waters (ANAR) for 2008, the volume of wastewater discharged from Bucharest and the localities adjacent to it was of 354.3 million m<sup>3</sup> a year, representing all the wastewater discharged directly in the Dambovita, after passing through a mechanical stage, which has a powerful impact on the quality of the waters of Dambovita and Arges, the parts of the rivers that are affected being represented by strongly degraded waters.

According to their equipment and to the complexity of the technological scheme, the purging stations can produce: potable water, water of different quality categories for industrial use, water for zootechnic compounds or water for irrigation.[5].

The European norms in the field of waters imply, especially for the big cities, the creation of purging stations with a third purging stage, in order to achieve a good waters' state respectively class two of quality. In Bucharest, after finishing line I, the works on line II must also be ready by 2012.

The maximum volume of wastewater discharged in Bucharest is of 18 m<sup>3</sup> a second. The purging line I makes possible the purging of a maximum quantity of 10 m<sup>3</sup> a second and after the completion of line II the maximum

purged volume of water will be of 18 m<sup>3</sup> a second.

According to the data from the ANAR monitoring report, in 2008 the wastewaters were filled with nutrients, the high values of nitrogen, an annual average of 27.037 milligrams a liter, and of phosphorus – 3.99 milligrams a liter, requiring an advanced purging of wastewater.

From the 2,605 cities in Romania, only 505 have sewage systems. Out of these, only 18 are in concordance with the requirements of the European norm in this field. The degree of connection to the sewage system has been, in 2008, of 49.46%, and by the end of 2010 it has to reach 60.8%, consistent with the agreement with EU.

Out of the same number of cities, only 390 are served by 337 purging stations, and only 14 of them respect the European demands and have the secondary stage of purging.

The big cities however do not have purging stations congruent with the European norms. 2010 is, as stated by ANAR, the first deadline to which Romania has to project its progress in connection to the implementation of the European norm about wastewater purging. By the end of 2010 “*part of the big urban agglomerations that have more than 100.000 inhabitants, among which: Bucharest, Cluj, Iasi, Buzau, Piatra Neamt, Satu Mare, Constanta, Galati, Targu Mures, Ploiesti or Timisoara, have to report the completion of the works at the purging stations with a third stage and, implicitly, the connection of their inhabitants to them.*” At present Romania has no purging station with a third stage capable to clean the wastewater of the content of nutrients, total phosphorus and total nitrogen.

The wastewater with a high content of heat generates multiple effects, and the increase of temperature stimulates the phenomenon of eutrophication.[6]

Moreover, the effects of polluting water resources are complex and varied, according to the nature and the concentration of the contaminating substances. Solving the problems raised by water pollution is a matter of the treating and purging process through which the necessary conditions for consumption are fulfilled.

On the one hand it is required to lay emphasis on human resources and on the institutional development of the internal environment system, and on the other hand on promoting international relations, especially regional,

aimed at improving the efficiency of the actions locally.[7]

The entire Romanian society has to participate in administrating water resources and this activity must be fulfilled in a very conscious way.[8]

The public eye must convince itself of the gravity of the current situation. The mass of the polluting substances we spill in waters increases daily and if no measures are to be taken to stop this danger, the pollution today will be nothing compared with the one from the future.

## **BIBLIOGRAPHY**

1. Transilvania Ecologic Club, ECOAQUA brochure, no 4/2002, Purging Wastewater, pp. 2.
2. Ion Scurtu, Cristiana Sima, Ecologie și protecția mediului, Independența Economică, 2009, pp.191.
3. Managerial Strategies, nr. 3/2009, Ed. Independența Economică, pp. 22.
4. Rozica Poșircă, Resursele de apă în Câmpia Întinsă a Piteștiului și alimentarea cu apă a Municipiului Pitești, Ed. Independența Economică, 2004, pp. 317-318.
5. Virginia Ciobotaru, Ana-Maria Socolescu, Poluarea și protecția mediului, Ed. Economică, București, 2008, pp. 112.
6. Țuțuianu Ovidiu, Poluarea mediului înconjurător, Internațional University Press, București 2006, pp. 63.
7. Ion Scurtu, Cristiana Sima, Ecologie și protecția mediului, Independența Economică, 2009, pp. 191.
8. Managerial Strategies, nr. 1/2008, Ed. Independența Economică, pp. 139.
9. [www.greenagenda.org](http://www.greenagenda.org)
10. [www.worldbank.org](http://www.worldbank.org)
11. [www.worldwatch.org](http://www.worldwatch.org)
12. [www.ecomagazin.ro](http://www.ecomagazin.ro)
13. [www.infomediou.eu](http://www.infomediou.eu)

## Proposals concerning project management for local communities development

BRAGARU Constantin  
Asist. Univ. Drd "Ovidius" University  
costin\_bragaru@yahoo.com

### Abstract

*In the last years local development has become undeniably one of the dominant elements for productivity growth strategy employment, human welfare, entrepreneurship promotion, obtaining human capital and income increase. Assuring sustainable development for a specific region is a complex process in the measure in which this process is subjected to some factors which cannot be controlled by a local, regional, or national administration. The entire post-revolution and post-accession experience, cumulated with good policy making transferred by Romania to European Union, proves that the private public partnership is a viable solution for successfully solving some communitarian problems, public interests starting with social services and complex social-economic development projects including infrastructure projects. The experience of some different governments and international organizations cumulated in more than 20 years demonstrates that PPP are a solution for solving social economic problems.*

**Key words:** local community, economic development, strategies, European funds

**JEL Classification:** E61, H83

### Introduction

The long term impact of globalization, associated with demographic growth and the advanced aging of population, technology evolution and climate change have enlarged the action of local economy in condition of a registered success in regional, national or multinational structure level. Although it has become more and more clear that the only national politics which haven't been confronted with major difficulties in repairing economic disparities between regions and towns are part of EOCED (Economic Organization from Cooperation and Development) states for which sustainable development is vital. The difficulty

in the local development process consists in identification of the solutions in order to attract and involve in the "game" all necessary factors, a balanced utilization of resources so that these can be improved in the next 30-50 years. The knowledge economy has gained new valences and has more importance ahead industrial economy. This type of investment is definitely profitable but a great number of towns don't have the necessary financial resources. Local communities must fulfill necessary competences in order to stipulate the occasion to realize a new investment, share the risks and costs through realizing public private partnerships. The investments are in fact the fuel of local development that's why local communities are trying more and more to attract this type of action with the purpose of increasing entrepreneurship, innovation, human capital, exchange of good politics, creating new workplaces. Public and private sectors loose their efficiency if used separately, because they are two interdependent realities deriving one from another and permanently sustaining each other.

**In the actual context of economic crisis,** the fact that project management for local communities' development is based on European financing like a certain financial source for sustaining the process of implementation of sustainable development strategies formulated at national, regional, county level. The results for finalized projects or those of projects in implementation will positively affect the life quality of county communities contributing to developing some areas set as priority: tourism, transport, infrastructures, water, waste management, social assistance. The implementation of project using pre-accession funds have been a point of departure in the process of economic and social development and in managing projects financed from uncallable funds. Thereby public authorities involved directly like beneficiaries of financing, or through partnerships, have gained

necessary expertise in domain with a real advantage in accessing European structural and cohesion funds through the Operational Programs. The private sector must be nearby local authorities in scanning this road of challenges of economic and social developments of a region to European standards. It's not necessary for towns and villages to have preferment infrastructure if there are no people to valuing them, initiate and maintain business creating new work places, turning advantage from local peculiar and building a proper space for economic and social development. The local development strategies have been sensitively modified in the last two decades. Nowadays the economic development of cities and regions is less oriented towards roads, bridges and factories and more towards communication, industrial reconversion, spaces assigned to high class concerns, mutual actions of promoting and local development. It stands for these elements to attract tangibles contractual partners and production taxes for reinvested capital. Local powers must be reorganized for attracting investments. Because at this time beside budget regions imposed public administrations must face globalization that is why the solution cannot came only from public financing because local development has been successfully "crowned" and has proved itself viable on long term therefore private sector must bring contribution. This last one has often manifested the interest for local development , but in order to attract them and use them efficiently local administration must have the necessary financial resources. Local development has chances of succeeding if it's the fruit of a private public partnership in collaboration with international financial institution. Within this partnership two major roles are hold by public sector: assuring the improvement of public services, mostly in what regards education, development projects, infrastructure and favoring the collaboration between public and private actors with the purpose of realize development projects in a professional manner. A great number of local economic strategies are never taken to a good end because those who have conceived it haven't identified at first the necessary resources for the feedback investments and haven't regarded the involving of private sector as a rule. The progress key in financing local economy development consists in reorganization of relations with the private sector. This last one supports collectivities in

obtaining financial resources. There are several devices which allow to public and private sectors to share risks and costs related to local development projects because PPP, credits and private financing mechanisms are sustaining local efforts made by public sector. Important changing is exposed in financing local development financing. The perspectives offered by globalisation to cities and other towns have launched a dynamic development through new financial investments. All these evolutions are more and more indurate by realizing the fact that facilitation of local and regional investments doesn't depend only by the volume of absorbed funds. Local sustainable development depends entirely of the investment quality, a good management and the efficiency that can be offered by local and private paymasters. Therefore the key principles that must be followed in elaboration of a financing strategy for local communities development are:

1. Smart financing for towns and regions through improvement of budgetary relations with superior administration levels.
2. Encouraging private sector by involving it in financing investments al local level.
3. Financing with the purpose of metropolitan area development through sharing costs and advantages.
4. The exploitation of economic growth advantages at local level.
5. Forming PPP.
6. The approach of a new vision in what implies public management at local level with the purpose of finance fluidization.
7. Encouraging entrepreneurship in private and public sectors at local level.
8. Encouraging private sector towards market investments which lead to long term results.
9. Laying emphasis on the quality of local investments projects and not financing offers.
10. Skilled officials in local and superior administration.

However PPP is not a wonder solution for solving the problem of necessity of great investments. In Romania the most often problem in public and private area is deficient legislation who doesn't officially sustain the arguing of PPP. Another fundamental proposal in what regards local development aims the establishment of an interior management at local level.



In the organization and function of all Institution that leads to good preparation activity and local development implementation projects. Most of the times projects are blocked in their way of organizing as financing application leading to limit situation like: a heavy analysis of documentation to send for note, transmitting in useful time some essential information. In conclusion we can synthesize two directions for development local communities. The first one is writing financing European and national projects and the second is creating necessary important elements like: local development strategies well elaborated, structured and prioritized, qualified staff for writing project implementation and elaborating development strategies.

## **Bibliography**

- [1] Coralia ,Angelescu,, coord. “European Union and Romania’s economy”, vol 4, Ed. AES, Bucharest, 2006.
- [2] Richard, Baldwin, Charles ,Wyplosz, , “Economy and European Integration” ,Ed. University, Bucharest, 2006.
- [3] Constantin D-L, Regional Competition in Romania : Determinants and policies, 38-th European Regional Science Association Congress, Dublin.

# Sustainable Municipal Waste Management Process – Environmental Protection and Profitable Public Investments

STATE Florina  
Doctoral School of Economics ASE Bucurest  
florinastate@yahoo.com

## Abstract

*Both the present waste management process in Romania, which does not involve any selective municipal waste collecting activities or adequate storage facilities and EU requirements in what concerns waste management (a significant reduction of stored municipal waste and an increase of recycling strategies and action plans) represented the main reasons for choosing to debate a series of strategic approaches towards the abovementioned subject herein. We focused both on the social and economic impact a sustainable waste management process may have trying to be as clear as possible about the costs and the benefits of implementing a national strategic action plan in the area.*

**Keywords:** biodiversity, degradation, environment, sustainable, waste management.

**JEL Classification:** Q 53

## 1. Introduction

Our approach is not about words, these being mainly a political job, but about facts, about possible strategies that can “cure” the “waste plague” which has been one of the major problems in Romania for the last 20 (twenty) years. The following pages are concerned with a couple of strategic approaches we think might solve the problem, each of them being analyzed both in what concerns its strengths and weaknesses.

## 2. The “waste plague” and possible solutions to “cure” it

The first strategic approach concerned with achieving a sustainable waste management process in Romania provides the background for splitting the waste management services market into different “slices of the pie”, the operational activities being outsourced to different companies, each of them being responsible for implementing the policy within their own area of responsibility. The benefits implied by such a way of solving the problem are obvious: a part of the services associated to waste management is easier to deal with in comparison to all of them and the existence of more than one service providers imply a certain degree of economic competition which eventually will lead to an increase in the quality of services provided to the stakeholders and better value for money. When the public authorities develop their own operational waste management system, they have to invest both in the development of the collecting infrastructure (transporting vehicles, containers etc) and in the human resources who are supposed to deliver the activities implied by the strategic delivery plan.

The collecting, transport and processing costs are also paid by the responsible public authority. The main advantage of such an approach is the fact that they practically have the entire control over the delivery process. The main disadvantage is the fact that, in the case of smaller communities, the insufficient economic development of the area may generate poor return rates for the service provider, the huge initial investment the authority needs to make being economically inefficient. The solution of splitting the

market into smaller, easier to deal with, shares has the advantage that each of the companies will focus on their own area, not interfering with each-other, the citizens being the only beneficiaries of this improved implementation of the strategic action plan. Another advantage which should be taken into consideration in this particular case is the fact that, once the services have been outsourced, the public designated authorities will have more time and resources to design better sustainable waste management strategies, not having to be concerned with the delivery of the strategic action plan anymore.

The overall costs of the operational aspects involved would also be smaller, due to the competition between the legally established companies delivering waste management services.

A few aspects should also be mentioned in what concerns the disadvantages of the outsourcing solution discussed herein. At the moment, due to the recession period we are experiencing, finding adequate operators to compete for the delivering aspects implied by the sustainable waste management strategy might be a very difficult thing to achieve. The risks associated to the establishment of a long term agreement such as this one are very high, the winners of the procurement process being likely to fail their share of meeting the agreed provisions enforced by means of the agreement discussed herein.

Another problem would be that, once the services are outsourced, the prices might rise for the private investors need to have good return rates to achieve value to money.

A direct consequence of the higher prices on the market would be higher taxes which need to be paid by the stakeholders, a tremendous loss of social and political capital being experienced by the decision makers. In what concerns the economic impact, by attracting private investments which need to produce high return rates in order to generate profit, the prices paid by the stakeholders for the municipal waste collecting services is expected to rise by at least 100%, this being a challenging expense for their already shrank recession budgets.

On the other hand, by creating jobs and new sources of revenue for the local budget, the investments would prove to be a medium term economic hit. The implementation of this strategy would positively impact on all sustainable environmental issues. The municipal

waste management strategy is not delivered properly at the time, one of the consequence being the pollution of the environment (water, air, soil) associated with a series of landscaping problems. The delivery of a sustainable waste management action plan performed by the more than one selected companies would assure environment protection and sustainable development for the cities of Romania.

At the same time, an adequate waste management system is necessary in order to assure quality to life for the stakeholders, the quality of the environment being linked to the health of everyone inhabiting it.

By processing all municipal waste in such a way as to achieve value to money, a sustainable market for renewable resources is created, the overall carbon footprint being positively influenced.

Another approach suggested herein focuses mainly in encouraging companies to use all the resources that can be identified at the level of municipal waste in Romania, the focus being both on material and energy generating waste usage.

An integrated strategy which promotes sustainable municipal waste processing impacts both on the quantity of raw material that is being used to produce goods and on the price of the recycled end products, the latter being cheaper due to the inferior costs of the material used to produce them.

The proposed strategy aims to promote a sustainable municipal waste recycling action plan, the processes of selection and separation of different waste types being performed only after they have been collected and brought to a central processing facility.

Municipal waste separation and selection processes can be performed both automatically and manually as long as secure working conditions are provided to all employees.

Image 1. The Romanian plague



The effectiveness of the two abovementioned processes, performed after the waste has been collected, can be reasonable in the case of some resources like metal, wood, plastic, these materials being suitable to enter a process of composting and packaging shortly after they have been separated. Nevertheless, this is not the case of other materials like glass, which can be very fragmented, or paper, which can be polluted with other substances or other types of municipal waste.

The economic value of these materials would never justify such an investment in their processing. One of the main advantages of this strategic approach is the fact that, in comparison to on field municipal waste separation, there is no need for special collecting containers or any other facilities, the initial public expenditure being, in this case, reasonable. In what concerns the economic impact, this strategy involves high return rates for the investments made during the first stages of the process. The revenues, being further reinvested, can help the community and regenerate the obsolete existing municipal waste collecting infrastructure.

The recycling process also facilitates a further reduction of operational costs by providing a solution to cheap municipal waste storage. On the other hand, if we are to take into consideration the recession period experienced by the contemporary society, the prices paid for raw materials are more affordable nowadays, the recycling businesses being on the verge of collapsing for it cannot compete in these new open market conditions. The implementation of the strategy herein would definitely have a positive impact on the environment, the

recycling process offering a lot of eco-friendly solutions.

The joint efforts of the Romanian designated authorities and the vast majority of the stakeholders are needed in order to achieve a sustainable municipal waste management process. Selective municipal waste collecting is an affordable solution and implies waste storage in special designated facilities in order to assure a cost effective recycling, this being another solution we propose. The forecasts predict an increase of 0,8% a year in the case of the municipal waste produced, the waste stored within special designated facilities increasing correspondingly. The latter aspect could be improved by means of developing a special selective collecting infrastructure which could lead to a better processing of municipal waste and to an increase of the recycled goods entering the market. The implementation of a strategic action plan associated to the strategy under discussion implies an initial investment in the development of a selective collecting infrastructure which requires special facilities (special containers and bags). According to the provisions of Regulation 1121/2006 the specific designated colors used to identify the containers which are supposed to store different types of waste are: White – white glass; Green – colored glass; Blue – paper and carton; Yellow – metal and plastic; Red – dangerous waste; Brown – biodegradable/compostable waste; Black – waste which is impossible to process/recycle. In order for this approach to be a success, the initial infrastructural investment should be associated to a publicity campaign, the latter aiming to inform the stakeholders about the initiative, the process and all the specific information in relation to the strategy. In order for the stakeholders to be receptive to the strategy presented herein, certain financial benefits, like tax reductions, could be provided.

Image 2. Selective collecting containers



This strategy generates a positive environmental impact, the quality of life increasing correspondently. As an EU member state, Romania has to reduce the quantity of municipal waste stored in inadequate facilities, and this selective collecting waste management strategy is an efficient solution to the problem. The result of its implementation depends, as we have already mentioned before, on the mutual partnership established between the local authorities and the stakeholders.

### 3. Conclusions

In conclusion, the benefits implied by making the best of these strategies are: environmental protection ( by selectively collecting the municipal waste, reducing the improperly stored waste and processing all renewable resources), an increased level of community cohesion, all stakeholders being active agents in the process of implementing the strategy and developing qualitative waste management infrastructure and services (adequate containers, means of transportation, deposit and processing facilities).

Important quantities of energy (a television set may function for three hours and a bulb up to 20 hours only by using the energy obtained by recycling a single aluminum can), water and raw materials will also be saved by developing a specific recycled products market and the municipal waste storage facilities will cover less surfaces of polluted land.

### 4. Bibliographic references

- [1] Lindbergh, A. Charles, *Reader's Digest*, November 1939;
- [2] Seaborg, T. Glenn, Atomic Energy Commission chairman, speech, Argonne National Laboratory, 1969;
- [3] Bran, Florina; Ioan, Ildiko (2001)- *Ecosferă și politici ecologice*, Ed. A.S.E., București;
- [4] Bran, Florina ; Ioan, Ildiko - *Eco-economia ecosistemelor si biodiversitatea*, Editura ASE Bucuresti, 2004.

## **SECTION TWO**

# **ECONOMICS AND BUSINESS ADMINISTRATION**

## **SUBSECTION**

### **Economics and Economic Informatics**

## Aspects Regarding the Constantza Harbour Traffic Seasonality

Aivaz Kamer-Ainur

Mirea Marioara

*“Ovidius” University of Constanta*

*kamer\_aivaz@yahoo.com*

*mm\_mirea@yahoo.com*

### Abstract

Having in view the distinct importance of the harbor traffic and directly and indirectly induced impact, the paper fulfills a study of modifications in a certain period, identifying harbor traffic influence factors. The seasonality analyse have in view the monthly evolution (development) of the merchandise traffic in the period 2004-2008 and will be focused on the main merchandise groups

**Key words:** harbour traffic, seasonality analyse

**JEL Classification:** C01, C25, L91

### 1. Introduction

The harbor activity is defined like a regional economic activity with the goal of a regional economic activity with the goal of passengers and merchandise maritime transport achievement. This definition involves activities on board, in the harbor terminal and during the passengers and merchandise transport. The harbor activity directly connected to the maritime transport activity involves a series of activities and services necessary to move merchandise on water, concretized by expenditure made by the respective firms to accomplish their duties. Analyzing the relations generated by the harbor activities, it has been observed the 94,7% dependence on the total merchandise traffic and 6,3% on other factors.

This reality could be explained first of all by the fact that in Constanta, Midia and Mangalia harbors, activities are limited especially to the merchandise operation, the shops building being quite weak represented. Having in view the distinct importance of the harbor traffic and directly and indirectly induced impact, the paper fulfills a study of modifications in a certain period, identifying harbor traffic influence factors. The seasonality analyse have in view the monthly evolution (development) of

the merchandise traffic in the period 2004-2008 and will be focused on the main merchandise groups: cereals; potatoes, other fresh and frozen fruits and vegetables; living animals; sugar but; wood and cork; solid mineral fuels; crude oil; oil products; iron ores; iron and steel offal's furnace slag; non-ferrous ores and offal's; metal products; cement, quick lime, prefab materials for buildings; rough or processed minerals; fertilizers (natural or chemicals); chemical products derived from coal and tar.

### 2. Experimental

The specification of the time model structure could be made using several methods, as: the graph method and the variation analysis method. In what follows the used method will be detailed for the first product group, CEREALS, for the other groups the study results only will be specified. The graph method consists in the chronogram of the analyzed period series.

Because the analyzed phenomenon chronogram shows an oscillatory evolution, that leading to the acceptance of a model structured on three components, as follows:

$$y_t = f(t) + s(t) + u_t$$

where:

$y_t$  = time series values;

$s(t)$  = seasonal component, result of the essential factors influence, representing the evolution trend of the long term analyzed phenomenon, trend that based on the graph, could be described using a linear function;

$f(t)$  = trend component, the general long-term movement in the time series values over extended period of years;

$u_t$  = residual component, the erratic variation from trend that cannot be ascribed to the cyclical or seasonal influences.

**Variation analysis method**

The use of this method in order to specify the adjustment model is founded on the relation:

$$\sum_{i=1}^n \sum_{j=1}^m (y_{ij} - \bar{y}_0)^2 = \sum_{i=1}^n \sum_{j=1}^m (y_i - \bar{y}_0)^2 + \sum_{i=1}^n \sum_{j=1}^m (y_j - \bar{y}_0)^2 + \sum_{i=1}^n \sum_{j=1}^m (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2$$

$y_{ij} = y_t$ , where  $t = j + m \cdot (i - 1)$ ;  
 $\bar{y}_i$  = annual means ( $i = \overline{1, n}; n = 5$ );  
 $\bar{y}_j$  = monthly means ( $j = \overline{1, m}; m = 12$ )  
 $\bar{y}_0$  = general mean;

$$\bar{y}_i = \frac{\sum_{j=1}^m y_{ij}}{m} = \frac{\sum_{j=1}^5 y_{ij}}{5};$$

$$\bar{y}_j = \frac{\sum_{i=1}^n y_{ij}}{n} = \frac{\sum_{i=1}^4 y_{ij}}{5};$$

$$\bar{y}_0 = \frac{\sum_{i=1}^n \bar{y}_i}{n} = \frac{\sum_{j=1}^m \bar{y}_j}{m} = \frac{\sum_{i=1}^n \sum_{j=1}^m y_{ij}}{n \cdot m} = 385062,4167$$

Years	Ian	Feb.	Mar	Apr
2004	80427	44776	234854	198867
2005	502156	381970	411390	355666
2006	481811	353968	480880	302739
2007	395607	442294	429128	403962
2008	485871	272020	361041	206576
Total	1945872	1495028	1917293	1467810
<b>Monthly means</b> $(\bar{y}_j)$	<b>389174,4</b>	<b>299005,6</b>	<b>383458,6</b>	<b>293562</b>
Years	May	June	July	Aug
2004	186052	157340	356080	378007
2005	355734	485513	397710	399145
2006	296271	364963	228785	461019
2007	208469	195289	289612	226665
2008	335415	495903	573495	800985
Total	1381941	1699008	1845682	2265821
<b>Monthly means</b> $(\bar{y}_j)$	<b>276388,2</b>	<b>339801,6</b>	<b>369136,4</b>	<b>453164,2</b>

Years	Sept	Oct	Nov
2004	429698	370026	386904
2005	275538	429689	626399
2006	352610	329555	355579
2007	303107	491100	446661
2008	624872	550712	532540
Total	1985825	2171082	2348083
<b>Monthly means</b> $(\bar{y}_j)$	<b>397165</b>	<b>434216,4</b>	<b>469616,6</b>
Years	Dec	Total	Annual means $(\bar{y}_i)$
2004	552058	3375089	<b>281257,4167</b>
2005	571317	5192227	<b>432685,5833</b>
2006	341930	4350110	<b>362509,1667</b>
2007	344540	4176434	<b>348036,1667</b>
2008	770455	6009885	<b>500823,75</b>
Total	2580300	23103745	<b>281257,4167</b>
<b>Monthly means</b> $(\bar{y}_j)$	<b>516060</b>		<b>General mean <math>(\bar{y}_0)</math></b> <b>385062,4167</b>

$$\Delta_{y/t}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 =$$

1257759803966,58 ( total variation);

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 =$$

339884671177,17 ( the variation of y explained by the trend, that is the effect of action of the main factors; represents 27,02% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 =$$

307100318662,58 ( the variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 24,41% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

610774814126,83 ( the variation of y caused by the action of the accidentally factors (residual component); represents 48,56% of the total variation).

Because the time series base to follow the econometric description of the phenomenon nature of the law evolution represents just a segment just a part of the long term evolution, it could be assimilated to a test the check of



the calculation on analyzed the period time indicators must be necessary.

The test of the obtained results significance could be made using the „F” – test Fisher – Snedecor, knowing that:

$$F_{cal}^1 = \frac{\Delta_{y/t}^2}{n-1} : \frac{\Delta_{y/u}^2}{(n-1) \cdot (m-1)} = 6,12$$

$$F_{cal}^2 = \frac{\Delta_{y/s}^2}{m-1} : \frac{\Delta_{y/u}^2}{(n-1) \cdot (m-1)} = 2,59$$

From the Fisher – Snedecor distribution table is taken the corresponding theoretical value of the two calculated values,  $F_{cal}^1$  and

$$F_{cal}^2 : F_{0,05;4;44} = 2,58.$$

Because:

$$F_{cal}^1 = 6,12 > F_{0,05;3;9} = 2,58$$

$$F_{cal}^2 = 5,53 > F_{0,05;3;9} = 2,58,$$

It could be accepted the model  $y_y = f(t) + s(t) + u_i$ , with a 5% significance limit (a probability of 0,95), the trend component having a 27,02% weigh from the total variation of the y phenomenon, the seasonal component 24,41% and the aleatory factors 48,56%.

The seasonal component could be expressed even by relative form – the seasonal coefficients,  $k_j$ , even the absolute form,  $s_j$ .

Like general rule, the seasonal component is calculated related to the trend (the trend component). Depending on the trend modalities of expression seasonality could be determinate using several procedures, as: the arithmetical average procedure, the mobile average procedure, the analytical trend procedure.

This study used the first one, the arithmetical average. The arithmetical average procedure consists in the comparison of the empirically values  $y_{ij}$  with the annual averages  $\bar{y}_i$  and the arithmetical averages calculation of these values on the annual under periods.

Thus:

- Seasonality in absolute values  $s_j$

results from the relation:

$$s_j = \frac{\sum_{i=1}^n (y_{ij} - \bar{y}_i)}{n} = \frac{\sum_{i=1}^n y_{ij}}{n} - \frac{\sum_{i=1}^n \bar{y}_i}{n} = \bar{y}_j - \bar{y}_0$$

$$\sum_{j=1}^m s_j = \sum_{j=1}^m \bar{y}_j - m \cdot \bar{y}_0 = m \cdot \bar{y}_0 - m \cdot \bar{y}_0 = 0$$

$$\sum y_i = \sum f(t)$$

$$\sum u_i = 0$$

- Seasonality in relative values

$$k_j = \frac{\sum_{i=1}^n \frac{y_{ij}}{y_i}}{n} = \frac{1}{n} \cdot \sum_{i=1}^n \frac{y_{ij}}{y_i}$$

$$\sum_{j=1}^m k_j = \frac{1}{n} \cdot \sum_{i=1}^n \sum_{j=1}^m \frac{y_{ij}}{y_i} = \frac{1}{n} \cdot \sum_{i=1}^n \frac{1}{y_i} \cdot \sum_{j=1}^m y_{ij} =$$

$$\frac{1}{n} \cdot \sum_{i=1}^n \frac{1}{\sum_{j=1}^m y_{ij}} \cdot \sum_{j=1}^m y_{ij} = \frac{m}{n} \cdot n = m$$

Year (i)	Jan	Feb	Mart	Apr
2004	0,2860	0,1592	0,8350	0,7071
2005	1,1606	0,8828	0,9508	0,8220
2006	1,3291	0,9764	1,3265	0,8351
2007	1,1367	1,2708	1,2330	1,1607
2008	0,9701	0,5431	0,7209	0,4125
Total	4,8824	3,8324	5,0662	3,9373
<b>Kj</b>	<b>0,9765</b>	<b>0,7665</b>	<b>1,0132</b>	<b>0,7875</b>

Year (i)	Mai	June	July	Aug
2004	0,6615	0,5594	1,2660	1,3440
2005	0,8222	1,1221	0,9192	0,9225
2006	0,8173	1,0068	0,6311	1,2717
2007	0,5990	0,5611	0,8321	0,6513
2008	0,6697	0,9902	1,1451	1,5993
Total	3,5696	4,2396	4,7935	5,7888
<b>Kj</b>	<b>0,7139</b>	<b>0,8479</b>	<b>0,9587</b>	<b>1,1578</b>

Year	Sept	Oct	Nov	Dec
2004	1,5278	1,3156	1,3756	1,9628
2005	0,6368	0,9931	1,4477	1,3204
2006	0,9727	0,9091	0,9809	0,9432
2007	0,8709	1,4111	1,2834	0,9900
2008	1,2477	1,0996	1,0633	1,5384
Total	5,2559	5,7285	6,1509	6,7548
<b>Kj</b>	<b>1,0512</b>	<b>1,1457</b>	<b>1,2302</b>	<b>1,3510</b>

Where:

$$k_{ij} = \frac{y_{ij}}{y_i}; \quad k_j = \frac{1}{n} \cdot \sum k_{ij}$$

Observation: more each value from this series removed from zero, more the seasonal factors are present inside the respective under period. This procedure to express the seasonality is used only to evidence the seasonality intensity because of the restrictive hypothesis there are based on.

### 3. Results and Discussions

Applying the methods used before for the main merchandise groups we obtain these results:

#### a. Potatoes, other fresh and frozen fruits and vegetables:

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 =$$

1040427776,85;

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 758330214 \text{ (the}$$

variation of y explained by the trend, that is the effect of action of the main factors; represents 72,88% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 123808086,05 \text{ (the}$$

variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 11,89% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

158289476,53 (the variation of y caused by the action of the accidentally factors (residual component); represents 15,21% of the total variation).

#### b. living animals

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 754547750,58;$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 23574322,54 \text{ (the}$$

variation of y explained by the trend, that is the effect of action of the main factors; represents 37,49% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 29871874,28 \text{ (the}$$

variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 19,79% of the total variation)

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

322296508,7 (the variation of y caused by the action of the accidentally factors (residual component); represents 42,71% of the total variation).

#### c. wood and cork

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 27545283919,25$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 13409011909 \text{ (the}$$

variation of y explained by the trend, that is the effect of action of the main factors; represents 58,42% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 925075621,9 \text{ (the}$$

variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 16,79% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

6829091531,1 (the variation of y caused by the action of the accidentally factors (residual component); represents 24,79% of the total variation).

#### d. solid mineral fuels

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 1101740132667$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 398520322172,27$$

(the variation of y explained by the trend, that is the effect of action of the main factors; represents 36,17% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 175110878398,4$$

(the variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 15,89% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

528108932096,93 (the variation of y caused by the action of the accidentally factors (residual component); represents 47,93% of the total variation).

#### e. crude oil

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 1909672798803$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 691808225153,9$$

(the variation of y explained by the trend, that is the effect of action of the main factors; represents 36,23% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 421171181968,2$$

( the variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 22,05% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

796693391681,3(the variation of y caused by the action of the accidentally factors (residual component); represents 41,72% of the total variation).

#### f. oil products

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 733748466559,93$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 61018784643$$

(the variation of y explained by the trend, that is the effect of action of the main factors; represents 8,32% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 294224301387,93$$

(the variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 40,1% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

378505380528,73 (the variation of y caused by the action of the accidentally factors (residual component); represents 51,59% of the total variation).

#### g. iron ores

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 5242963699863,93$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 2098725986425,10$$

(the variation of y explained by the trend, that is the effect of action of the main factors; represents 40,03% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 780120345628,33$$

(the variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 14,88% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

2364117367810,50 (the variation of y caused by the action of the accidentally factors

(residual component); represents 45,09% of the total variation).

#### h. metal products

$$\Delta_y^2 = \sum_i \sum_j (y_{ij} - \bar{y}_0)^2 = 614114892640,98$$

$$\Delta_{y/t}^2 = \sum_i \sum_j (\bar{y}_i - \bar{y}_0)^2 = 113690710198,23$$

(the variation of y explained by the trend, that is the effect of action of the main factors; represents 18,51% of the total variation).

$$\Delta_{y/s}^2 = \sum_i \sum_j (\bar{y}_j - \bar{y}_0)^2 = 134811588454,54$$

( the variation of y explained by the seasonality, that is the effect of the seasonal factors; represents 21,95% of the total variation).

$$\Delta_{y/u}^2 = \sum_i \sum_j (y_{ij} - \bar{y}_i - \bar{y}_j + \bar{y}_0)^2 =$$

365612593988,17(the variation of y caused by the action of the accidentally factors (residual component); represents 59,53% of the total variation).

## 4. Conclusions

Results of this economic study addresses to a very large audience, formed by:

1. representatives of the local administration and other local and regional decision factors;
2. public opinion, especially the local communities
3. governmental decision factors
4. the harbor industry and the harbor services users.

Conclusions will provided to the harbor industry members a general view and a better understanding of the economic effects associated to operations developed in the local communities and other economic areas. Such an assembly view will underline the importance and positive role in the economy of Constanta Region of the economic relationship created and maintained following the existence of this harbor platform.

## 5. References

- [1] U.S. News & World Report. - "Trucks, Trains, Planes, Boats - All In One Company - September 25, 1997
- [2] Clarke, Richard L. and Whitehurst, Clinton H., Jr. *The Coming North American Rail Mergers.*

- The Strom Thurmond Institute, Clemson University.  
July 2004. p. 16.
- [3] Abend, J. – „New Takes on Transportation”,  
Bobbin, 2006
- [4] Forsyth, P. – „The Gains from the Liberalisation  
of Air Transport”,  
Journal of Transport Economics and Policy vol. 32,  
partea 1, 2002.
- [5] Maritime Ports Administration SA Constantza

- <http://www.potroconstantza.com/>
- [6] Western Transportation Corridor Study  
[http://www.virginiadot.org/projects/study-wtc-  
default.asp](http://www.virginiadot.org/projects/study-wtc-default.asp)
- [7] Rt. 28 Improvements Study  
<http://www.28freeway.com/>
- [8] [www.unctad.org](http://www.unctad.org)

## Intellectual Capital Evaluation Models

Agoston Simona  
Puia Ramona Ștefania  
Orzea Ivona

*Academy of Economic Studies, Bucharest*  
*simona.agoston@ase.ro*  
*ramonapuia@gmail.com*  
*ivona.orzea@gmail.com*

### Abstract

The evaluation and measurement of intellectual capital is an issue of increasing importance for companies because of the staleness of the traditional accounting systems which do not provide relevant information regarding the value of a company. Thus, specialists are working to identify a model for assessing intellectual capital that can be easily implemented and used. The large number of proposed models but also the major differences between them emphasizes the fact that the specialists are still far from having reached a consensus. Still, there is no model accepted by most of the companies. The article aims to achieve a brief description of some of the most important models in intellectual capital.

**Key words:** intellectual capital, evaluation model, market value, cost

**JEL classification:** D29, E16

### 1. Introduction

Ever since the beginning we must point out the difference between assessment and measurement: evaluation involves a standard reporting, while measuring doesn't. For example, suppose that during the evaluation process of teachers in a university, done by students, appears the question: How do you rate the difficulty of the course / seminar? The answer possibilities: very difficult, difficult, moderately, easy, very easy. Students will choose one of these options and will calculate an average. Consider that it is "easy". Is this a positive evaluation or not? This answer has no relevance to teacher

evaluation, if there is no standard of value such as: the optimal indicator is "difficult." In most of the models to be presented we speak about measurement and not assessment. Evaluation is usually done by comparing the values of indicators obtained in a company over several years.

### 2. Market to book value

This indicator is simple and frequently used by stakeholders. Based on major differences emerged between market value and the value of a company's accounting records. A study compared market value to book value for 3,500 U.S. companies for over 20 years. In the 80 'the two were about equal: 95% of book value represented the market value. Over 20 years, the gap has increased considerably: book value is only 28% of market value. Robert Howell, a well-known American financial expert stated suggestively: the records are as useful as a road map of Los Angeles 80 years ago [1]. The difference is even higher in organizations where intangible assets are predominant, such as universities, consulting firms, design, etc.

Market to book value indicator is calculated as the difference between a company's market value (the value of shares traded multiplied by the number of shares), and the book value of the respective companies. This difference represents the value of intellectual capital, of intangible assets.

*Intellectual capital = market value – book value.*

This indicator has the advantage that it can be easily calculated, allowing comparison with other competitors while tracing the

evolution of the company. On the other hand has the disadvantage that it may lose accuracy because the stock share price can often be influenced by many external speculative factors that can not be controlled by the management of the organisation. Another challenge is represented by accounting regulations that determine the book value differently, uneven from a country to another [2].

### 3. Tobin's Q ratio

It was introduced by James Tobin, Nobel laureate for his contribution in the field of analysis of financial markets. Tobin initially developed this indicator to know the elements that affect investment decisions. The indicator was subsequently taken over by the community of intellectual capital.

This indicator compares the market value of an asset with the value of replacement cost for that asset [3]. The market value is the price obtained for an asset in a competitive market that meets the conditions of a fair sale. Replacement cost represents the cost needed in the organization to recreate the utility of such a good.

$$\text{Tobin's } Q = \text{Market value} / \text{Replacement cost}$$

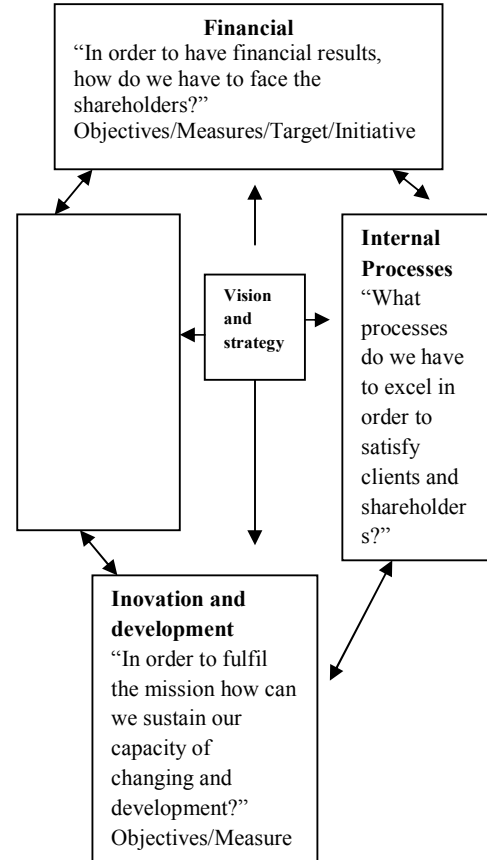
Thus, Tobin Q can be used both for the entire company and for each activity. In the second case managers receive valuable information on the degree to which an asset creates value-added for the company. The higher Tobin's Q ratio, the more an asset incorporates more knowledge / intangible assets and has contributed more to the process of creating added value. If the indicator has a value greater than 1 means that the organization has something more than competitors who may hold the same assets. The respective assets involve something unique: people, systems, clients, etc. For example, if this rate has the value of 3, that means that an asset worth 3 times the cost of replacement and the company benefits greatly from these activities.

Alan Greenspan from the U.S. Central Bank observed that higher values of this rate are related to investments in human capital and technology. This indicator does not differ essentially of market to book value, but has the advantage to remove the difficulties

imposed by different national accounting systems.

### 4. Balanced Scorecard

Figure 1. Balance Scorecard



Source: Kaplan and Norton, 1996

This model was developed by Kaplan and Norton in the United States and includes a set of indicators that allow the measurement of a company performance from a wider perspective than financial. The model has its origins in the French concept of "Tableau de bord" that measured physical performance by various indices of production statistics. Balanced Scorecard seeks to measure the core competencies of a company that brings competitive advantage, which are usually intangible. Thus, Kaplan and Norton (1996) describes this model: Balanced Scorecard maintain traditional financial indicators. But these financial indicators reflect past events, and are appropriate tools for companies in industries where investments in long-term capabilities and customer relationships are

not critical for success. However these financial indicators are inadequate for guiding and evaluating the "trip" the knowledge-based companies have to go through to create value through investment in customers, suppliers, employees, processes, technology and innovation. Balanced Scorecard expresses an organization's mission and strategy into a set of performance indicators that allow the performance measurement and provides a strategic framework for the practice of strategic management. Explained in a concise way, Balanced Scorecard includes financial indicators that reflect past results, and link these indicators with indicators from the field of customers, internal processes, innovation and learning that lead to future financial performance.

Balance Scorecard analyses a company from four different points of view:

1. The clients perspective that answer at the question: How are our clients looking at us? This perspective includes different indices like: clients satisfaction, the number of new clients, profitability/client, market share, the clients loyalty, etc.

2. The internal perspective: In what field do we have to stand out, to excel? This perspective includes different indices like: production duration cycle, costs/product, quality indicators, the number of value adding activities, etc.

3. The perspective of continuous learning and innovating: How can we continue the process of increasing and creating value? This perspective contain different indices like: team performances, the number of suggestions/employee, promotions, the time necessary to develop a new generation of products, new products/new competing products, the percent of new products sales in total sales, etc.

4. Financial perspective: What financial results can we offer to shareholders? This perspective contain classic performance indices like: profit, profit rate, the increase of turnover/region, etc. [4]

Sears Company, a major American retailer, offers a good example of the relations between the four dimensions mentioned above: they measured the fact that the improvement of employee with 5 % leads to an increase of 1.3% of customer satisfaction, which in turn leads to increased revenue by 0.5% [1].

Balanced Scorecard was introduced in many companies with very good results. In their book, Kaplan and Norton (1996) illustrates the concept for five organizations they have closely analysed and followed: Rockwater - underwater construction company, Metro Bank – a commercial bank, Pioneer Petroleum - oil company, National Insurance - insurance company and Kenyon Stores - clothing retailer.

Another important concept introduced by Kaplan and Norton refer to a company's strategic map. This map describes a cause-effect chain underlying a company's strategy. The strategic map of every company is unique in content, but has the same structure: the base is made by intangible assets that make possible organizational and customer service activities. In the second layer we can find internal processes that transform the first layer assets into value for customers. The customer value is the third layer, from which is developing the fourth layer, the financial results.

The main criticism brought to this model is that it fails to measure a company's intangible value, and only expresses some hypotheses about cause-effect relationships, linking financial and non-financial indicators.

But these assumptions have not been empirically tested and proven. Andriessen (2004) shows how the vocabulary used by Kaplan and Norton migrate from the area of strategic management in the area of intellectual capital.

Forstenlechner et al. (2009) adapted Kaplan and Norton's concept of knowledge management, creating KM Balanced Scorecard. They imagine a map of the factors (predictors) that influence the success and establish the relations between them. Later this model is empirically tested and applied in a multinational law firm [6].

## 5. Intellectual capital index

Intellectual capital index is a method of measuring intellectual capital developed by Roos in 1997 and calculated as an aggregate index for intellectual capital. Roos et al. (2007) defines intellectual capital of an organization as "the amount of knowledge of its members and their translation into brands, trademarks, and processes." They divide intellectual capital into human capital and

structural capital. In turn, human capital is divided into competencies, attitudes and intellectual agility.

Structural capital includes the relationships with the stakeholders, the organizational infrastructure and the capacity of development and innovation. In the first phase, Roos [7] creates a list of non-financial indicators, then he makes their ranking according to their importance and each gets a share, according to the importance in the value creation process. In a next phase these indicators are consolidated into an aggregate index. The main problem is that this index can not be compared with a desired value / standard. It can be analyzed only in its dynamics from one year to another.

A novelty of this model is the attempt to link it with the market value: thus, changing the index of intellectual capital should reflect a market value adjustment. If this does not happen, there are errors in its method of calculation.

## 6. Conclusions

We all agree that our society is becoming more and more knowledge-based, and thus only those organizations will succeed in the global information society and business environment that can identify, value, create and evolve their knowledge assets [8]

Following the desideratum of Roos, one of the most prestigious authors in the field of intellectual capital, who states -What you can measure, you can manage, and what you want to manage, you have to measure - [7], many specialists from academia and business consulting tried to develop a model in order to properly ascertain the intellectual capital of a company and implicitly its real value.

Therefore, the assessment of the intellectual capital of a company plays a crucial role in evaluating the companies' competitive capability, as well as in evaluating their innovative potential in the context of the new knowledge based economy. This led to an explosion of the research and papers in the field. Some of the most important models were critically analyzed in the current paper. The great number of models and the differences among them reflect their increasing importance and the difficulties faced by specialist in finding a proper one.

The main limitations of the models for the assessment of intellectual capital presented before refer mainly to the fact that the results obtained allow just in certain cases comparisons between companies/ departments and even in fewer cases they can be ascribed to an "ideal" standard value. The comparisons are difficult to be achieved due to the fact that the indicators/ratios vary significantly from one company to another.

Besides the most well known models of measuring intellectual capital presented before, other models were developed, like: Intellectual Capital Benchmarking System, Intellectual Capital Dynamic Value, The Model developed by Konrad Group, Value Chain Scoreboard, Technology Factor and others. Andriessen (2004) also made a synthesis of 25 intellectual capital models in his book „Making sense of Intellectual Capital- designing a method for the valuation of intangibles” (2004) and developed a methodology/tools to develop ways of evaluating intellectual capital that can be applied in any organisation.

The evaluation of the intellectual assets offers the managers new perspectives on the current state of the company and its development opportunities. It aims at improving the knowledge management system in order to achieve sustainable competitive advantage.

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

## 7. References

- [1] Dess, G., Lumpkin, G., Eisner, A. (2006), Strategic Management- text and cases, McGraw-Hill Irwin, Boston.
- [2] Jianu, I., Bratianu, C. (2007) Dinamica semantica a conceptului de capital intelectual in Management&Marketing, Nr.1/2007, retrieved on 27.02.2010 from <http://www.managementmarketing.ro/pdf/articole/45.pdf>.



- [3] Medlen, C. (2003) Veblen's Q- Tobin's Q in Journal of Economic Issues, Vol. 37, No. 4, pp. 967-986.
- [4] Kaplan, R., Norton, D. (1996) Translating strategy into action: The Banced Scorecard, Harvard Business School Press: Boston.
- [5] Andriessen, D. (2004). Making Sense of Intellectual Capital – Designing a Method for the Valuation of Intangibles. Elsevier: Amsterdam.
- [6] Forstenlechner, I., Lettice, F., Bourne, M. (2009). Knowledge pays: evidence from a law firm in Journal of Knowledge Management, Vol.13, No.1, pp. 56-68
- [7] Roos, G., Roos, J. (1997), Measuring your company's intellectual performance in Long Range Planning, Vol. 30/3, pp. 413-26.
- [8] Adhikari, D. (2010) Knowledge Management in Academic Institutions in International Journal of Educational Management, Vol.24, No. 2, pp. 94-104.

# Human Resources Development (HRD) of Public Entities in the Globalization Era

Anghel Panait  
"Ovidius" University of Constanta  
*anghel.panait@yahoo.com*  
Morariu Alunica  
"Stefan cel Mare" University of Suceava  
*alunica\_morariu@yahoo.com*  
PhD. Stusent Bejan Marius

## Abstract

Human Resource Development (HRD) is the frameworks for helping employees develop their personal and organizational skills and knowledge. Human Resource Development includes such opportunities as employee training, employee career development, performance management, coaching, mentoring, succession planning, key employee identification and definition, assistance in training, and at the same time organization development. The link between human resources development and managerial practice, as a whole, is vital for management success. Humans are the most important category of resources that an organization can use. No organization can exist without the human resources component.

**Key words:** basic skills, performance, career management, organizational development, promotion policies, challenging requirements.

**JEL classification:** H00

## 1. Introduction

Human Resources Development (HRD) has derived its conceptual basis from three broad areas of organizational, economic and psychological theory. [1] The psychological perspective promotes motivation, learning and ownership issues [2]. It approaches the issue of a psychological contract that seeks to conceptualize the working relationship

using the concepts of expectations, perceptions and requirements.

Organizational theory focuses on learning and changing processes. It also refers to the establishment of learning organizations. The economic dimension emphasizes investment in human capital and focuses on resource-based theories. [3]

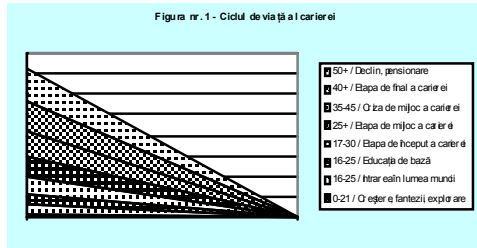
## 2. The Role of HRD

Human Resources Development (HRD) plays a vital role in meeting the challenging requirements of high qualification and human skills due to the globalization process. Abundant financial and material resources alone can not facilitate growth and development of a state without human resource component which converts natural resources into productive ones.

Human resources **development function** involves professional development [4] which is customized for each and every individual by [5] improvement, career management and organizational development.

•**Improvement** – based on planned training – aims at identifying, assessing and facilitating the development of key skills that allow individuals to perform organizational tasks related to current or future positions. The problem is to recognize the type of training that employees need. All training decisions must take into account the motivation of the employee who undergoes training. There are a number of training techniques and elements necessary for a training program to be efficient.

•**Career management** - is aimed at ensuring long-term relations between employees' career development needs and career challenges within the organization. Employees' desire to advance within the organization underlines this approach. Depending on the development level, we identify several stages in the lifecycle of a career, as according to the graphical representation in Figure no. 1.



### 3. Organizational development

- aims to ensure proper relationships between intra- and inter-groups and to facilitate groups anticipate, initiate and lead change. Organizational development implies the existence of a normative strategy that is re-educational and likely to affect systems of values, attitudes, and involves the company's formal reorganization in order to cope with the accelerated changes.

In this context, we believe that Human Resources Development (HRD) is conducive to helping the employees develop personal and organizational knowledge and skills. HRD aims at training opportunities for employees, employee career development, performance management, coaching, mentoring, succession planning, key employee identification and definition, assistance in training, and at the same time organization development.

### 4. The link between human resources development and management practice

The link between human resources and managerial practice as a whole is vital for management success. Humans are the most important category of resources that an organization can use. No organization can exist without the human resources

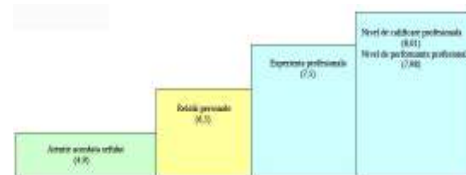
component. From another perspective, people are also the only category of resources that can act *against* the organization's goals. Only through collaborative efforts, people can contribute to the achievement of organization's objectives through an outlet of their latent energy and creativity. [6]

Within public structures, in tight connection with Human Resources Development, a study [7] examined how officials perceive **the importance given to the promotion policy** based on the following criteria: skill level, performance, experience, personal relationships and attention paid to the manager/leader.

Respondents were asked to evaluate all the criteria mentioned, using a scale of 1 to 10. Depending on the awarded score, there has been calculated a score's average value for each feature. There has been tested the significance of statistical differences between average values of the recorded score in order to establish the benefits.

**Benefits hierarchy** was determined by using SPSS test results, and are evidenced in chart no. 1. [8] After applying the test for characteristics, the values calculated for the **"qualification level"** and **"workplace performance"** were  $t = 1.1016$  ( $\alpha = 0.310$ ), therefore it has been accepted the hypothesis of equal score. Values obtained by other characteristics indicate a significant difference between them, corresponding to a significance level of at least 0.01

As highlighted in the above presented



chart, the values calculated for **"qualification level"** and **"workplace performance"** had an almost equal score (8.01 and 7.98), which leads us to the conclusion that the **professional qualification level** is directly proportional to the **professional performances level**. Closely related are also the **professional experience** (with a score of 7.5), the

**personal relationships** and the **attention paid to the leader** taking considerable distance (6.5 and 4.9) against the first criteria.

**Professional promotion policies** play a strategic role in the applicability of principle regarding the right to career and its stability.

The right to work is considered one of the main motivation elements for both civil and national servants. The conditioning of staff satisfaction in relation with outcomes creates positive or negative motivation.

Positive motivation is reflected in *moral* and *material* incentives, as follows [9]:

Material Motivation	Moral Motivation
<ul style="list-style-type: none"> <li>Monthly salaries based on qualifications and performance</li> </ul>	<ul style="list-style-type: none"> <li>Highlighting the complexity of positions and professional skills of their occupants</li> </ul>
<ul style="list-style-type: none"> <li>13th salary</li> </ul>	<ul style="list-style-type: none"> <li>Receiving diploma and gradations for participating in training programs</li> </ul>
<ul style="list-style-type: none"> <li>Additional reward for employees with great performances if the organization as a whole has notable results.</li> </ul>	<ul style="list-style-type: none"> <li>Receiving tasks involving a high degree of confidence from the management</li> </ul>
<ul style="list-style-type: none"> <li>Rest tickets</li> </ul>	<ul style="list-style-type: none"> <li>Advancement opportunities on a hierarchical scale</li> </ul>
<ul style="list-style-type: none"> <li>Increments, bonuses for celebrations etc.</li> </ul>	<ul style="list-style-type: none"> <li>Safety climate at organizational level</li> </ul>

In the absence of positive incentives or due to positive incentives diminution, negative incentives develop without too much effort. *Negative incentive* may rather seem at first glance a de-motivation. It however depends on the entrepreneur/manager's ability that the penalty, for example (more or less dramatic depending on the situation), be a springboard for a positive leap. Therefore, it will be often appealed in a diplomatic

way to the principles of responsibility and exemplarity that should exist within the framework of every team in consistence with the principles and strategies of the Human Resources Development. [10]

## 5. Organizational Theories

Among the most important organizational theories, one of the most recent and with direct impact on our theme is that of knowledge-based organization. This originates from the theory of resource based entities – according to which the organizational structure stands for a collection of productive, tangible or intangible resources, the organization's development and performances being ensured by their use [11]. The theory of knowledge-based organization is based on the following assumptions [12]:

- The resource of knowledge tends to have a leading role in public institution;
- Knowledge is acquired by the organization's components, who also become its keeper – where implicit knowledge;
- Components of the public entity must specialize in the acquisition and utilization of knowledge;
- Performance results are obtained by using various types of knowledge;
- The competitive advantage is the result of combination and utilization of certain knowledge.

Knowledge-based organization theory naturally connects with the context of knowledge economy, the term resulting from recognition of the decisive role of knowledge and technology in the administrative, social and economic sustainable growth. In a knowledge-based economy, knowledge-holders become the price value of an organization [12].

Therefore, we consider that within the organizational development process, planning or career management has the key role. The main tools for career development, factors contributing to the motivation of civil servants, are identified by:

- Promotion policies;
- Policies on mobility and development of an attractive career for senior civil servants.

## 6. Attractive promotion policies

Regarding the attractive promotion policies approach, we refer to the fact that promotion should depend as much as it could on individual skills and performances estimates by means of annual assessments. Promotion should be applied to opportunities of rapid career promotion to ensure recruitment and retention of young and ambitious civil servants. It is imperative to apply alternative motivation methods to compensate reduced promotion possibilities due to financial constraints and thus, there should be used proactive policies regarding mobility.

Proactive policies on mobility are part of a coherent strategy for career planning. There should exist flexible and efficient tools (legal and practical; for example, open competitions between departments or transfer rules acceptable to both the administration and the civil servants). Mobility should be directly proportional to performance assessment and facilitated by a proactive approach to human resource management (for example: job coaching, vocational guidance).

Management systems of senior civil servants should be characterized by:

- Regular assessment and support for staff development;
- A close link between performance and promotion;
- Existence and accessing of special education programs.

Public sector jobs and especially the civil servants system, should meet the requirements of both the organization and the employees. While the interests of the organization obviously relates mainly to performance, efficiency and results, UE employee preferences have changed in recent decades due to changes in attitudes and values, as well as economic changes and technology development.

While the staff used to orientate towards stability and protection regarding the job, nowadays, expectations include, if not exclusively, at least partially, a modern workplace which offers attractive positions and is able to satisfy employees' expectations. Due to the global economic crisis, there are tendencies to return to job stability and protection.

Polls show that among civil servants, the formal barriers to promotion (for example, the waiting period, the age) and the limited development opportunities (the lack of a clear picture of career development, inadequate information on vacancies) have a negative impact on the degree of motivation and commitment at work, which of course adversely affect service quality. In Romania, instability and deficiency in civil servants remuneration add to these factors.

In an interesting survey (2000) conducted among civil servants in New Zealand, which is famous for its reforms, half of the civil servants have held the promotion possibilities as "poor", while only 13% appreciated them as "good."

A survey in Ireland (1999) on career development opportunities in civil service system, presents the following factors influencing the civil servants' commitment to the system:

- earnings and career development;
- job responsibility;
- recognition and reward;
- job security;
- training/development.

Development and training are also approached in a survey of Denmark (2000) on the degree of motivation in the public and private sector as follows: content function, development and training, salary, payments and specific conditions, work schedule, work environment, leadership, company's organizational culture and image.

## 7. Conclusions

Human Resources Development (HRD) plays a vital role in meeting the challenging requirements of high qualification resources and human skills, due to globalization.

Expert opinions leads us to conclude that after years of accelerated reforms in the public administration, the perceptions and values of civil servants reflect some positive effects in the modernization process which turn into measures against traditional practices in this area that continue to exist.

## 8. References

- [1]Sambrook, S. 2004. A “critical” time for hrd. Journal of European Industrial Training 28, no. 8/9: 611-624.
- [2]Garavan, T. N., N. Heraty and B. Barnicle. 1999. Human Resource Development Literature: Current Issues, Priorities And Dilemmas. Journal Of European Industrial Training 23, no. 4/5: 169 -179.
- [3]Siugzdinienė, Jurgita - Human Resource Development System In The Context Of Public Management Reform, [http://www.nispa.sk/portal/conf\\_paper\\_detail.php?Cid=17&p=1632&pid=4783](http://www.nispa.sk/portal/conf_paper_detail.php?Cid=17&p=1632&pid=4783)
- [4]Trehan, K. Who Is Not Sleeping With Whom? What’s Not Being Talked About Hrd? Journal Of European Industrial Training 28, 2004, no. 1: 23-38.
- [5]Cornescu, Viorel; Marinescu, Paul; Curteanu, Doru; Toma, Sorin - Management - De La Teorie La Practică - Capitolul 12 – Managementul Resurselor Umane, Universitatea București Publisher, 2004, <http://ebooks.unibuc.ro/stiinteadm/cornescu/cap12.htm#51>
- [6]Chășovschi, Carmen; Otilia Albu - Motivarea resurselor umane – de la teorie la practică, Annals of the Stefan cel Mare University of Suceava - Faculty of Economics and Public Administration, pp. 26-31.
- [7]Institute for Public Policy, Public fuction barometer – October 2004, The Gallup Organization Romania, Bucharest, 2004.
- [8]Marinescu Mazurencu, Miruna; Niculescu-Aron, Ileana Gabriela; Mihaescu, Constanta - Romanian public servant professional life: a quantative approach, in Journal of Applied Quantitative Methods, Statistical Research by Surveys: Case Studies, Constraints and Particularities, 2/2/2007.
- [9][http://www.businessportal.md/guide\\_of\\_the\\_entrepreneur/afla/care\\_sunt\\_responsabilitatile\\_fata\\_de\\_angajati.html](http://www.businessportal.md/guide_of_the_entrepreneur/afla/care_sunt_responsabilitatile_fata_de_angajati.html)
- [10]C. Roman, Alunica Morariu, A. Burciu, Ionel Bostan, Limits Regarding The Motivational Instruments Determined By The Effects Of The Economic Crisis, International Journal Of Metallurgy/ Vol. XIV - No. 10 (2009) pp. 128-131.
- [11]Hansel G. 1994, The Concept Of Core Competence, in HANSEL.G., HEENE A., Competence Based Competition, John Wiley, Chichester.
- [12]Nicolescu O.,Nicolescu L., 2005, Economia, firma și managementul bazate pe cunoștințe, Editura Economică, București.

# The Impact of the Global Crisis on the Labour Market in Romania

Bălănescu Mădălina

*“Constantin Brâncoveanu” University of Pitești*  
*madabalanescu@yahoo.com*

## Abstract

In recent times people have been speaking more often about the global economic and financial crisis and the effects it has on the economies of the world's states. Countries with strong economies such as the USA, Japan or the developed countries in Europe have suffered from the global crisis, its implications being also great both economically and socially. The global crisis had a strong impact on the Romanian economy as well. For this reason, in this paper I have presented the situation of unemployment in Romania since the setting up of the crisis until February 2010 so that one could understand the gravity of the situation on the labour market in Romania. According to the data presented in the paper, during the period considered the number of unemployed people in Romania has doubled, because of closing down many companies with domestic or foreign capital. An analysis of unemployment is made in this paper in terms of: the level of training of the people made redundant, the gender distribution of the unemployed, but also of the way different development regions of the country and the corresponding counties are affected by unemployment. Job insecurity overlaps with salary uncertainty (during the crisis the salaries remain frozen at the previous level or record reductions) lead to reducing the demand, both within the country and for export, the effects being felt directly by the producing companies, but also by population as labour force and consumers.

**Key words:** financial crisis, global and national economies, labour market, unemployment

**JEL Classification:** E32, G01, J40, J60, J68, O11

## 1. Introduction

The year 2008 represented for Romania the end of economic growth which began in 2000, as well as the year when the effects of the global financial and economic crisis started to be felt in Romania, with the multiple economic and social implications.

It is interesting to analyze the direct impact of the global crisis on the labour market in Romania, given that many companies have reduced their work or went into bankruptcy, making massive layoffs. The figures are eloquent in this respect, but they do not fully reflect the psychological impact, the financial impact (the reduction in income and hence the reduction of consumption) and the insecurity of the persons directly or indirectly affected by unemployment.

The crisis in which is the world economy began as a financial crisis in the summer of 2007, in the United States. Gradually, the financial crisis turned into an economic one and acquired global scale.

## 2. Who has the global crisis affected

Romania feels increasingly powerful the effects of this crisis, which overlaps with the domestic crisis, caused by the existence of a national economy based on over-consumption and excessive money lending. Thus, the loss of important segments of the foreign market, the reduction of investments and the withdrawal of investors, bankruptcies from the private sector affect the Romanian economy and the multiple consequences of the global crisis are fully felt by the population. The entire structure of the Romanian economy has been shaken by the economic crisis. The most affected were the fields of industry, agriculture and constructions, branches in which many businesses were temporarily or permanently closed. The exporting firms are also strongly affected by the expansion of the crisis, Romania's main business partners (the USA

and the EU states) reducing their demand and their funding capacity. In these circumstances, the reduction of the production and the shutting-down of investments caused staff reductions in many Romanian companies. From the beginning of the crisis in Romania and up to the present about 250,000 people have lost their jobs and it is expected that the number of unemployed will further increase.

The question "*When did the global crisis begin to affect Romania's economy?*" was asked many times. The answer was not found with exactness either by specialists, analysts, economists or politicians; they feel that it was a period of several months, probably August-September 2008. Their opinion is confirmed regarding the labour market in Romania, directly addressing the economic crisis by increasing the number of unemployed people.

The labour market is perhaps the most sensitive market, receiving impulses from all other existing markets in an economy. The labour market and thus the labour force intensely fell the vicious cycle of the crisis.

In Romania, the labour market was seriously affected by the current economic and financial crisis worldwide, which overlaps with the economic and political crisis set up in Romania in recent years. The crisis has affected sectors such as: car industry, textile industry, wood processing industry, constructions and the property sector.

The global crisis primarily affected the exporters who, because of reducing the consumption in the Western Europe countries, were forced to reduce the production volume and thus to reduce the number of jobs.

The global crisis hit in full and the auto industry. Companies such as Dacia-Renault and Ford have been affected by the dramatic fall in sales so they finally ceased operations (in certain production departments) or temporarily, moving some of the employees in technical unemployment. The local firms have also suffered, being located upstream or downstream the production activity of large car companies (companies that produced component parts for the car industry), many of them falling into bankruptcy.

Many immovable projects were delayed, with effects that spread in other economic sectors of economy, such as constructions or transports.

In these circumstances, many international companies which carried out production activities in Romania reduced the production or permanently ceased work, having effects on the Romanian economy in general and on the labour market in particular. In this regard, some examples are conclusive:

- More companies from the industry of the auto component parts in Romania have made layoffs since the beginning of the crisis until present. These include: Valeo, Lisa Draxlmaier, Yazaki, Subansamble Auto Pitești which made layoffs in the units from Pitești, Craiova, Câmpulung Muscel and Curtea de Argeș, Leoni Wiring Systems Romania, SEWS Romania. Also, Michelin factory in Zalau closed in December 2008;
- In the food industry, Kraft Jacobs Suchard closed the company in Brașov, while Coca Cola Romania has limited its activity to the five production units in Bucharest, Ploiești, Timișoara, Oradea and Vatra Dornei, and the factory from Iași was closed in 2009, following to be moved in the Republic of Moldova;
- In the chemical industry, the Oltchim Râmnicu-Vâlcea plant reduced its production by 20% during the crisis. Interagro company in 2009 made layoffs as a consequence of the cessation of the activity in the chemistry companies that the group holds in Romania;
- In the steel and metallurgic area, the company S.C. Laminorul S.A. Brăila stopped work in 2008-2009 and Alro Slatina decreased production by 25%. The ArcelorMittal company, the world's largest steel producer, in 2009 made redundant the employees in the production departments of Galați, Roman, Hunedoara and Iași, in Romania;
- In the IT sector many layoffs have been made, companies like Nokia and Romtelecom sending many workers in technical unemployment;
- Major layoffs were made and the S.C. Petrom S.A. company. These were partly determined by other factors (even to a greater extent than the crisis), the reduction of the number of employees occurring as a result of a post-privatization restructuring plan of the Petrom company;
- The American company Colgate Palmolive, which produced toothpaste and after shave in Romania, finally closed down



in 2009 the factory in Braşov, the production following to be moved to Poland;

- The big companies owned by the state have also made numerous layoffs, the most important being the ones at S.C. Electrica, at the National Society of Lignite Oltenia and at the National Coal Company.

The crisis has affected not only the big companies and the subsidiaries of the multinational companies (which usually pass more easily over the difficult times caused by the crisis), but also the small and medium enterprises from Romania. Thus, the economic and financial crisis has affected more or less than 90% of the small and medium-sized enterprises operating in Romania. Because of the depreciation of the national currency, of the reduction in crediting demands addressed to the banks, of the decrease of the domestic consumption and export, many companies in Romania have been thrown into bankruptcy. Also, some of the companies that have contracted investment loans (for the purchase of machinery, equipment, and production plants) or loans to finance the current activities (payments of salaries, of debts to the state or to suppliers) are unable to return these loans, concomitantly with hindering the suppliers' paying opportunities.

In the Romanian economy there are also **sectors less affected by the global economic and financial crisis**. These are in particular the sectors which produce goods that can not be replaced (i.e. the food or pharmaceutical industry) and the sectors that benefit from the public investments (health care services or utilities).

The food and beverage industry has recorded growth of the sales in 2008-2009, being able to absorb some of the labour force made redundant from the other areas of activity.

Although the crisis, the major retail chains (operators of hypermarkets and bricolage store networks) have recorded increasing turnovers. For example, the German company Real Hypermarket opened five stores in Romania in 2009, which led to the creation of over 1,500 jobs. Also BauMax, the Australian bricolage network has expanded with five new stores and created over 500 new jobs.

The companies on the healthcare services market have also recorded increasing

turnovers, given the type of activity carried out (the demand and the consumption of medical services that can not be postponed for the moment when Romania comes out of the crisis). Unfortunately, in this area it is unlikely to attract the labour force made redundant in the other areas because of the strong specialization of the medical field. Only the administrative, auxiliary departments can take personnel from other industries, but these acquisitions will not have a noticeable effect on the labour market.

### **3. The analysis of unemployment in Romania, during the crisis**

Following the above-mentioned situation it is not difficult to understand why during the period of September 2008-February 2010 the number of unemployed people registered in Romania doubled, because of the reduction of the employees' number and of the reduction of the gross and net average earning per month.

During 2005-2008, due to the growth of the economic growth registered in Romania, unemployment has a downward trend, so that if in January 2005 the registered number of unemployed persons was of 562,748, in January 2008 it decreased to 383,989 people. The number of the unemployed oscillated in 2005-2008, with an undulating trend, according to the specific of the activities that create jobs. In general, in the period from March to September the number of the unemployed had a reduction tendency, a consequence of carrying out supplementary activities in agriculture, constructions and tourism, while in the months from October to February the number of the unemployed registered an upward trend. This demonstrates that the Romanian economy is affected by seasonal unemployment, the other sectors of the national economy not being able to absorb the labour force temporarily made redundant from the seasonal activities.

Since August 2008 unemployment in Romania recorded a continuous growth trend. In the period August 2008-February 2010 the number of the unemployed has doubled, rising from 345,510 unemployed people in August 2008 to 762,375 unemployed people in February 2010. The situation is worrisome if we consider the dramatic increase in the

number of the unemployed in 2009, so that since the beginning and to the end of the year their number grew with 264,476 unemployed persons.

Although many economists consider that 2010 will be a year of economic growth, the labour market shows no sign that this year Romania will come out of the crisis. It is too early to anticipate this, but in the first two months of 2010 the registered number of the unemployed increased by 52,992 persons.

It is interesting to notice that if until early 2008 the number of the unemployed men was almost equal to the number of the unemployed women, once with the crisis the proportion is amended. **The number of unemployed men increased** during January 2008 - January 2010 by 103%, which represents an increase of 220.4 thousand persons, while the number of unemployed women increased by 80.2% (with 136.6 thousand persons). **The ratio of all unemployed women decreased** in the analyzed period, so that if in January 2008 they accounted for 44.4% of the total number of the unemployed, in January 2010, women represented 41.4% of the total number of the unemployed. Simultaneously, there is an increase in the ratio of men in the total number of the unemployed.

The explanation is that the effects of the crisis were felt, at least so far, in the directly productive areas where male workers are employed predominantly, and less in the areas where women work. According to the National Agency for Employment, the areas that have experienced the highest number of paid unemployed at the end of February 2010 are: unskilled workers in manufacturing (32,258 persons), manufacturers and fitters of metal structures (29,137 persons), sales assistants (18,340 persons), workers in grinding machines, grinding and sharpening (14,941 persons), unskilled workers in the construction of dwellings (11,437 persons), etc. It is to be noted the relatively low training of the registered unemployed persons, which impedes their integration on the labour market.

Regarding **the structure of unemployment by the educational level**, the unemployed with an elementary, secondary and vocational level of education represent 72.5% of the total number of people who address to county employment agencies in order to find a job. The

unemployed with high school level and post-secondary education represent 21.1% of the total number of the unemployed, and those with university education only 6.4%.

If we consider **the structure of unemployment by duration**, by the end of February 2010 it was noted that the largest share (i.e. 56.1% of the total number of registered unemployed persons) is held by the unemployed without a job for more than 6 months (427,568 persons), followed by the category of unemployed without work from 6 to 12 months, 225,146 persons (29.5% of total number of the unemployed), and that of the unemployed without work for over 12 months, respectively 109,661 persons (14.4% of total number of the unemployed).

At territorial level, in February 2010, the number of unemployed workers increased in 35 counties and in Bucharest, **the most significant increases** occurring in the following counties: Constanța (2025 persons), Dolj (1,944 persons), Neamț (1,801 persons), Iași (1,676 persons). **The decrease in the number of the unemployed** is recorded in the following counties: Alba (743 persons), Gorj (252 persons), Hunedoara (189 persons), Caraș-Severin (148 persons). The decrease in the number of the unemployed in these counties is determined in particular by reducing the number of unpaid unemployed as a consequence of the expiry of the validity period of the requests of the people seeking employment and at the same time of reducing the number of applicants for certificates according to Law 416/2001. The most affected counties in terms of decrease of investments, and hence the reduction of jobs, are those in which have prospered lately on account of privatization and implantation of subsidiaries of the big companies. Thus, counties such as Timiș and Cluj, where more foreign investments have concentrated in recent years, are found among the top counties with severe risk of not being able to cope with the crisis. There will also be problems for the counties dependent on one major investor, such as Galați, where ArcelorMittal activates and Argeș, where Dacia Renault is based. The counties where most investors have as main activity the manufacturing of car component parts intended largely for export, do not do too well either.

The less vulnerable counties are in the south and east of the country, being

predominantly agricultural and maintaining the traditional economic relations. These include Dâmbovița, Giurgiu, Suceava, Bacău and Ialomița. Also, the areas based on less vulnerable segments to the crisis, such as the dairy production, the wood industry or bottling soft drinks, will suffer its effects more easily.

Regarding **the unemployment rate**, since the beginning of the economic crisis in Romania, it has steadily increased. Thus, if the September 2008 the unemployment rate was equal to that one recorded in September 2007 (3.9 percentage points), starting with December 2008, the unemployment rate has greatly increased. In 2009 the unemployment rate has grown continuously, and did not record the reduction trend recorded during the summer, as recorded in the previous years. In February 2010 the unemployment rate reaches the maximum level of 8.3 percentage points, being the highest unemployment rate recorded in March 2003 (8.6%) and so far. Throughout the entire analyzed period, the unemployment rate recorded among men was 2-3 percentage point higher to the unemployment rate recorded among women.

If we look at the effects of the economic crisis on the labour market on counties, it can notice that there are some counties that have experienced an unemployment rate above the national average. **The highest levels of the unemployment rate** have been achieved by the counties of Mehedinți (14.6%) and Vaslui (14.2%), Teleorman (13.0%), Alba (12.7%), Dolj (12.9%). The minimum level of the unemployment rate in February was recorded in Bucharest, being of 2.4%.

**On developing regions**, the highest unemployment rates were recorded in the South-West region (11.5%), the Centre and South regions (10.1%), the North-east Region (9.3%) and the South-east region (9.2%) these also being regions in which the rural activities are predominant. The Bucharest-Ilfov region recorded the lowest unemployment rate.

An unforeseen situation which unbalanced the labour market in the sense of increasing the labour force represented a return to the country of thousands of Romanian emigrants, who were left without a job when many Western countries (Italy, Spain, the United Kingdom, Germany) began to drastically reduce the number of employees.

Concomitantly with the increase of the number of the unemployed, the number of employees from the economy has decreased as well, so that in late January 2010 there were 4333.8 thousand employed workers, compared with 4765.2 thousand employees in end January 2008 (which represents a decrease by 9.05 percentage points of the number of employees in the national economy).

On sectors of activity it is to be noted that **agriculture** is the only area in which, during the crisis the number of the employees grows. Thus, during the period September 2008 - February 2009 the number of employees in agriculture is reduced, so that from March 2009 until June 2009 the number of people employed in agriculture to record an upward trend. The increase of the number of employees in agriculture is determined by the fact that this sector is the only one able to absorb the labour force made redundant from the other sectors. The unemployed, who have lots of farmland, found in agriculture a means of survival, increasing the number of persons working in agriculture (which was already quite numerous). Since August 2009, the number of employees in agriculture recorded a trend to lower again.

In **industry**, in January 2008 - January 2010 the number of employees decreased by over 300 thousand persons (from 1560.8 employees in late January 2008, to 1261.1 employees in late January 2010). The constructions activity was strongly affected by the global financial and economic crisis, the number of employees in this field falling from the beginning of the crisis in Romania and by January 2010 by 25.6% (from 422.9 employees in September 2008 to 314.7 employees in late January 2010).

**The services sector**, as we presented in the beginning of this paper, was less affected by the global crisis, in this sector the number of the employees being reduced during September 2008 - January 2010 by approximately 2%.

#### 4. Conclusions

The global crisis has affected the entire Romanian economy. The most affected areas were the auto industry, the chemical industry, steel and metallurgy, areas that produced especially for export as well as constructions

field and the financial-banking sector. All these imbalances in the Romanian economy caused many layoffs and therefore an increase of the number of unemployed persons and of the unemployment rate in all the counties of the country, being made redundant primarily the male persons and those with a medium or low education level. To overcome the crisis requires a policy and a strategy that can create new jobs, simultaneously with investment in infrastructure and with support for the small and medium enterprises. While maintaining a high rate of unemployment and shutting down firms, there can be no economic growth in 2010. It is also necessary to have a coherent anti-crisis program and take resolute measures in the economic and social area, to support the economic recovery.

## 5. References

- [1] Marius Băcescu, Dionysius Fota, „Criza economică din România anului 2009 – Cauze, efecte, soluții” (“The economic crisis in Romania in 2009 - causes, effects, solutions”), Editura Universitară, București, 2009
- [2] Monthly Statistical Bulletin no. 12/2008, National Institute of Statistics Publishing House 2008
- [3] Monthly Statistical Bulletin no. 12/2009, National Institute of Statistics Publishing House, 2009
- [4] Monthly Statistical Bulletin no. 1/2010, National Institute of Statistics Publishing House, 2010
- [5] Monthly Statistical Bulletin no. 2/2010, National Institute of Statistics Publishing House, 2010
- [6] “The annual report of analysis and prognosis - Romania 2009: the economic crisis and the rule of law,” The Academic Society of Romania, 2009. See [www.sar.org.ro](http://www.sar.org.ro)
- [7] [www.capital.ro](http://www.capital.ro)
- [8] [www.financiarul.com](http://www.financiarul.com)
- [9] [www.wall-street.ro](http://www.wall-street.ro)

# The Knowledge Economy – a Chance for a Lasting Economical Growth After the Crisis

Belostecinic Grigore  
*Academy of Economic Studies of Moldova*  
*anticamera@ase.md*

## Abstract

The financial and economic global system was changed due to the world economic financial crisis that affected most of the countries. Crisis is a process of transformation where the old system can no longer be maintained. Therefore, the cause of a crisis is the need for change. A solution for the actual financial crisis can be the knowledge economy. But knowledge has no resilience. If we fear for the security of the supply chains for food and energy, how much more should we be nervous about our knowledge? Not only is it floating free of any relationship with the real world, it is also stored on highly transient media. The research- development-innovation activity could bring a solution for the ending of the crisis and developing the knowledge economy that will save the economy.

**Key words:** research, development, innovation, knowledge, education, competitiveness.

**JEL Classification:** B52, G01, O39, Q01

## 1. Introduction

The economic and financial crisis that started in the second half of 2008 affected most of the world's states, except the poorest ones and generated processes able to change the economic and financial global system.

Thus, according to the World Bank, the world PGB decreased in 2009 by 2,2%, the world trade volume by 14,4%. According to United Nations Trade and Development Commission the direct foreign investments decreased in 2009 by 38,7%, comparing with

2008, from 1,69 to US \$ 1,04 bil.

The fall was most pronounced in countries with developed economy, by 41.2% , in countries with the emergent economy, by 35% and countries with economies in transition, by 39%.

Those listed above have made the World Economic Forum in Davos this year to discuss about the need for tougher controls and extensive state interventions in the economic processes of post-crisis, about the impossibility of a fast recovery of the economic growth rhythms from pre-crisis and that straightened out the economy will be a long, slow and difficult process.

In the situation, acquires special importance to find new solutions for insure the economic growth lastingness and, certainly, they will be found by production and assimilation of new knowledge.

## 2. Solutions to ensure sustainability of economic growth

Remember the fact that economic competitiveness, social inclusion and environmental protection were identified as pillars of the Lisbon Strategy, which proved that the sustainable development should form the foundation of all European policies. Even tough some of the settled objectives at Lisbon proved to be too ambitious, even for the states with a developed economy, it's obvious that promoting the research-development-innovation and the foundations of an information-based society, together with education remains a prerequisite for all world states, including the Republic Moldavia.

To note that science, technology, innovation, use of knowledge, so far over time, have played an important role and have made their contribution to social and economic development, supported the general economic progress.

Meanwhile, the contemporary society becomes more and more based on knowledge and information, a society of global civilization, the information becoming, in fact, a strategic and fundamental resource, alike the capital for the industrial society and with a total impact on developing and with a decisive impact on the development and prosperity of any nation. In most economically developed societies, intensive use of knowledge is recognized as the main factor of progress.

The Japanese were the first to have understood this, nationwide. Toshivo Doko, considered a “king of Japanese success”, declared since the late 60s: “We have no natural resources or military power. We have only one resource: our brains capacity for invention. It is unlimited and we must show it. We need to educate, to specialize, to equip. This power of the mind through the power of things will become, in the near future, the most precious common good, the most creator of all mankind” [1].

With the launch of the Lisbon Strategy, it became obvious the desire to clarify the content and these objectives, including from the scientific point of view, the research - development – innovation studies were intensified.

However, so far it hasn't been developed and completed a theory of this process, and there are several names of this phenomenon, such as post-industrial society, post-capitalist society, information society, digital economy, new economy, society based on knowledge and information, knowledge based economy, etc.

### **3. Old economy and new economy**

There are different ways through its tried to identify those changes that happened and continue to occur worldwide in the context of scientific and technical progress, globalization, innovation, sustainable development, etc.

In these conditions, together with traditional factors, knowledge is necessary as a factor with a major role in economic progress and the ability of a country to benefit from the gained knowledge is crucial

to the success of that state economy.

The transition from the industrial society to the next phase of economic development does not mean that after the age of industry, there will be no industry. Old economy and new economy coexist side by side.

Nobel laureate in economics Joseph E. Stiglitz estimates that the new “digital” economy has, yet less than 10% of the U.S. economy. New industry becomes an automatized one, robotic, cybernetized and computerized [2].

### **4. Competitiveness of an economy**

Speaking about the main features of the knowledge economy in the context of developing the competitiveness, usually the following are mentioned:

- there is a movement from homogeneity to extreme heterogeneity of products in order to meet the specific needs of some market niches;
- an enterprise from the knowledge economy is largely determined by its ability to acquire, disseminate and exploit knowledge and information;
- the role of creative labor and employment flexibility in the employment field increases;
- the importance of the economy on scale and the high economic value of „small scale” decrease as a competitive advantage;
- the importance of decentralization of decision-making, creativity and flexibility in business increases;
- need for greater processing capacity information and better coordination of business systems;
- continuous exchange of information to promote business partnerships;
- the importance of time (speed) as a factor of competitiveness increases, given that competition between firms increasingly rely on time and speed of reaction;

Whether they're big or small, strong or weak, countries are equal in front of the new rules of the international economic exchanges game. We must recognize, in this context that the theory of competitiveness and of the competitive advantages were developed on the basis of the experience of large economies (states) and on quite different economic situations.

Economic globalization, open economies, strong foreign competition has made the traditional sources of benefits like uptake of existing technologies, mass production of scale generating economy, domination of large enterprises in the industry, stable sales markets to lose their seasonableness and efficiency. This offers new opportunities and small economies, as it is the Republic of Moldavia.

I must admit here, that most of our economy continues to rely on extensive use of production factors. New technologies are mainly assimilated by imports and foreign investments.

There is a part of the economy can be considered as belonging to an investments based economy, and appears the emergence of the economy based on innovation, especially in information and communications technologies, an area with high competitive potential.

In this context, the Republic of Moldavia continues to present serious gaps in competitiveness compared with the absolute majority of European countries, at the level of all elements that determine the competitive ability and the largest gap occurs in the first place, in terms of innovation and research - development, the information society field.

In this context, to be competitive, an economy must be based on educated and skilled population, a developed information infrastructure an innovative and effective economic and institutional system that could support what was indicated above.

Hence, in a situation of increasing the economic competitiveness is a priority the goal of developing an innovative economy must be also a priority.

More so, as the investigation and analysis that we conducted showed a real correlation between the degree of innovation of economy and gross domestic product per capita or national productivity, in the sense that the value of these indicators increases with the appreciating of the innovation degree of the economy.

The states with a higher share of R & D expenditure in GDP have also a better position in global competitiveness rankings, which determines the need for greater investment in this area.

We must admit here that during the last years the expenses for research and development have been and continue

growing in the Republic of Moldavia, both in absolute terms and in relation to GDP. And this is to appreciate.

And even though for this chapter, we have to recover significant differences compared with developed European countries, the big problem for the Republic of Moldavia is that the largest share in research & development expenditure (the personnel involved in research & development) continues to go to budgetary resources (public sector), a very light involvement of the private sector in this area was recorded, absolutely contrary to the one established trend in Europe and worldwide.

The lack of private research (in enterprises) stops development of demand in the research market, that there is no need for assimilation of the research results.

Increasing involvement of private sector in the research- development-innovation activity can be achieved through state support, including by grants, subsidies or tax credits.

Let us remember that the European Union makes efforts to catch the large advance over the United States and Japan, beginning with research and development field.

Lisbon strategy review in 2005 confirmed the target settled at Barcelona of giving 3% of GDP for R & D by 2010, but from it: 1% must go to public expenses and other 2% for public sector.

## **5. Instruments used in the innovation field**

There are more important instruments that can be used by EU in the innovation field, instruments that can be also useful for the Republic of Moldavia:

- Creating the European Institute of Technology, its first projects aimed the measures meeting climate changes and development of EU energy policy.
- Creating clusters, including the fact that economic performance is influenced by the ability to cooperate in innovative activity. Although clusters are usually economic agglomerations formed spontaneously in a well defined geographical area, the state can encourage their forming, especially when they are organized around knowledge centers (universities or research institutes).

- The proposals for initiatives are preparing to develop areas with high potential for economic development and social value. (For the Republic of Moldavia these could be Balti town, which has a well developed infrastructure, partially preserved industrial potential, qualified workforce, Ungheni town - near the borders of the European Union and the city of Iași; Cahul town - Galati proximity and Giurgiulesti port).
- It seeks to promote innovation not only in the productive industry but also in services field, following the creation of the first innovative incubators in the services domain.
- Actions are taken to improve the European System of Standardization.
- The promotion of public-private partnership increases on issues such as green industry and eco-innovation, cluster policy, innovation services, and for sure innovative SMEs.

It can be mentioned that knowledge production can be considered as a new activity field, or, as the result of human activities, research and innovation, and having a market value, knowledge, like any economic good can and must be sold in the market.

As buyers can be both private companies and the state, as representative of the interests and social needs. Obviously this will approach the issue of free access to knowledge and will require the development of new economic theories, new research funding schemes, new problems related to the accounting of intangible assets, etc.

Knowing not means only the production of goods that includes a large amount of science and technology, but also improving the existing products, the ability to obtain in real time information about markets, distribution channels, consumer preferences, finding new groups of customers or entrance on new markets, the importance of trademarks - are new tasks in the science of marketing, not to mention the fact that even the research-development-innovation must be organized on customer's needs.

This imposes the need to promote collaborations and partnerships between economy and science; irrespective of funding source and implement marketing function involves just research orientation towards the needs of potential customers, adapting the

activity of research institutions to market needs.

## 6. Knowledge economy

Knowledge - based economy implies a greater role of universities in society.

First, universities must review their mission, which, in addition to providing learning and personnel, consider activation of research and commercial activities of product research to become more active in transferring knowledge and technology.

Similarly, universities must recognize that the XXI century student is different from the student of previous generations.

He requires partnerships with teachers, interactive training methods, and online student-teacher communication systems.

He must build the ability to understand and accept cultural differences, think critically, to approach problems from a global perspective, to work in cooperation, to be able to change their lifestyle and consumer habits and to ensure also the environment protection etc.

Universities need to recognize the fact that education has no borders. It becomes transnational.

That is why it is necessary and universities need to promote global innovative universities that need two things: more autonomy and more money, meaning a better financing.

## 7. Concluding remarks

In conclusion, we can mention:

- Building the society based on knowledge has become a reasonable goal for all world states, including the Republic of Moldavia. This is now the only way to competitiveness and economic prosperity.
- The Republic of Moldavia needs to establish a favorable business environment for innovation and a clear and realistic approach, which could start from stimulating the activities of research-development-innovation.
- It requires a systemic approach to innovation in the context of relations and interests of all actors participating to this process: universities, research institutions, donors and, not least the state.
- Like, maybe, in a short while, for the Republic of Moldavia is more important the



acquisition of technology in relation to the creation of technology, in terms of accelerated growth of productivity.

In this context, it becomes important promoting scientific and technological cooperation with large transnational companies (domestic and foreign), which would provide access to advanced research and high technology.

Innovation process in the Republic of Moldavia will be successful only if new knowledge will be used in economy and will be assimilated by the enterprises.

From this perspective, the reason to support research-development-innovation must be the economic effect established on the basis of efficiency and cost analysis.

Talking about the effective integration of

our research in the European research area, becomes important to find our place and role in European scientific research, our niche European market of research-development-innovation.

In this context, it is necessary to identify priority areas where research should be focused on research-development-innovation, which could provide a competitive advantage on the European market research.

## 8. References

- [1] N. Grigorie-Lăcriță, “ Standardele cunoașterii”, *Tribuna Economică*, 2006, pp. 29-34.
- [2] J. E. Stiglitz, C.D., C. E. Walsh. Roberts, „Economic”, *Editura Economica*, 2005, pp. 783.

## The Analysis of the Main Factors of the Macro-medium Influencing the Dynamics of Public Services in Romania

Bicăjanu Vasile,  
Ionciță Maria,  
*Academy of Economic Studies, Bucharest*  
*maria.ioncica@com.ase.ro*

### Abstract

The current study presents the PESTE analysis, as well as the analysis of the evolution of the main factors of the macro-medium influencing the dynamics of public services, namely: the political and legal environment, the economic environment, the socio-cultural environment, the technological environment and the ecological (natural) environment.

Currently, from a political point of view, we can say that in Romania the climate is relatively stable and favorable for change. On the other hand, the legislative system is rather unpredictable, influencing in a negative manner the course of business in the economy, hence public services.

Economic factors influence to the highest degree the development of public services, the level and dynamics of the main indicators of economic development determining their level and quality.

In the last part of the paper, we shall present a SWOT analysis of the social and economic situation of Romania after 1990, which had a decisive influence on the dynamics of public services.

**Keywords:** PESTE analysis, macromedium, public services, economic development

**JEL Classification:** E61, E69, H40, H59, O29

### 1. Introduction

The dynamics of public services is in close correlation to the evolution of the economic and social milieu in which they develop. Public services are influenced in their activity by factors in the macro-medium, such as: the

factors in the political and legal environment, in the economic environment, in the socio-cultural and the technological environment. Lately, the ecological (natural) factor was added to these factors, as a result of the growing importance of the problems in the environment.

In this context, the current study analyzes the evolution of the main factors in the macro-medium, impacting the evolution of public services.

### 2. Public services – contents and typology

The existence of people in society requires, as an objective necessity, the production of public goods alongside private goods. The former are defined as ‘goods that benefit the entire public or population’ [1].

By object of activity and means of financing, public services are categorized in:

**A.** commercial public services

**B.** public services financed by the state budget, which can be in turn: administrative public services, collective public services, customized public services [2].

**Commercial public services** have as object industrial and commercial activities (railroad transport, the common transport system, mail and telecommunications, water, gas and electricity distribution, etc.). Although these services are largely paid for by the population, the state intervention through the competent authorities resides in the imposition of conditions for supplying the services, organizing and developing auctions for leasing them to private companies, subsidizing, approving and controlling the increase in tariffs, etc.

**Administrative public services** can be only supplied by the state through its

institutions, these including the legislative public service, the executive public service and the judicial public service.

**Collective public services** are financed by the state budget, have a collective destination and satisfy needs with a pronounced social character, such as defense, public order and national safety, locative and public development, and protection of the environment.

**Customized public services** comprise social and cultural activities meant to ensure public health, to raise the level of professional and cultural development, create conditions for leisure and recreation.

The level of public services depends on the evolution of factors in the macro-medium: the political and legal environment, the economic environment, the socio-cultural environment, the technological environment and the ecological (natural) environment, evolution which will be analyzed in the following.

### **3. The analysis of the factors in the macro-medium in Romania influencing public services**

The factors in the macro-medium, which are in a continuous change, have a strong influence on the volume and structure of public services. The analysis of these factors is known as a PESTE analysis.

#### **3.1. The political and legal environment**

Political factors are specific to each country, and represent mainly the structures of society, social classes, political forces, the degree of involvement of the state in the economy, the degree of stability of the political climate. The political objectives of the government in power at a given moment have a strong impact on economic policies, influencing in a direct or indirect manner the evolution of the economy in its entirety, and public services in particular [3].

Currently, it is considered that in Romania, from a political point of view, the climate is relatively stable and favorable for change, with all the disputes between the actors on the political stage, inherent in any democratic society.

The legislative environment is formed of the ensemble of laws and norms regulating

the functioning of the economy. There are general laws and norms valid for all domains of activity, as well as laws specific to the various branches of public services (education, healthcare, public administration, etc.). The legal provisions, as well as their stable or unstable character, influence in a decisive manner the development of public services.

Due to the instability caused by the passing from a socialist economy to a market economy, regulations in our country have recorded two tendencies, namely, on the one hand, *the increase in their number*, and, on the other hand, *changing some of them at small intervals*.

This unpredictable legislative system represents a major barrier in the stimulation of investments in general, and investments in the public services field, in particular, as they do not allow for the elaboration of development plans and do not offer the safety necessary for their implementation on the long term.

#### **3.2. The economic environment**

Among the components of the environment, the economic environment has the greatest impact on the development of public services, as the level and dynamic of the main indicators of economic development condition the level and quality of public services.

The main economic factors influencing the development of public services are: *economic growth* (the rhythm in which the economy evolves (for better or worse) in a period of time); *final consumption expenditures of the population*, influenced in turn by real income, the tendency towards saving, the taxes and subsidies from the budget, etc.; *investment spending*; *consumption spending of public or private administration*; *exchange rates*, *interest rates*, *inflation and unemployment rates*, a.s.o.

The evolution of macro-economic indicators in Romania shows the fact that economic activity in our country was characterized, after 1990, by a sinuous evolution, the measures of economic reform applied being sometimes less than adequate.

The dynamics of Romanian economy after 1990 exhibits evidence of economic growth and decrease cycles (see the data in **Table 1**).

**Table 1. The main economic indicators in the 1990-2008 period**

Years	1990	1995	2000	2001	2008
<b>Indicators</b>					
GDP growth rate (previous year= 100) %	-5.6	7.1	2.4	5.7	7.3
Annual inflation rate (previous year=100) %	5.1	27.8	40.7	30.3	7.9
The exchange rate RON/euro (average annual values)			1.99	2.60	3.68
The real salary gain index (1990=100) %	100	66.5	59.4	62.4	130
The unemployment rate % (cf. AAFP)*		9.5	10.5	8.8	4.4

Source: The National Strategy for Economic Development in Romania on a Medium Term, March, 2000; Social Trends, INS, Bucharest, 2004,2008; The Statistic Yearbook, INS, Bucharest, 2009

\* AAFP = Agenția de Ocupare și Formare Profesională (The Agency for Employment and Professional Development)

After 2000 and until 2008, most economic indicators had a positive development, as we can notice from the figures presented in Table 1, which influenced the dynamics of commercial public services and publicly financed services.

After 2008, the influence of the global economic crisis was felt in our country as well.

Thus, the rate of economic growth was negative in 2009 (approx. -7%), the unemployment rate also rose (reaching approx. 7%), to give just two significant examples referring to the decline of Romanian economy under the influence of the economic crisis.

### 3.3. The socio-cultural environment

The socio-cultural environment is formed of the complex of elements defining a society (institutions, factors, etc.) giving the society its own system of values, traditions and norms leading to a certain behavior of its members. Among the most important changes lately, with an impact on the development of public services, we can mention:

- the phenomenon of ageing of population, with the increase in the average lifespan, involving the increased need for healthcare services, social assistance, etc.

- the spectacular increase in the mobility of population, in the conditions of the globalization of the economy, and of the progress in the evolution of transports, increasing purchasing power and need of recreation and information.

- the growth in the role of women in economic life, leading to the need for development of childcare and education services. The employment of women and the untraditional structure of some families in developed countries (single, same sex couples, groups) are two separate factors, but which lead to mutations in consumption expenditures, hence demand [4].

### 3.4. The technological environment

The technological environment presents both opportunities and threats for the development of services.

The main aspects through which the technological environment influences the development of services refer to [5]: the degree of development of information systems; the development of communications; the development of soft; the volume of research and development expenses.

Related to all these aspects, Romania has an extremely valuable human potential, but, to a large extent, the financial resources for technological progress are missing, thus leading to a gap compared to developed countries.

### 3.5. The natural environment

The natural environment is made up of geographical, biological, hydrologic, climatic components [6].

Natural factors have both a positive influence, by becoming sometimes essential strategic resources, as well as restrictive, through the limits imposed by the necessity of protecting the natural environment.

The need for restructuring economic activities and shifting the weight towards intangibles activities is highlighted in the current context by growing concerns of how to promote sustainable economic development [7].

In an attempt to characterize the economic situation of Romania after 1990, and till the present moment, a brief **SWOT analysis** shows:

#### **Strengths**

- Romania has a series of natural advantages, insufficiently exploited at the moment, which, if well managed, can contribute significantly to economic growth and influence in a positive manner the development of public services.

- The labor force has, on the average, a *high level of education*, which represents an important opportunity for the development of knowledge-intensive branches (informatics, healthcare, research, etc.)

- The *reduced cost of labor* represents an opportunity, being an incentive for foreign investors, and a possibility for relatively lower prices for Romanian entrepreneurs.

#### **Weaknesses**

- Infrastructure* (transport, communications, public utilities) is insufficiently developed, outdated and does not act as catalyst for investments. It is, alongside other factors, responsible for the insufficient inflow of foreign direct investments in Romania.

- The slow rhythm of restructuring of public companies* has made some of these into real 'black holes', consuming a large volume of subsidies, and at the same time, accumulating huge debts to the state budget. Moreover, low labor productivity has generated economic difficulties, related to the high level of production costs, as well as social problems (reduced salaries, and even the impossibility to pay them).

- The important share of *activities with a low added value*, characterized by the

absence of innovation or a low level of innovation, has determined a low competitiveness of Romanian products on the domestic, and especially on the international, markets.

- The environmental management systems* (waste, residual water, drinking water) are still extremely underdeveloped, and sometimes they do not even exist.

#### **Opportunities**

The most important opportunities for Romania are:

- EU accession*, and, related to this, the decrease in the importance of trade barriers and of obstacles in the development of the economy.

- The opportunities provided by the *information society*, considering the fact that Romania has extremely valuable human potential for developing services with a high added value (informatics, telecommunication, etc.).

#### **Threats**

The main threats to Romania's economic development are:

- Other competitors from Central and Eastern Europe, capable of increasing their competitive advantage, with the help EU Structural Funds.

- Competition from China and South-East Asia, in the sectors with low production costs.

- Shocks in the labor market, related to the restructuring of state companies.

- The overseas migration of the labor force, especially highly qualified employees.

As a natural consequence of the evolution of the factors in the macro-medium in Romanian economy, most public services have recorded a decline in the 1990-2000 period. Afterwards, a period of recovery followed, due to economic expansion, and after 2008 public services, as well as the entire economy, were affected by the global economic crisis.

## **4. Conclusions**

Considering the interdependence of public services to the other sectors of the economy, and the evolution of the whole economy, the economic policy measures should aim at ensuring a positive trend especially for economic factors, but for the other factors of

the macro-medium analyzed previously as well.

Thus, we refer, mainly, to the stimulation of economic branches, with high development opportunities for Romania, such as: agriculture, informatics, tourism, etc. The re-launching of Romanian exports is also crucial, as well as regaining traditional markets lost in recent years, and taking advantage of the opportunities created by the accession to the EU.

Developing infrastructure, transports, telecommunications, education, research and development services, with EU support inclusively, represent important directions for improving public services, as well as the economy as a whole.

## 5. References

- [1] Hillman, A. *Public Finance and Public Policy*, Cambridge University Press, 2003
- [2] Ionciă, M. *Economia serviciilor. Teorie și Practică*. Ed. a III-a revăzută, Ed.Uranus, București, 2003
- [3] Ionciă, M., Petrescu, E.C., Popescu, D. *Strategii de dezvoltare a sectorului terțiar*, Ed.Uranus, București, 2004
- [4] Pop, N. Al. (coord). *Marketing strategic*, Ed. Economică, București, 2000
- [5] Tribe, J. *Corporate Strategy for Tourism*, International Thomson Business Press, London, 1997
- [6] Parfene, M. *Economia serviciilor. Teoria și Practica Dezvoltării Strategice*, Ed. Universitară, București, 2008
- [7] Ionciă, M., Drăghici, M., Petrescu, E.C., Ionciă, D. *Services specialization (a possible index) and its connection with competitiveness. The case of Romania*, 2010, *The Service Industries Journal*, Volume 30 (13-14)

## The Shadow Economy and Corruption in Romania

Bocean Claudiu George  
*University of Craiova*  
*boceanclaudiu@hotmail.com*

### Abstract

Shadow economic activities constitute a large and growing part of all economic activity throughout the world. Because all individuals engaged in these activities wish not to be identified it is very difficult to get accurate information about the relationship between corruption and shadow economy activities. The paper highlights the interaction between the underground economy and corruption using comparative analysis. It discusses the theoretical approach to shadow economic activities and focuses on the determinants of the Romanian economy concluding that Romania record a high incidence of corruption and a large shadow economy.

**Key words:** shadow economy, corruption, legal and illegal activities, dual economy sectors

**JEL Classification:** C83, D73, D78, E 26, K42, O17

### 1. Introduction

The analysis of dimensions, spread, and consequences of shadow economy phenomenon in Romania is under intensive public policy debate. Most authors trying to evaluate the shadow economy face the difficulty of how to define it and its complexity.

Smith (1994, p. 18) defines it as „market-based production of goods and services, whether legal or illegal that escapes detection in the official estimates of GDP.“ Del’Anno (2003) considers that shadow economy consists in ”those economic activities and the income derived from them that circumvent or other wise government regulation, taxation or observation”

Economic theory also identifies increasing in tax and social security

burdens as one of the mainly important causes of the increase of the shadow economies worldwide. This effect is explained by a switch of labor supply to the shadow or informal economy (considered as an untaxed sector) driven by the enlarging difference between the total labor cost and after-tax earnings in the official economy (Schneider & Enste, 2000). Studies of shadow economies for the period of early transition have found some evidence for the assertion that the success of market reforms is related to lower levels of the shadow economy (Eilat & Zinnes, 2002).

The shadow economy includes all market-based legal production of goods and services that are deliberately concealed from public authorities for the following reasons (Schneider, 2006):

- to avoid payment of income, value added or other taxes,
- to avoid payment of social security contributions,
- to avoid having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc.,
- to avoid complying with certain administrative procedures, such as completing
- statistical questionnaires or other administrative forms.

As I supposed before the tax evasion is typically assumed as a major motive for shifting the activities “in the shadow”. The main reason for this is the tax burden level. I believe that if all the due taxes have to be paid, assuming that the other companies succeed to avoid it, the firms which pay taxes will lose its competitive position in the economy.

From Table 1, it becomes obvious that a broad definition of the shadow economy includes unreported income from the production of legal goods and services,

either from monetary or barter transactions - and so includes all economic activities that would generally be taxable were they reported to the state (tax) authorities.

Table 1 Type of Underground Economic Activities

Type of Activity	Monetary Transactions		Non Monetary Transactions	
Illegal Activities	Trade with stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud; etc.		Barter of drugs, stolen goods, smuggling etc. Produce or growing drugs for own use. Theft for own use.	
	Tax Evasion	Tax Avoidance	Tax Evasion	Tax Avoidance
Legal Activities	Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbor help

Source: Lippert and Walker (1997), with additional remarks from Schneider (2006)

The separation of the economy (Dual economy) into an official (First economy) and an unofficial sector (Second economy; informal economic activities) offers an initial guide towards a categorization of the shadow economy (Figure 1).

Figure 1 Dual economy sectors

National economy (Dual economy)			
Official sector (Formal sector, first economy)		Underground economy (informal economy activity, second economy)	
Public sector (Public institutions and public companies)	Private sector (private households and companies)	Shadow economy (Market transactions)	Household sector (Self-sufficient economy)

Source: Schneider and Enste (2002)

Fields (2005) sees the informal sector as composed of two tiers. According to this view, the upper tier contains the competitive part, i.e. those who voluntarily choose to be informal, and the lower tier those who are there because they do not have other alternatives. It becomes clear that if the informal sector is indeed a two-tier one, then appropriate attention has to be paid to the differences between these two segments in terms of the reasons and

motivations of informality as well as the consequences of informal employment. Policies should be designed accordingly to take into account the specificities of these two main parts of the informal sector.

## 2. Shadow economy in Romania

In Romania, immediately after the fall of communist regime, the informal sector was based largely on flow of smuggled goods from public companies, and then sold on the black market, domestic or foreign. With time, shadow economy channels have diversified. Specialized pathways have appeared on the black market currency, in drug trafficking, etc. Many people were employed in companies without legal requirements.

Continuing some practice before 1990 (corruption, favoritism, bribery), addressing new forms of expression, the shadow economy, which has proliferated since 1990, was provoked by several factors, which enabled development of many of the specific practices:

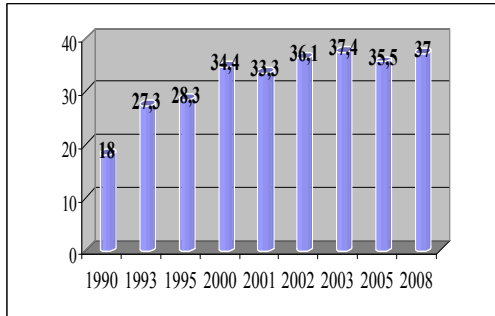
- legal uncertainties that have accompanied economic changes;
- development of tax legislation characterized by gaps, inconsistencies and ambiguity;
- decentralization of power has increased the number of individuals that may be corrupt;
- adjustment and economic restructuring have led to small enterprises creating, which are important generators of the shadow economy;
- economic restructuring have led to small enterprises, which are important generators of the underground economy;
- tolerant attitude of both the authorities and population, to breach the rules and some reluctance to discipline characteristic generally Latin peoples;
- underground economy inherited from the old regime.

The main cause of the shadow economy is still high level of taxation. Meanwhile, corruption is practiced at all levels of society.

Figure 2 shows the evolution of Romanian shadow economy after 1990.



Figure 2 Shadow economy in Romania (share in GDP)



Source: RCEP (2001) and Kearney (2009)

### 3. Shadow economy - corruption correlation

It is usually agreed by economic policy analysts that shadow business activities and corruption practices are interlinked phenomenon. A lower level of corruption in the public sector should restrict the shadow economy widen, and contrary - with restrained “shadow operations” (providing “black account” funds for bribery purposes) corruption would be substantially slowed down.

Figure 3 shows some causes and effects of the shadow economy and corruption, and their correlation.

Figure 3 Links, causes and effects of the shadow economy and corruption

Business Regulations	+	<b>Shadow Economy</b>	-	GDP Growth
Unemployment Rate	+/-		+/-	Labor Force Participation
Transfers and Subsidies	+		+	Tax evasion
Government Consumption	+			
		+/-		
Government Effectiveness	-	<b>Corruption</b>	-	Real GDP per Capita
Fiscal Freedom	-		+	Bribes
Bureaucracy Costs	+		-	Judicial Independence
Rule of Law	-			

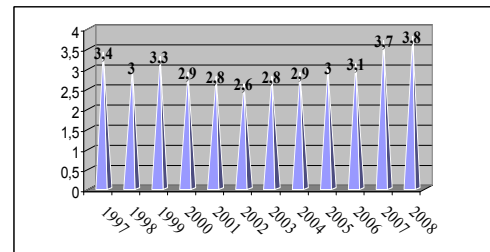
Source: Buehn and Schneider (2009)

A large shadow economy is linked to high levels of corruption. In countries with large shadow economies, firms and

individuals often rely to a large extent on shadow economic activities. In order to avoid detection, taxation, and punishment, they bribe bureaucrats. Moreover, low tax revenues reduce the quality of public services and infrastructure. This in turn reduces the incentives to remain in the official economy. Weaker legal systems and unstable conditions for economic activity increase corruption.

Figure 4 shows the evolution of Corruption Perceptions Index in Romanian economy.

Figure 4 Corruption Perceptions Index in Romania



Source: [www.transparency.org.ro](http://www.transparency.org.ro)

Although according to the Corruption Perceptions Index situation in Romania has improved, shadow economy remains at high levels, which proves the relationship in both directions.

### 4. Conclusions

Extend of shadow economy, tax evasion, and corruption is still a problem in Romania as a new EU member state with not only domestic but also international repercussions. The existence of the shadow economy is a challenge for public authorities. In an attempt to limit or taking it in the formal economy, these authorities should take into account both negative and positive effects. Favorable critiques argue that underground activities provide flexibility and adaptability of the formal economy which it lacks, compensating fields which it covers, providing jobs and acting as a remedy for unemployment in periods of recession. Should, however, do not skip the fact that that when accepting a dual society, consisting of a formal sector and informal sector, taxation and regulation will push even more on formal sector. Any tax unpaid by one or more taxpayers

involves the assumption or increase public spending, increased taxes paid by others.

Shadow economy is a complex phenomenon, present in all type of economies (developing, developed and highly developed). People engage in shadow economic activity for a variety of reasons, among most important are government actions, avoiding taxation and regulation. A government aiming to decrease shadow economic activities has to asses the complex relationships between the corruption and shadow economy.

## 5. References

- [1] Buehn, A. and F. Schneider, „Corruption and the Shadow Economy: A Structural Equation Model Approach”, IZA DP No. 4182, Bonn, Germany, may 2009.
- [2] Del’Anno, R., “Estimating the shadow economy in Italy: A structural equation approach”, Discussion Paper, Department of Economics and Statistics, University of Salerno, 2003.
- [3] Eilat, Y. and C. Zinnes, “The shadow economy in transition countries: friend or foe? A policy perspective”. *World Development*, v.30 (7), 2002, pp.1233-1254.
- [4] Fields, G., “A Guide to Multisector Labour Market models”, World Bank Social Protection Discussion Paper Series No. 0505, World Bank, Washington D.C, 2005.
- [5] Goev V. and V. Boshnakov, “Grey economy and perspectives of Bulgarian businesses development in the EU accession period”, *EKONOMIKA*, no 84.
- [6] Kearney, A.T., “The shadow economy in Europe”, Johannes Kepler Universitat, Linz, 2009.
- [7] Lippert, O. and M. Walker (eds.), *The Underground Economy: Global Evidences of its Size and Impact*, Vancouver, B.C.: The Frazer Institute, 1997.
- [8] Romanian Center for Economic Policy (RCEP), *The shadow economy in Romania*, 6 September 2001.
- [9] Schneider, F. and D. Enste, “Shadow economies: Size, causes, and consequences”, *Journal of Economic Literature*, Vol. XXXVIII (March), 2000, pp.77-114.
- [10] Schneider, F. and D. Enste, *The Shadow Economy: Theoretical Approaches, Empirical Studies, and Political Implications* – Cambridge, UK: Cambridge University Press, 2002.
- [11] Schneider, F., “Shadow economies and corruption all over the world: what do we really know?” IZA Discussion Paper, No. 2315.
- [12] Smith, Ph., “Assessing the size of the underground economy: The statistics Canada perspectives”, *Canadian Economic Observer*, Catalogue No.: 11-010, 3.16-33, at 3.18. Spiro, Peter S. (1993): “Evidence of a Post-GST Increase in the Underground Economy,” *Canadian Tax Journal/ Revue Fiscale Canadienne*, , 41:2, 1994, pp. 247-258.
- [13] Tanzi, V., “Corruption around the world: Causes, consequences, scope and cures”, *IMF Staff Papers*, v.45 (4), 1998, pp.559-594.

# Labour Taxation in EU Countries. Comparative Analysis

Boglea Vanina Adoriana  
Iacob Mihaela Ioana  
„Aurel Vlaicu” University of Arad  
vanina.boglea@yahoo.com  
mihaiacob1976@yahoo.com

## Abstract

The problems of high labor taxation, has been the topic of numerous debates, in which there has been shown that the taxes on income from employee are significant, especially in Europe. Despite the existence of some countries that have a reduced level of taxation, the labor taxation, is on an average, much higher in the EU than in other main industrialized economies.

**Key words:** labour, taxation, European Union

**JEL Classification:** H2

## 1. Introduction

In the European System of Accounts classification, keeping in mind the distinction between employed and non-employed, taxes on labour can be identified as the following categories:

- taxes on employed labour - comprise all taxes, directly linked to wages and mostly withheld at source, paid by employers and employees, including actual compulsory social contributions. They include compulsory actual employers' social contributions and payroll taxes, compulsory social contributions paid by employees and the part of personal income tax that is related to earned income. The personal income tax is typically levied on different sources of income: labour income, but also social benefits, including pensions, dividend and interest income and self-employment income.

- taxes on non-employed labour - comprise all taxes and compulsory social contributions raised on transfer income of non-employed persons, where these could

be identified. This transfer income includes social transfers that are paid by the state (invalidity and health care benefits) and benefits from old-age pension schemes (both state and occupational pension schemes). Most of these benefits paid to non-employed persons are in some way or the other linked to employment; contributions for current unemployment and state pension benefits are, for example, for the most part, paid by the active labour force, while occupational pension schemes are mostly funded while being employed.

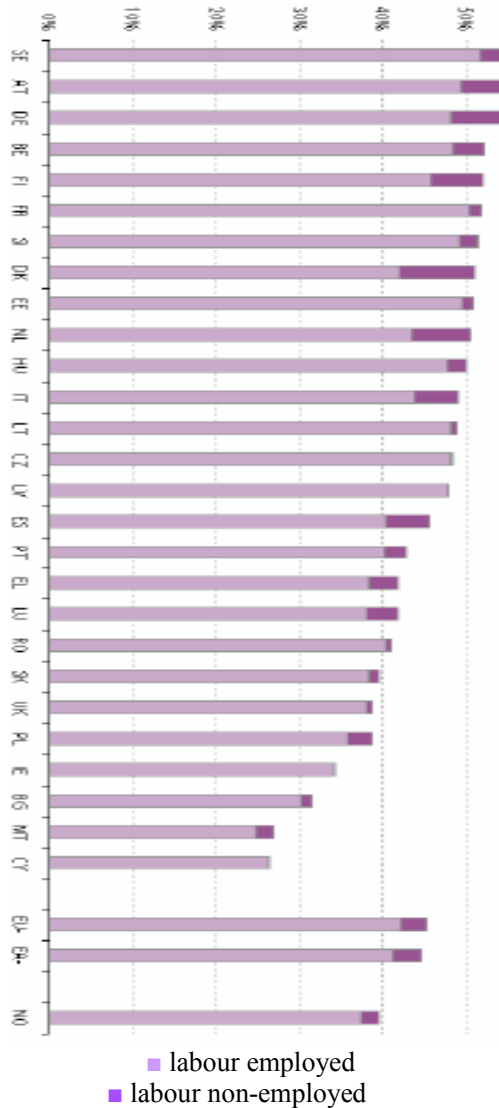
## 2. Labour taxation in EU27

We have to point out that the weight of takings from the labor taxation is far more superior than the UE27 average (45,2%) in 16 countries: Sweden (58,6%), Austria (55,2%), Germany (54,6%), Belgium (52,2%), Finland (52%), France (51,8%), Slovenia (51,5%), Denmark (51%), Estonia (50,8%), Holland (50,4%), Hungary (50,1%), Italy (49%), Lithuania (48,9%), Czech Republic (48,3%), Latvia (48%) and Spain (45,6%).

Under the UE27 average we find 11 countries, namely: Portugal (42,9%), Greece and Luxembourg (41,8%), Romania (41,1%), Slovakia (39,5%), Great Britain and Poland (38,6%), Ireland (34,2%), Bulgaria (31,6%), Malta (27%) and Cyprus (26,4%).

If we take into account the distinction between the employed and the non-employed and we refer here to the two main components, we can observe that in all the state members of the European Union, the taxes on income from labour employed are the highest.

Graph 1: Taxes of labour as % of total taxation



Source: Eurostat, *Taxation Trend in the EU, 2009*

The taxes on income from non-employed labor are more significant (more than 5%) in countries such as Denmark, Sweden, Germany, Holland, Austria, Finland, Italy and Spain.

The problems of high labor taxation, has been the topic of numerous debates, in which there has been shown that: “the taxes on income from employee are significant, especially in Europe. This happens, maybe

because this sort of taxation is more convenient to implement from the political point of view – they are at the charge of an anonymous administration, not at the charge

of the prime minister nor the president’s. Furthermore, the employees are not aware of these income taxations, because the taxes are paid, on their behalf, by the employer. Some of these taxes cover the unemployment compensation, the national health insurance, the allowances for pensioners, the accident insurances, “the solidarity funds”, having different objectives, from houses with moderate rent, till special requalification programmes, and so on. All these taxes lead to a raise of costs of the labor manpower for the companies, except for the cases in which the employees agree to reduce the value of the wages after they have been paid off [1].

Starting with the 90<sup>s</sup> many states, members of the European Union, have introduced measurements for reducing the fiscal weight upon labor, especially through reducing the wage taxation, and granting some facilities for the labor.

A solution for reducing the fiscal pressure upon labor has been considered by numerous states members as being “the removal of the fiscal weight from labor”, meaning the use of other taxes in order to gain fiscal resources. Thus, the removal of the fiscal weight from labor has been directed towards capital or towards a larger taxation basis. From 1999, the French government has removed the labor taxation towards taxation of the local businesses, a process that has been finalized at the end of 2003. In Italy, between 1997-1998 some compulsory health contributions of the employees have been removed and a new tax on expenses has been introduced.

Taxes have also been orientated towards polluting activities, and as a result many countries have introduced or raised some taxes on energy or the so called “green tax” in order to finance, at least partially, the decreases from labor taxation. In Germany, in April 1999, new taxes on the consumption of energy, having the aim of reducing the taxation on pensions, have been introduced. Italy has launched in 1999

a “green fiscal reform”, which meant a step by step implementation of excise which are higher and close related to the carbon dioxide produced by each fuel, until 2005. The rise of the fiscal incomes will determine a diminution of the labor taxation. In Great Britain, in 2001, a new change regarding the tax perception from the companies that use methane, coal or electricity, has come into effect. In Holland, the reduction of the personal income tax has been covered by a VAT and “green taxes” increase.

Another possibility of diminishing the labor taxation was the diminishing of the indirect taxes upon the working at home activities. In 1999 there has been adopted a norm that guarantees the option of those countries that want to reduce the VAT for the working at home labor, during 2000 and 2002. The objective was the rise of demand for such services and of the jobs as well as for legalizing that part of the unofficial economy: bike mending, shoe and leather products repairing, dressmaking and weaving; restoration and mending the private houses, cleaning and maintaining cleanliness in the private houses; medical care at home and hairstyling. Countries such as Belgium, Greece, Spain, France, Italy, Luxembourg, Holland, Portugal and Great Britain took advantage of this opportunity.

### 3. Implicit tax rate on labour

One of the indicators that were mostly used to express the real fiscal pressure or direct effective or indirect imposed on different types of economic incomes or possible taxation activities by the state members is represented by the implicit tax rate.

The implicit tax rate on labor is a relevant indicator of the fiscal weight upon labor and is being calculated through reference of all direct and indirect income taxes, of the compulsory social contribution and imposed on the labor income, related to the income that is actually being taxed.

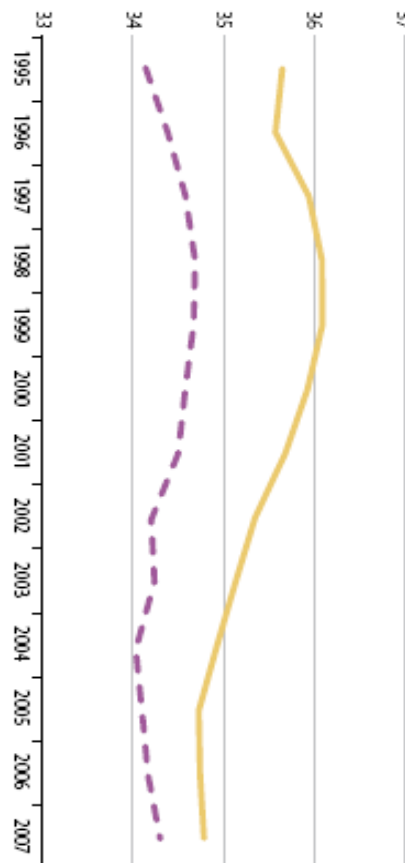
The implicit tax rate on labor is being calculated only for the employee labor, avoiding this way to burden the taxation

upon the social transfers, including the pensions.

The implicit tax rate on labor estimates the average fiscal burden upon the labor income in economy. The tax proportion can hide important variations in real/effective tax contributions from one house to another or from one wage to another.

For example, reducing the taxes or the social contributions which aim the workers that are badly paid and badly trained or the families that have children can have a minor impact over this indicator, but at the same time can be efficient in rising the real wage for beneficiaries. The evolution of the implicit tax rate on labor, during 1995-2007 is shown in the graph 2 below.

Graph 2: Evolution of the implicit tax rate on labour, 1995-2007 (%)



Source: Eurostat, Taxation Trend in the EU, 2009

The implicit tax rate on labor, in 2006 and 2007, has gone up to 34,8%, in comparison with the 34,7% level in 2005. The descendant trend of this rate, stating with 2000, has ended in 2005, in spite of a large agreement regarding the wish of reducing the labor taxation. However, the fiscal burden is still low in comparison with its maximum of 36,1%, maximum that has been reached in 1999.

As for the state members, in 2007, the values of this rate varied between a minimum of 20,1% in Malta and a maximum of 44% registered in Italy. Also, the implicit tax rate on labor registers reduced values in Cyprus (24%), Ireland (25,7%), Great Britain (26,1%) and Bulgaria (29,9%) and higher values in Italy

(44%), Sweden (43,1%) and Belgium (42,3%).

Despite the existence of some countries that have a reduced level of taxation, the labor taxation, is on an average, much higher in the EU than in other main industrialized economies.

#### 4. References

- [1] Burda Michael, Wyplosz Charles, Macroeconomia. Perspectiva Europeană, Editura All Beck, București, 2002, pag.50
- [2] Eurostat, Taxation Trend in the EU, 2009;
- [3] Vanina Adoriana Boglea "Evoluții ale sistemului fiscal românesc în procesul aderării și integrării europene" Ed. Casa Cărții de Știință, Cluj-Napoca, 2010.

# Electronic Commerce Versus Traditional Commerce: Trends, Similarities, Differences

Boldureanu Gabriela  
„Petre Andrei” University of Iasi  
E-mail: gabrivaleanu@yahoo.com

## Abstract

The unprecedented development of information technologies in recent decades has revolutionized global trade, wholesale and retail, redefining, from a radical way of organizing and operating system business, requiring a new way to trade, to enter relationship and partnership with consumers connect. Thus, this paper presents the main developments in trade, from classic to electronic commerce trade, concluding that, in fact, widespread Internet and information technology contribute to the development of traditional trade.

**Keywords:** classical trade, commerce, information technology, goods, suppliers.

**JEL Classification:** Q33, N70.

## 1. Introduction

Research in the field of trade developments have revealed a number of milestones, from the appearance of large stores, development of branch emergence popular shops, placing of self-serving, development centers, the introduction and widespread deployment of electronic commerce. In the context of the new economy [2], information technology, the Internet boom led to new opportunities for humanity, creating an unprecedented development of electronic commerce. Global electronic commerce is not a simple activity that focuses only businesses but their efforts became a major component of economic development policies of governments of developed countries.

## 2. From classical to electronic commerce trade

During over 150 years, trade has seen a number of structural mutations which facilitates understanding review its current stage of development, namely [5]:

- Development of large stores in the mid-nineteenth century were the main mutations choice of products, highlighting a greater extent the characteristics of goods, can direct consultation of the goods displayed;

- Development of branches. His originality consisted in concentrating purchases made by a commercial firm, leading to a number of advantages such as flexibility and proximity to business customers from small chain stores.

- The third revolution, which started between the two wars, has led to popular store emphasis on a narrow range of non-food goods but high rotational speed;

- Creating the dominant food supermarkets have led to self-serving;

- In the early '60s that focused hypermarkets occurred under the same roof in a shopping center independently, several independent traders or companies specializing in the provision of services;

- The sixth revolution, initiated in the early '60s was the mainstream: maximizing servicing by each trader;

- A seventh revolution that we can consider the introduction and widespread deployment of electronic commerce.

Thus, electronic commerce dates from the decade eight of the twentieth century. Since 1968 the standard was developed first EDI (Electronic Data Interchange) structured messaging transport industry in

the U.S.. In the decade closed 9 develops networks of commercial transactions, hence the emergence of electronic mail. In 1990 occurs the Internet revolution products. By that time „culture” of the Internet has encouraged and rewarded people who brought information and tried to discourage the use of Internet for profitable activities or who is committed to making a profit.

Be said that there is no universally accepted definition of the term „electronic commerce” or e-commerce. However, e-commerce means „distribution, marketing, sale or delivery of goods and services by electronic means”.

After Kalakota and Whinston electronic commerce is „a modern business approach, which addresses the needs of companies, markets and customers to reduce costs while improving product quality and services and increase the speed of delivery or performance. Electronic commerce can be treated without regard to computer networks, useful in searching and finding information needed to support various decisions taken by companies and by consumers” [3].

The Buyer's Guide to Electronic Commerce, published the following definition: Electronic commerce is to "use information technology to improve relations between business partners” [9].

For Dennis P. Geller, electronic commerce is the „collection of tools and practices that involve the use of Internet technologies that allow companies to create, maintain and optimize business relationships with other companies and individual consumers” [6].

For some companies, electronic commerce means any financial transaction using information technology. For others, the notion of electronic commerce covers full cycle sales - including marketing and selling itself. Many people consider e-commerce as any commercial transactions conducted electronically for the purchase of products such as books, CDs, tickets and more. But electronic commerce has, in general, a more profound impact on business development and includes, in fact, not new purchases only commercial but also all activities that support marketing

objectives of a company and may include, for example, advertising, sales, payments, after-sales activities, customer service, etc.

Thus, its wide range of services to support and assist this new area of business: Internet providers, security systems and electronic signatures, online transactions or store chains and general services such as consulting, website design, development sites, etc.

This development has a major impact on the economy [7], the creation of new enterprises, diversification of existing ones and, in particular, the potential labor market and the employability of its future. Because of this diversity of market conditions that include a large number of service providers and is in constant change, it must as a necessity available to enterprises, especially small and medium enterprises, a „source” where to find adequate support for implementation of e-commerce solutions in their own activity.

E-commerce industry is generally a distinction between transactions *Business-to-Business (B-2-B or BTB)* transactions and *Business-to-Consumer (B-2-C or BTC)*:

- *B-2-B* contains all transactions are made between two or more business partners. These transactions are usually based on an extranet system, which means that our business partners acting on the Internet using names and passwords for their Web pages.

- *B-2-C* refers to the relationship between dealer and end consumer retail e-commerce is considered.

A new option in e-commerce transaction is the *Business-to-Employee (B-2-E)*, which refers to transactions within a firm, the firm conducted for staff through its intranet.

Momentum and rapid growth of electronic commerce, especially the emergence of electronic market needs has been given by international alliances of purchasers in different industrial sectors such as automotive, retail, aerospace, chemistry and agriculture [1]. According to forecasts, in virtually every sector will appear as electronic markets, as expected, are most likely to turn into global electronic business environments.



Momentum and rapid growth of electronic commerce, especially the emergence of electronic market needs has been given by international alliances of purchasers in different industrial sectors such as automotive, retail, aerospace, chemistry and agriculture. According to forecasts, in virtually every sector will appear as electronic markets, as expected, are most likely to turn into global electronic business environments.

With the development of electronic commerce and started on the future trade disputes traditionally done by traditional means. Thus [10], in France, Dia-Mart - specializes in research and advice in distribution, in „E-Commerce: cannibal strategy, analyzed the risk of “cannibalization” [4] and the internal contradiction between the sites Internet and a company's own stores.

Researchers involved in this study analyzed the potential of the Internet taking issue two criteria: "marketability" virtual store and "value added" products offered by this.

The research results reveal following: while the products category for computer supplies, trips or other consulting services prove strong products "marketability", able to benefit from added value from the Internet, footwear, clothing and furniture items are presented as weak "merchantability" unlikely to assume the added value of Internet.

In fact, electronic commerce should be a mix of online interaction and the interaction between buyer and seller in shop class. Both are required for a commercial enterprise to be successful.

In fact, there is no question there is a risk of cannibalization of physical store (Classic) by electronic commerce. Because of the need for personal contact with the products online unsaleable remains delicate logistics problem. The problem of supply distribution system (comet wholesale and / or retailers) by producer-suppliers fall within Business to Business transactions to file and continue to the trend in terms of organizing logistics flow using electronic data exchanges. As regards the distance over the Internet, the problem of transport

for goods bought at home buyer is still in a phase of building effective solutions for both partners: the seller and buyer.

In an attempt to minimize unpleasant surprises that may occur in transactions Business to Consumer, scientists underlines the need solutions and answer the main difficulties arise from the distance, such as packaging, marking and transportation asset management diverted / defects, storage, inventory management, management of unsold goods, database organization, customers and increase loyalty.

### **3. Classic trade and commerce: a short comparative analysis**

Comparative analysis of the priority issues of classic trade / commerce are [8] : location, interior and exterior design, layout, display of goods, technology, internal and external commercial transportation, packaging technology, technology supply, storage, sale and services, technology earnings, payments, settlements.

#### *1. Location*

Study area characteristics, considering whether a particular location in the shopping center, evaluation of potential sites are priority elements in classical trade through stores, while e-commerce site has a minor role;

#### *2. Design*

Trade traditional styling is part of the identity point of sale, the focus is on aesthetics and functionality of physical attributes. If electronic commerce, interior design is important, not necessary related analysis awnings, signage, windows and exterior lighting system, the focus on specific design elements and rules designed pages and size of characters used, site map the use of empty spaces, animated images, the color.

#### *3. Technology of display*

Identifying the criteria and best display technologies and presentation of goods inside the shop windows, merchandising

activity, are important when talking about classic trade, while the display of goods for commerce requires a specific technology implementation of shopping cart technology (base data communication to ensure a perfect seller-buyer).

Shopping Cart System offer information on the following: the nature and characteristics of products sold (technical details, prices, images of products), how to choose the type and quantity of goods to be purchased, verifying and recording data, calculating and showing the total value of purchases including transport charges.

#### *4. Commercial Equipment*

The classic case of trade, commercial furniture and equipment are differentiated profile and vary from store gondolas linear with single and double exposure, pillars, racks, shelves, tonete, presentation tables and refrigerated showcases different kinds of machines for processing. E-commerce dominate machinery, and computers, laptops, modems, own server / host, etc.

#### *5. Supply, storage and sale*

Regarding trade classic supply process includes: application of supply, determining needs, finding and choosing suppliers and preparing orders, negotiating, contracting, storage, sale itself through outlets. Instead of making an electronic ordering interface need exists for the order to have the following characteristics: a cover page of the store where products are presented, a form of customer data, a form with information on payment and delivery , an order confirmation form.

#### *6. Payments, collection and settlement*

The classic trade, payment is made directly to the seller, in cash or by credit card while in the case of electronic commerce, payment is made by debit / credit cybercash, electronic wallet, smart card sites or micro-payments systems and NetBill, or MiliCent CyberCoin.

## **4. Conclusions**

In conclusion, all these elements of comparative analysis reveals that the Internet, information technology is revolutionizing the business, redefining the system of organization and operation of businesses, requiring a new way to enter into relationship with suppliers and customers.

In this context, electronic commerce should be a combination of online interaction and the interaction between buyer and seller to trade classic. Both are required for a commercial enterprise to be successful.

## **5. References**

- [1] Ferent, E., Managementul comerțului, Editura Politehniun, Iași, 2006, p.22.
- [2] Geller, D.P., The Yin and Yang of Electronic Commerce, <http://idm.internet.com>.
- [3] Kalakota, R., Whinston, A.B., Frontiers of Electronic Commerce, Addison Wesley, Reading, MA, 1996.
- [4] Ristea, A.L., Ioan Franc, V., Purcărea, Th., Economia distribuției, Editura Expert, București, 2005, p. 125.
- [5] Teodoru, C., Your European Gateway to Electronic Commerce, broșură editată la inițiativa Comisiei Europene, D.G. Întreprinderi, București, 2006.
- [6] Văleanu Boldureanu, G., Elemente de economia și managementul comerțului, Editura Performantica, Iași, 2007, p. 195.
- [7] Văleanu, G., Tehnologia informației și cultura organizațională. Provocări pentru noua întreprindere, Editura Junimea, Iași, 2004, p. 34.
- [8] Vișean, M.O., Interfețe comerț clasic, comerț electronic. Analiză comparativă a serviciilor comerciale, în Comerț și globalizare, Editura ASE, București, 2003, p. 255.
- [9] \*, *Buyer's Guide to Electronic Commerce. Glossary of Terms*, [www.wentworth.com](http://www.wentworth.com).
- [10]\*, [http://ecr.valahia.ro/Simpozion\\_ECR\\_2005/Materiale\\_simpozion/17.3017.40\\_D.Trandafir\\_oiu.doc](http://ecr.valahia.ro/Simpozion_ECR_2005/Materiale_simpozion/17.3017.40_D.Trandafir_oiu.doc).

# Assessments Regarding the Economic Development from Ecological Perspective

Borza Mioara  
Mardiros Daniela-Neonila,  
*University „Alexandru Ioan Cuza” of Iasi*  
mioara@uaic.ro  
mardirosdaniela@yahoo.com

## Abstract

The modern Eco-Economy concept makes reference to a new type of economy, which will develop without damaging the environment that is support of economic development. The financial crisis is a today reality facing almost all world countries and is seeking solutions to overcome.

The aim of this paper is to identify and analyze some ways which can get out of financial crisis, by reorienting the economic development to a new type of economy. This approach is based on studies that claim the world economy must to be reinvented and the financial crisis is a best opportunity to ensure a sustainable development.

One of the most appropriate solutions is orientation towards green business. In terms of the Dow Jones Sustainability Index, in the current financial crisis, the green enterprises registered better results. Another solution is forthcoming in the fiscal economic reform, which will guide the market economy to environmental objectives.

In new eco-economic culture, the growth and development have different meanings, allowing the zero growth theory reconsideration, which can provide practical solutions for getting out of financial crisis.

**Keywords:** eco-economy, economic development, financial crisis, zero growth theory

**JEL Classification:** G01, Q01, Q56

## 1. Introduction

A reality that interests all world economies is that the actual world economy is in a strong reorientation process, in terms of decisions for future directions and development perspectives.

The main reasons leading to this orientation are: the economic crisis which covered almost all world states and strong environmental damage from the planet. Although the emergence and manifestation of environmental problems have been observed since the '80, their effects are felt today in many directions such as depletion and alteration of vital resources to ensure economic development, affecting human health, climate change, pollution excessive etc.

Since the early '90, the world-renowned experts have raised an issue, apparently purely theoretical, aimed to find the effective solutions to the global problems of mankind: the greening of the economy.

Today, it is creating the idea that it represents a removal from the states of the world crisis, especially those in developing countries. The systemic approach of environment and economy permit to identify a strong interdependence relationship between the both, impossible to be redirected towards independence.

By economical specific literature, we know that from all times, the economy represents a subsystem of environment. In the circle of this process operation, all inputs into economy come from the environment and, finally, all of wastes produced it is return to the environment.

In February 2009, the head of the European Central Bank said „we live in non-linear

times: the classic economic models and theories cannot be applied, and future development cannot be foreseen” [8].

## 2. The relevance of eco-economy concept in the current economy

Our economic today world is based on immediate and permanent development requirements, in the context of emergence of new and modern economic concepts, such as of environmental economy that should impose the combination of economic lines development, with issues related to ensuring the sustainability. The concept of eco-economics, modern and very topical, shows that the eco-economy or ecological economics is refers to a new kind of economy that will be able to develop without harming the environment which is, essentially, the support of economic development. [3].

The economic development in accordance with the requirements of environmental protection has become a necessity which disseminate gradually to the level of countries and regions, becoming a topical issue for entrepreneurial sphere, too. Approach, in organic manner, of economic development needs, is directly connected to ensuring the sustainable development based on ecological economics support. A chaotic economic development, in a rhythm which is not well connected with the rhythm of ecological reconstruction, will lead to a progressive decline of the future generations.

Restructuring the global economy will require that ecologists and economists work together with aim to identify the directions that must be followed to ensure the sustainable world development. Building an eco-economy is the biggest investment opportunity in history. The companies that have a new economic vision and include the environmental issues in activities planning will be successful [3].

In our opinion is useful to give more attention to a new sphere of inters regarding the possibilities to start and develop some business which are friendly with environment. To determine the perspectives of a green economy

sustaining, we believe that very important is the identification of units for quantifying its performance. So, the overall sustainability benchmarks for measuring the statistics are the status of sustainability parameters. The most important agencies from world provide all necessary time for sustainability governance. They are just one form of data used for sustainability accounting and are valuable for assessing trends and measuring progress.

Table 1 Variables for EPI 2008

Objective	Policy categories	Indicators
<b>Environmental health</b>	<i>Environmental Burden of Disease</i>	Environmental Burden of Disease
	<i>Water</i> (effects on humans)	Adequate Sanitation
		Drinking Water
	<i>Air Pollution</i> (effects on humans)	Indoor Air Pollution
		Urban Particulates
		Local Ozone
<b>Ecosystem vitality</b>	<i>Air Pollution</i> (effects on ecosystems)	Regional Ozone
		Sulfur Dioxide Emissions
	<i>Water</i>	Water Quality Index
		Water Stress
	<i>Biodiversity and Habitat</i>	Conservation Risk Index
		Effective Conservation
		Critical Habitat Protection
		Marine Protected Areas
	<i>Productive Natural Resources</i>	
	Forestry	Growing Stock
		Fisheries
	Agriculture	Trawling Intensity
		Irrigation Stress
Agricultural Subsidies		
Intensive Cropland		
Burnt Land Area		
Pesticide Regulation		
Emissions per electricity generated		
Industrial carbon intensity		

Source: EPI - Environmental Performance Index; <http://epi.yale.edu/> [2008]

On 23 January 2008, Yale University and Columbia University released the 2008

Environmental Performance Index at the World Economic Forum ranking 149 countries. The environmental experts from both universities concluded that “analysis of the drivers underlying the 2008 rankings suggests that wealth is a major determinant of environmental success”. On top of 50 countries, the first 10 are: Switzerland, (95.5), Austria (89.4), Norway (93.1), New Zealand (88.9), Sweden (93.1), Latvia (88.8), Finland (91.4), Colombia (88.3), Costa Rica (90.5), France (87.8).

### **3. The need to *greening* the actual economy**

The world population is using all natural resources faster than they can be regenerated and producing wastes faster than they can be assimilated. Nowadays, the result is the degradation of natural capital and a really ecological crisis characterized by: climate changes, biodiversity loss, deforestation and a lot of other global environmental problems.

Another problem that is a result of bad connection between the environmental protection and the current growth and development level is reflected into ecological footprint. Today the averages of ecological footprint are 2.7 ha./person, with 30% higher than the available bio- capacity of planet (2.1 ha./person).

The debates on environmental issues were connected, as a turning point, with economic reconstruction, and their synthesis has resulted in an essential question: “Can a green business revolution to get us out of recession?”. The unanimous opinions have subscribed to the idea of European Commissioner for the Environment that “economic development in line with ecological principles will underpin many business models, is a priority of many governments” [6]. Recently, in 2009, A. T. Kearney said that, in the context of financial crisis that resulted in great loss of economic and business environment, “green winners are companies focusing on sustainable performance”. The 2007 study realized by management consulting firms on financial and economic results of companies

specialized in business with ecological character, is result that “green businesses” scored higher compared to other categories of firms in the current financial crisis. The synthesis of studies concluded that “companies that focus more on sustainability will exit from the current crisis stronger than ever”. The study authors were analyzed the performance of 99 companies on the list of green companies of Goldman Sachs, in terms of the Dow Jones Sustainability Index. In 16 of the 18 industries, included in the study, focusing on sustainability businesses have performed better than others in the field for periods of 3 to 6 months and are “better protected from erosion value”. The most representative example of the study is given on a packaging company that has started to work towards sustainability 10 years ago. The company has increased production by 76% from 1998 and reduced the emissions of greenhouse gases (-16%), water consumption (-28%) and energy (-3%), according to a report in 2007. In 2007, thanks to these measures, the company has saved 30 million dollars. The study confirmed that more and more companies are endeavoring to reduce the water consumption and emissions and producing goods with less environmental impact. As a recommendation, it is proposed that the companies reviewing the sustainable practices, because a strong sustainability strategy is more effective than measures to improve the corporate image, by green washing type. Since that the economic downturn may cause losses or even bankruptcies among enterprises, but can also open new areas of investment, untapped until now, it is appropriate to examine the possibilities to develop areas of economic development in conditions of crisis, so was not triggered a possible ecological crisis, too.

The food industry, pharmaceutical, organic agriculture, but also the sale of second hand, reconditioned furniture, and waste recovery are just some of the sectors with minimum risk. In exploring of these opportunities we should based on the fact that 75% of the resources that industry needs are not found in the ground, but on

its surface in the waste form. Most suffer the construction and real estate agent brokering and trade with construction materials. The consultancy financial and fiscal services, the advice firms for opening a new business, for ensure the profitability of existing firms, but the psychological consulting practices are another's domain where will exist permanent clients.

The effort to save and manage the environmental resources is a direct benefit for businesses green reorientation, with favorable consequences in direction of reduced consumption of resources. A combined effort of several countries around the world is being felt globally as a benefit for environment. The examples are outlined in reducing of energy consumption, water, wood, etc.

#### **4. The specific situation in Romania**

Our country is one with extremely high potential of going about business opportunities in ecological area. Moreover, the economic crisis is felt strongly at level of more enterprises, an immediate consequence of that being the increasing number of unemployed. Thus, we identify some opportunities that may help initiate sustainable business:

- dismissal due to financial crisis determines the "new" unemployed to focus on directions of activity with stable horizon;

- moreover, in Romania the level of waste recycling is one located right in stage debut, so the niche such business is extremely permissive orientation;

- there are several sectors that have not been so strongly affected by financial crisis and not enough exploited before the onset. One this is the ecological products that represent an untapped sector and which finds its adherents, even in times more difficult;

- food industry is a sector very inflexible when it comes to modification of market conditions and in times of crisis, the consumers will give up long-use goods or the luxury goods, that ensure their expensive needs and not necessarily vital,

but will not drop so much the demand for food;

- restaurants, catering services and retail sectors will remain in Romanian the sectors that will be successful in periods of instability, too.

Of opportunities and chances to reorientation to green business, previously listed, we consider that the organic production sector presents the greatest potential of the current period characterized by the negative effects of financial crisis. Developing the ecological products could be the competitive advantage of Romania's economy, because exist a high potential. For now, the ecological products consumption remains at low level in Romania, compared with other member states of the European Union. The flexible business, that is easily adapted to the market specific, is those which resist in difficult periods.

#### **5. Conclusion**

The solution to the actual economic and ecologic crisis is for wealthy countries to change their goal from growth to stability and to begin the transition towards a steady state economy. A steady state economy is an economy where population and per capita consumption remain roughly constant over time, at a level that the environment can support.

One dimension of the way ahead that is being pushed strongly is the rapidly developing concept of the green economy, defined as an economic system that preserves and restores ecosystems, the backbones of economic and social well-being and essential for poverty reduction, while simultaneously creating new industries and employment. Environmental industries using clean and efficient technologies, and sustainable agriculture, serve as major engines of wealth and job creation and poverty reduction. The priorities in green economic sectors are: efficiency technologies, renewable energy technologies, biodiversity-based businesses (agriculture, forestry, marine, nature-based tourism), ecological infrastructure (nature reserves, protected areas, watersheds),

chemicals and waste management (waste reduction, recycling and reuse), low carbon cities, buildings and transport. [10]

The economic collapse has underlined the need for a systems approach integrating all the issues. Science and technology have united the world in information flow, finance, trade, migration and environmental impact. Each part affects the others, so they must be understood together in all their complexity. The Global Agenda Council on Climate Change called for an unprecedented multi-stakeholder collaboration to link the climate and economic agendas, and highlighted the diplomatic opportunity represented by “the shared desire to deliver climate security, energy, food and water security, economic security, equity between rich and poor through enhanced capital and technology flows, all through the creation of a package that promotes economic growth by decarbonising the world economy”[9]. Global action requires global public support, which will only come if the solutions are seen as equitable.

This means simultaneously addressing the issues of poverty, as defined, for instance, in the Millennium Development Goals. As long as there are such extreme differences between and within countries in wealth and level of development, it is necessary to apply the approach of common but differentiated responsibilities, with each country adopting its own implementation strategy within the larger framework. However all must respond to the required fundamental transformation in the dominant economic paradigm and its consumer lifestyles. How to organize the transition, and cushion its negative impacts, is a major challenge, in which diplomacy must play an important role. In addressing climate change, for example, the adoption of deep emission cuts in the north, or the principle of equal per capita emission

rights, will produce significant transfers of investments from north to south.

The combined crises have shown the importance of a sound ethical foundation for human society, including justice for all planetary inhabitants, equitable solutions, trust and confidence in the mechanisms, moderation in material development, an altruistic cooperative economy, effective wealth redistribution, and adequate employment creation. Agreement on these will greatly facilitate the negotiation of solutions at other levels.

## 6. References

1. Bonnefous, E., Man or nature? Policy Publishing House, București, 1976.
2. Bran, F., Relation economy-environment at beginning of the 3<sup>rd</sup> Millennium, ASE Publishing House, București, 2000.
3. Brown, R. L., Eco-economy-creating an economy for our planet. Technical Publishing House, Bucuresti, 2002.
4. Commoner, B., Circle that closes, Policy Publishing House, Bucuresti, 1980.
5. B. Czech, “Ecological economics”, viewed on:  
[www.steadystate.org/Files/Czech\\_Ecological\\_Economics.pdf](http://www.steadystate.org/Files/Czech_Ecological_Economics.pdf), 2009.
6. S. Dimas, “Act and adapt: Towards a New Climate Change Deal”, article viewed at [http://ec.europa.eu/environment/greenweek/sources/file/day01/Pres\\_Dimas.pdf](http://ec.europa.eu/environment/greenweek/sources/file/day01/Pres_Dimas.pdf), 2009.
7. Georgescu-Roegen, N., Entropy law and economic process, Policy Publishing House, București, 1979.
8. A. Seager, “Torrent of bad news ends hope of quick recession”, The Guardian Weekly, 27 February - 5 March 2009, pp. 1-2.
9. \*\*\* Green week, 2<sup>nd</sup> day: The green business facing with recession, viewed at <http://www.green-report.ro/stiri/>, 2009.
10. \*\*\* 25<sup>th</sup> Session of the Governing Council the Global Ministerial Environment Forum GC25-GMEF [February, 2009] viewed at <http://www.unep.org/GC/GC25/>.

# Efficiency of Capital Investments in the Context of Time Factor

Botezatu Mihai

*Academy of Economic Studies, Bucharest*

*mihaibo2006@yahoo.com*

## Abstract

The correct evaluation of the economic efficiency of a capital investment is a purpose any investor must accomplish, if he wishes to make a correct and efficient investment decision.

In such a context, it results that, beside the investment efforts and effects, there must also be considered another factor: TIME.

Any calculation of the economic efficiency, generally, of the capital investment, particularly, which takes place beyond the reminded influence cannot lead to a correct investment decision.

The influence of time in calculating the evaluation of the efficiency of a capital investment may confirm, but also may infirm the decision which could have been made only based on the static calculations, except for the reminded influence.

Below, we shall present a few more relevant aspects of the implications of time in the calculation of the economic efficiency of the capital investment, which, eventually, would lead to making an efficient investment decision, with full knowledge of the facts.

**Key words:** economic efficiency, time calculation, investment decision

**JEL classification:** O16

## 1. Introduction

The economic efficiency, generally, the capital investment efficiency, particularly, is one of the most complex economic categories. Due to its complex character, this one cannot be measured using only one indicator.

In other words, in order to evaluate the efficiency of a capital investment, using an indicator, such as the yearly profit, the production capacity or the effort of invested

capital, cannot create a relevant image, in order to make a correct investment decision.

A big yearly profit would seem, at first sight, to show a convenient efficiency of the respective investment; in reality, though, the respective profit must be correlated with the effort of invested capital which, if very big, could not justify the reminded profit.

In such a context, we might consider that, in order to evaluate more exactly the economic efficiency of the capital investment, it is not enough to use only one indicator; in other words, in order to measure the efficiency relevantly, we must use a system of indicators.

On their turn, the indicators from the reminded system must be chosen in such a manner so that to be suggestive, relevant and to characterize loyally the respective efficiency.

In such a conception, each indicator of the reminded system would characterize one side or another side of the respective efficiency, so that, finally, after analyzing the whole system of indicators, an investment decision might be made, with full knowledge of the facts.[10,5]

On the other side, a series of static indicators of efficiency of the capital investment, though they have a certain degree of relevance, their calculation is not enough to be able to pronounce firmly and competently on a capital investment, from the point of view of its efficiency.

In order to have a more loyal image of the respective efficiency, it is necessary for the static indicators, respectively: period of recovery of the capital investment, the economic output of the respective investment, the total profit etc., should be calculated in their updated, dynamic form.



This dynamic calculation mentioned above is intended to emphasize, beside the investment efforts and effects, the influence of time factor.

This paper is trying to present briefly, in this small space, and to emphasize on few of the more important effects of the time factor on the economic efficiency of the capital investments.

## 2. Capital Investment and Its Main Stages

Any capital investment, since its birth and until it is closed down, goes along several stages and moments.

These stages, which involve in fact the time factor, should be known by any investor and taken into account when evaluating the economic efficiency of the respective capital investment.[2,5]

Therefore, a first moment from the life of an investment is the one of making the investment decision.

Obviously, such a moment has behind it a series of calculations and studies, in order to fundament the respective efficiency, subsequent to which, the investor, respectively the capital owner, would make the respective decision.

Once the investment decision is made, the next more important moment from the live of an investment is the moment of beginning the investment works, followed by another more important moment, the one of commissioning the respective investment.

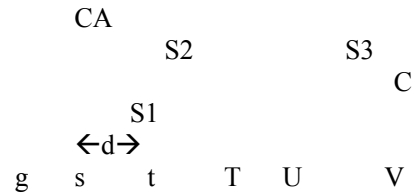
Between these two moments mentioned above, the moment of beginning the execution of the investment works and the one of commissioning the objective, the stage, respectively the period of achieving the respective investment lies.

Once commissioned, the respective investment passes through another important moment, on the scale of time, the moment of returning the credits for investments, and, at the end of the period of functioning of the respective investment, we shall meet another moment, the one of closing down the achieved investment objective.

Below, we shall try to mark, briefly, on the scheme of the investment process, the

reminded moments [7,8]:

*Figure 1. Scheme of the investment process*



On this scheme, we may read the main moments and stages, as follows:

g = moment of making the investment decision

s = moment of beginning the investment works

t = moment of commissioning the investment objective

d = period of achieving the investment

T = period of recovery of the investment

u = moment of beginning the return of the credits for investment

v = moment of closing down the investment objective

CA = yearly turnover

C = yearly production cost

On the above scheme, both the turnover and the yearly production cost are considered constant in time, in form of an average.

On the same scheme of the investment process, we may deduct easily a series of criteria of economic efficiency in the context of time factor, which any investor should take into account.

Therefore, once the decision of making an investment is made and once the moment of starting it is fixed, what interests specifically is that, in certain given conditions, the period of achieving the investment should be the shortest possible[9, 4].

The calculations of economic efficiency reflect this thing on several plans, however the “average value of the capital immobilization” and the “effect of invested capital immobilization” as indicators of economic efficiency are suggestive in this

regard.[1]

The two indicators mentioned above are calculated as follows:

- YEARLY AVERAGE VALUE OF THE INVESTED CAPITAL

$$M = \frac{\sum_{h=1}^d I_h (d-h+1)}{d}$$

Where:

$M$  = yearly average value of the invested capital

$I_h$  = investment in the year "h"

$d$  = period of achieving the investment

- EFFECT OF INVESTED CAPITAL IMMOBILIZATION

$$I_t = aMd$$

Where:

$I_t$  = effect of invested capital immobilization

$M$  = yearly average value of the invested capital

$d$  = period of achieving the investment

These two indicators presented above, in a form or another, by their manner of calculation, take into account the implications of time factor.

It is obvious that both the average value of the capital immobilization and the effect of invested capital immobilization, in case of some concrete calculations will reflect a situation as favorable as their level will be smaller and the other way round.

That is why, when we analyze two or more capital investments, when we reach at the calculation of these indicators, we shall prefer the investment variant where the level of the respective indicators is the smaller.

On the other side, another significant indicator in the calculations of economic efficiency of the capital investments is the recovery term of a capital investment.

In the first value, the respective indicator is calculated by reporting the invested capital at the yearly profit earned.

$$T = \frac{KI}{P_{Rh}}$$

Where:

$T$  = period of recovery of the invested capital

$KI$  = invested capital

$P_{Rh}$  = yearly profit

The result of the respective equation above expresses the number of years during which the capital investment is recovered.

In reality, things are different, as we shall try to present in the next chapter.

### 3. Implications of Time on Some Indicators of Economic Efficiency of the Capital Investments

As mentioned above, the calculations of evaluating the economic efficiency of the capital investments is based on an adequate system of indicators.[4]

On their turn, these indicators of evaluating the economic efficiency of the capital investments have as basis, in a way or another, correlations of the investment effects and efforts.

On the other side, to take into account only the investment effects and efforts in evaluating the economic efficiency of the capital investments, without taking into account the implications of time in this process will not create a loyal and real image of the respective economic efficiency which stands at the basis of a correct investment decision.

Therefore, the basic idea which is emphasized is related to the fact that no calculation of evaluating the economic efficiency of the capital investments must be made without considering the influence of time.

Below we shall try and focus on some aspects regarding the reasoning enounced before.

For example, let's consider that the achievement of a manufacturing capacity in the industry of construction materials presents the following characteristics:

- value of the investment = 700 mil. RON
  - yearly profit = 175 mil. RON
  - period of achieving = 4 years
- The investment expenses will be distributed per achievement period.

Table 1

Years	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Total
Values invested	100	150	200	250	700
← d=4 years →					

In the context of the above data, it is necessary to calculate the period of recovery of the respective capital investment.

In order to answer at this question we shall first use the static calculation relation of the respective indicator:

$$T = \frac{KI}{P_{Rh}} = \frac{700}{175} = 4 \text{ years}$$

Therefore, the static calculation of the recovery period of this investment is of 4 years.

This figure was calculated as mentioned in the above relation, without taking into account the implications of the time on the respective indicator.

A first question which is brought into discussion in this context is related to the fact that a correct calculation of the economic efficiency cannot take into account the influence of time next to the investment efforts and effects, as shown above.

Referring at the above example, the calculation of the recovery term of the respective capital investment must take into account the effect of the capital immobilization during the period of achieving the respective investment.

In other words, during the 4 year-period, which is the period of achieving the investment, the respective capital would have produced a certain interest in a bank deposit (for example, 10% per annum).

This does not happen in our case, because the immobilized capital does not produce anything during 4 years.

In these conditions, a correct calculation of the economic efficiency must start from the increase of the investment effort with this

reminded effect of capital immobilization, which should be recovered.

In our case, based on the reminded relations:

$$M = \frac{\sum_{h=1}^d I_h (d-h+1)}{d} = \frac{3950}{4} = 987.5 \text{ mil. RON}$$

And:

$$I_t = aMd = 0.10 \times 987.5 \times 4 = 395 \text{ mil. RON}$$

In these conditions, the capital to be recovered from the profit is not of 700 mil. RON, but of  $700 + 395 = 1095$  mil. RON

The period of recovery of the invested capital in the new situation will be:

$$T = \frac{KI + I_t}{P_{Rh}} = \frac{1095}{175} = 6.2 \text{ years}$$

Therefore, the initial period of recovery of the capital investment is of 4 years, and in the new conditions, the level of the indicator shows a 6.2 year-period, which is different.

This was only an effect that I wanted to mention about the influence of time on some indicators of economic efficiency of the capital investments.

At the same time, because we refer at this indicator, the period of recovery of the capital investment, we must mention that it has two calculation form, respectively a static calculation form (the one mentioned previously) and a dynamic, updated form, of the same indicator.

In the second calculation form, the influence of time is also taken into account, by updating the investment efforts and effects at a certain moment.

If, [1,3] on the scheme of the investment process, we choose "s" moment as updating moment, being the moment of recovery of the investment works, the dynamic (updated) recovery period will result from the following relation:

$$\sum_{h=1}^d \frac{I_h}{(1+a)^h} = P_{Rh} \frac{(1+a)^{T'} - 1}{a(1+a)^{d+T'}}$$

The respective relation starts from the equality which should exist between the investment efforts and effects (profit) at the "T'" moment, which is in fact the updated

recovery term.

In this above equation, all the elements are known, less  $T'$ , which will lead to solving finally an exponential equation, having the unknown  $T'$ .

But, let's presume that, for achieving a production capacity in the electronic industry, we know the following data for two investment variants:

Table 2

Indicators	U/M	V1	V2
Value of the investment	Mil.	2000	3000
Period of achieving	Years	2	3
Distributing the investments per years of the achievement period			
1 <sup>st</sup> year	Mil.	1000	1000
2 <sup>nd</sup> year	Mil.	1000	1000
3 <sup>rd</sup> year	Mil.	-	1000
Yearly profit	Mil.	400	625

It is necessary to determine the most efficient variant of investments from the point of view of the period of recovery of the capital investments.

- a) static calculation of the recovery period of the capital investment

$$V_1 \rightarrow T_1 = \frac{KI_1}{P_{Rh1}} = \frac{2000}{400} = 5 \text{ years}$$

$$V_2 \rightarrow T_2 = \frac{KI_2}{P_{Rh2}} = \frac{3000}{625} = 4.8 \text{ years}$$

We see that the second investment variant is better, even if the difference is small.

- b) dynamic (updated) calculation of the recovery period of the capital investment

For this calculation, we shall use the updating relation mentioned above, for an updating coefficient of 0.15, the other data being taken from the Table 2.

$$V_1 \rightarrow \frac{1000}{1+0.15} + \frac{1000}{(1+0.15)^2} = 400 \frac{(1+0.15)^{T_1'} - 1}{0.15(1+0.15)^{d+T_1'}}$$

Solving this equation, it results  $T_1' = 12.1$  years

$$V_2 \rightarrow \frac{1000}{1+0.15} + \frac{1000}{(1+0.15)^2} + \frac{1000}{(1+0.15)^3} = 625 \frac{(1+0.15)^{T_2'} - 1}{0.15(1+0.15)^{d+T_2'}}$$

Solving this equation, it results  $T_2' = 13.2$  years.

Synthesizing the static and dynamic results of the recovery term for those two variants, the situation is the following:

Table 3

Indicators	U/M	V <sub>1</sub>	V <sub>2</sub>
Static recovery term	Years	5	4.8
Dynamic (updated) recovery term	Years	12.5	13.2

Therefore, we may see that, from the point of view of the static recovery term, we would have preferred the second variant, but the first dynamic, updated variant is more convenient.

Obviously that in the situation of such results, the priority in making the decision belongs to the dynamic calculations.

Therefore, in our case, the more efficient variants among these two, is the first one.

#### 4. Some Conclusions Regarding the Implications of Time on the Economic Efficiency of the Capital Investments

The several aspects presented above refer at the fact that the economic efficiency of a capital investment, as an extremely complex economic category, cannot leave aside the influence of time.

Therefore, beside the investment efforts and effects that are taken into consideration when evaluating the economic efficiency of a capital investment, time should also be taken into account.

Without considering the influence of time, the results of the calculated indicators are irrelevant.

More than that, it is not excluded the possibility, as seen above, that, from the static point of view, a variant is better for a certain indicator and calculating the same indicator in dynamic (updated) form, another variant is preferred.

As shown above, in such a situation, it is a priority to use dynamic calculations when making an investment decision.

At the same time, another fact is important, respectively the comparisons to be made between the static and dynamic levels of one and the same indicator.

If we refer, for example, at the recovery period of a capital investment, in static and dynamic forms, as the results presented in the above table show, the main categories of comparison that can be made for the two investment variants are the following:

- 1) on horizontal, between the static levels of the indicators, a certain variant is better;
- 2) on horizontal, depending on the dynamic (updated) levels of the same indicators, the same variant is better, as in the first case; in this situation, the dynamic (updated) results would have priority in making the decision;
- 3) on vertical, within each variant, between the dynamic and static levels of the same indicator;

The differences between the two reminded levels do not represent anything else than the influence of time.

For example, the above example, which presents the difference between 12.1 years and 5 years at the first variant, represents the influence of time. In other words, at first sight, it seems that the respective investment will be recovered in 5 years, but, in reality, the recovery takes place in 12.1 years, taking into account the influence of time.

Obviously that the influence of time on the economic efficiency of a capital investment does not refer only at the few aspects

presented above; the reminded influence is much vaster and manifests on other multiple plans which should also be known by any investor for making a correct investment decision.

## 5. References

- [1] Haim, L, Marshall, S – „Capital investment and financial decisions”, 3<sup>rd</sup> edition, Prentice Hall International, 1986
- [2] Lock, D – „Management de proiect”, Codecs Publishing, Bucharest, 2000 (translation of the *Project Management*, 6<sup>th</sup> Edition, Gower Publishing, John Wiley & Sons, 1998)
- [3] Lumby, S – „Investment appraisal and financial decisions”, 5<sup>th</sup> Edition, Chapman & Hall, 1995
- [4] Romanu, I, Vasilescu, I (coordinators), „Investment Management”, Margaritar Publishing, Bucharest, 1997
- [5] Sharpe, F. W., Gordon A.J., Bailey V.J. – “Investments”, 6<sup>th</sup> Edition, Prentice Hall Inc., 1999
- [6] Stoian M – “Investment Management”, ASE Publishing, Bucharest, 2004
- [7] Vasilescu I., Cicea C., Dobrea C., Gheorghe A – “Investment Efficiency and Evaluation”, Eficon Press Publishing, Bucharest, 2004
- [8] Vasilescu I., Cicea C., Dobrea R.C – “Management of Modernization Projects in the Context of European Integration”, IEC Symposium 2005, May 20-21, Brasov
- [9] Vasilescu I., Romanu, I., Cicea C. – “Investments”, Economic Publishing, Bucharest, 2000
- [10] I. Ionita, I. Vasilescu, M. Botezatu, V. Radu – “Feasibility Study for Substantiating the Efficiency of the Investment Projects”, ASE, Bucharest, 1993

## Education for Sustainable Development: National, Regional and Global Perspectives

Bundă Nicoleta Ramona  
“Ovidius” University of Constanta  
*dinuramona@univ-ovidius.ro*  
Baciu Livia Loredana  
“Al. I. Cuza” University of Iasi  
*baciu\_livia@yahoo.com*  
Ciote Cristina Steliana  
Master Student, “Ovidius” University of Constanta  
*cristinaciote@yahoo.com*

### Abstract

This paper focuses on the correlation between education and sustainable development unveiling the human dimension of development process. In authors' opinion, success in revising unsustainable trends will, to a large extent, depend on the flexibility in understanding the type of education needed for sustainable *human* development.

For the national level of analysis, it has been used neo-institutional mental models to interpret the environment in which education takes form. Knowledge acquisition is underlain by perceptions derived from the process of collective learning across generations, and is a cumulative process subject to social and cultural filtration. As learning incentives are also influenced by culture, there is nothing to guarantee that the amount of experience gathered by society can adjust the incentives so as to support the solution identification for sustainable development. The inertia of path dependence phenomenon much impedes the progress towards the implementation of the sustainable development goals.

From a European perspective, education for sustainable development is a lifelong process and goes beyond formal education. By promoting essential social and civic values such as equality, tolerance, respect and active citizenship, education makes a significant contribution to strengthening

social cohesion and thus mutually human cooperative actions.

For the global perspective on the issue some incremental mentality and paradigmatic shifts toward global intelligence are needed. That is developing ability to understand, respond to, and work for what is in the best interest of and will *benefit all human beings and all other life on our planet*. The global intelligence presupposes a holistic mode of thinking, a transdisciplinary one, and also new kinds of knowledge emerged from intercultural cooperation. This is indeed a drastic change in the rhetoric of sustainable development, one that will bring viable alternatives for the unilateral economic logic.

**Keywords:** education, sustainable development, national, regional, and global perspectives

**JEL Classification:** B52, B59, O15, Q01.

### 1. Introduction

Education has the potential to induce behavioural changes to achieve/reinforce sustainable development. It should contribute to all three axes of sustainable development, namely:

- The Social perspective – education strengthen social cohesion by investment in human capital;
- The Economic perspective – education contribute to building a knowledge society

based on sustainable economic growth; and,

- The Ecological perspective – education are crucial for changes in citizens' behaviour on issues such as: consumption, transport, use of sustainable energies, etc.

Nevertheless for all the three axes the economic logic is prevalent. In the light of this paper success in revising unsustainable trends will, to a large extent, depend on the human accent and the flexibility in understanding the type of education needed for sustainable *human* development.

## **2. Education - a national strategic factor for sustainable development**

Political discourses, curricula and plans related to Romania's sustainable development are generously filled with sentences capitalizing on education. At first glance, one may argue that the Romanian society acknowledges that education is a strategic factor in the national development, given its vital contribution to the multi-faceted and anticipative shaping of the human capital. Yet, this is all, of course, wishful thinking.

The educational policies aiming at including minority group into the educational system are closely intertwined with the efforts made on the line of sustainable development. They should become the vector of the educational reform. Development should start from long forgotten areas by this phenomenon; extending and improving the educational network, increasing teaching career opportunities, improving school transportation in rural, poverty-stricken areas are formal measures, yet meant to rekindle long forgotten feelings: respect for school and learning. To this end, the passage from economic to human sustainability becomes shorter and obstacle-free, as high-quality education is likely to develop responsible attitudes toward community and environment.

For a deeper understanding of the matter, one should pay specific attention to the distinctiveness of the types of learning: formal, non-formal and informal education.

- Formal education: learning that occurs within an organized and structured context (i.e. formal education institutions such as schools, colleges, vocational training institutes and universities), and follows a particular structured design. It typically leads to a formal recognition (diploma, certificate). In those cases, the issue of sustainable development tend to be inserted in the curriculum of the institution;

- Non-formal education: learning which is embedded in planned activities that are not explicitly designated as formal learning, but which contain an important learning element, such as vocational skills acquired on the workplace;

- Informal education: learning resulting from daily life activities related to work, leisure, free-time, etc. This type of learning is sometimes referred as experiential learning.

Early education is one area to cover especially for the case of Romania. "The seven year education at home" is the period to delineate the process of individual becoming, the period in which parents teach their children to tell apart the good from the evil. This parental responsibility is both natural yet difficult in a society whose social values are continually perverted and social hierarchies undermined. People with doubtful behaviour reach the top of the ladder. Unfortunately, in the Romanian society, the setting of example has undesirable results. The achievements and the efforts of the authentic elite are too often discarded. Consequently, consistent efforts to self improvement do not attract large numbers of supporters. We are still charmed by the myth of the "overnight success". Everything is analyzed from a money-oriented perspective and in a short time span.

Such considerations urge us to recommend in-depth educational reforms, aiming at restructuring learning incentives and informal educational institutions. We strongly consider that formal education should be built on the solid foundation of informal education. In real life, however, reforms aim to restructure the higher levels of education to perfection as they consider that the foundation will inevitably be laid

anyway. It goes without saying that a technical solution to this edifice is difficult to find.

Generally, educational reforms target formal education only, and overlook the inertia induced by informal/non-formal education. The reforming ability to learn new things is determined by informal education, those time-moulded values which describe social tolerance against the progress of knowledge. The adepts of neo-institutionalism consider that acquiring theoretical knowledge (a vital element meant to boost economic performance on long term) is influenced by financial rewards and positive social attitudes to science.

The overall social approach to the benefits of expanding knowledge (in various stages of historical development) is the major source of long term change. Likewise, educational improvements are dependent on the features of social institutions and the institutions are variables strictly influenced by the level of education. Therefore, fostering the progress in the theory of social change involves, doing away with the hypothesis of rationality (as in traditional economic principles) and constructively explore the nature of the learning process.

The accumulation of knowledge requires the development of a structure meant to interpret various signals received by senses from the environment. The provisional architecture of such a structure is genetic and it gradually undergoes the process of metamorphosis, as a result of personal experiences. Such a structure is made up of categories and taxonomies gradually developing, which reflect the way in which individuals organize their own perceptions, record and classify their memorized experiences. Using such taxonomies, individuals construct mental models meant to interpret reality. Both the categories and the mental models develop throughout time, either emphasizing or altering previous positions. On the other hand, beliefs are transformed into social and economic structures by institutions (which can be seen both as formal and informal behavioural constraints). The following

quotation is illustrative for the stage of our research:

“There is a close relation between mental models and institutions. Mental models are internal representations created by individual cognitive systems in order to interpret the environment. Institutions are external mechanisms created by individuals to structure and order the environment.” (translation mine, North, 1993, p.12-13)

Consequently, knowledge develops and determines our perception of the environment and in their turn, such perceptions inscribe the need to improve our knowledge. The learning process depends on the way in which values filter experience-derived information and on the various experiences lived by individuals and societies throughout time.

Under such circumstances, it is essential to understand the “path dependence” phenomenon; once a national economy is on the upward / downward trend or stagnates, it is very difficult to reverse such trends on the long term. Knowledge acquisition is underlain by perceptions derived from the process of collective learning across generations. The act of learning is a cumulative process subject to social and cultural filtration. As learning incentives are also influenced by culture, there is nothing to guarantee that the amount of experience gathered by society can adjust the rewards / incentives so as to support the solution identification process.

When the social and economic development is on a set path, the network of externalities, the learning process within organizations and the subjective interpretation of the problems encountered by society will strengthen the path. It is difficult to reverse a downward trend mainly because of political institutions and the values taken on by social actors. History has given evidence that it is not enough for statesmen to be aware of economic problems and to come up with “reasonable” solutions. The mere transfer of formal political and economic regulations from a successful market economy to underdeveloped economies does not automatically ensure high economic performance, as economic results



are also influenced by informal /and gradually changing rules and by the enforcement of formal regulation.

The act of renewing social institutions takes time and asks for extensive reforms. Still remains the dilemma: Has indeed the formal education the potential to bring about welfare? If yes, for sure it implies a gradual and time consuming process.

As it was shown above the economic theory has developed mental models to understand the mechanism of producing welfare. This is a legitimate field of knowledge to the extent in which it serves for improving the quality of life for all human beings.

### **3. Issues of the European discourse on education and sustainable development**

The European discourse on the relation between education and sustainable development has a pragmatic and programmatic character. In turn, the Education for Sustainable Development Strategy stated by the UN Economic Commission for Europe in 2005, recognizes that:

“Education for Sustainable Development is a lifelong process from early childhood to higher and adult education and goes beyond formal education. As values, lifestyles and attitudes are established from an early age, the role of education is of particular importance for children. Since learning takes place as we take on different roles in our lives, Education for Sustainable Development has to be considered as a "life-wide" process. It should permeate learning programmes at all levels, including vocational education, training for educators, and continuing education for professionals and decision makers.”

Education has intrinsic value and is a key field to enable individuals realising their full potential and achieve personal fulfilment in all aspects of their lives. It plays a crucial role in their intellectual, moral, social, creative and physical development and, by promoting essential social and civic values such as equality, tolerance, respect and active citizenship; it

makes a significant contribution to strengthening social cohesion.

Whilst acknowledging the wide range of roles which education fulfil, an important part of education's role in fostering social cohesion lies in its ability to equip people with the knowledge, skills, competences and attitudes needed to enter and remain in the labour market. Integration into the world of work gives individuals an opportunity to have a full stake in society, thus contributing to their social inclusion, active citizenship and personal fulfilment.

In terms of enhancing employability, the capacity of Europe's education and training systems to ensure a supply of highly qualified people mastering the requirements of today's working world and contributing to innovation both as employees and entrepreneurs will be decisive, if Europe is to maintain and improve its competitive position in the global economy.

### **4. Changing the rhetoric for a global perspective**

So far the economic logic was preponderant. At national and regional levels the education is important for its promises for future economic growth and development. Even the neo-institutional theories depart from the human intrinsic cognitive systems and follow all the way to the same end point: economic performance.

This is not the only way, but it is one of the most sophisticated economic demonstrations for the role played by education in the contemporary world.

Yet there is a growing awareness that we all are lost if continue to follow the economic way. Some global approaches to world education change the direction toward a *global intelligence*. That is: “the ability to understand, respond to, and work toward what is in the best interest of and will benefit all human beings and all other life on our planet. This kind of responsive understanding and action can only emerge from continuing intercultural research, dialogue, negotiation, and

mutual cooperation; in other words, it is interactive, and no single national or supranational instance or authority can predetermine its outcome. Thus, global intelligence, or intercultural responsive understanding and action, is what contemporary nonlinear science calls an emergent phenomenon, involving lifelong learning processes". (Spariosu, 2005, p.3)

#### *How can global intelligence be acquired?*

It involves remapping traditional knowledge, accumulated and transmitted by various educational disciplines, and finally dropping out the disciplinary mentality. The global intelligence presupposes a holistic mode of thinking, a transdisciplinary or integrative one, and also new kinds of knowledge from an intercultural perspective.

Yet, a global mode of thinking will emerge from "local" knowledge with its own historicity. Knowledge is always bound to a specific time and place, to a specific culture or system of values and beliefs or, indeed, to a specific lifestyle. A global approach attempts to identify the cultural specificities of knowledge, explore commonalities and differences among them, and negotiate, if need be, among such specificities. It also presupposes that, in the process of exploration of cultural commonalities and differences in the way in which we acquire and utilize knowledge, new kinds of cross-cultural knowledge emerge through intercultural research, dialogue, and cooperation, and new kinds of integrative cognitive and learning processes become possible. (Spariosu, 2005, p.8)

Then there is a need for designing educational models to foster the kind of local-global learning environments and intercultural, intellectual climate that are needed for sustainable human development in the next few decades.

The current educational system privileges imitation students, not creative, critical, and analytic professionals with a broad and disciplinary free understanding of society at large. The core challenge for educational institutions is to turn away from

conventional lecturing to learning situations based on the search for solutions to real-life, open-ended problems. (Denzin et al., 2003, p.134)

Innovative education practices for sustainable human development covering all three types of education (formal, informal, and non-formal) must be encouraged. These practices will be configured to provide a good spread of activities focussing on all three pillars of sustainable development: environmental, economic and social. Their innovative character should come from mission and objectives assumed, the delivery method of educational services and the institutional frameworks.

There is a large scope for systematic and transnational educational reform to change the current situation of powerful constellation of forces through cooperative and innovative practices.

## **5. Conclusions**

Paradoxically, the ongoing economic determinism of development process can be counterproductive. All the demonstrations of the economic development theories formalized or not, are very interesting intellectual exercises that unfortunately bring just little long termed benefices for human beings. Even more these benefices are not shared equally and equitable to all the people of the world. It is high time for return to natural and simple things. People always had the inclinations to struggle for survive or to cooperate for surviving. The economic institution – market is probably the most populated field of battle throughout history. *Are we prepared to imagine a world in which competition is totally replaced by cooperation?* And yet we wonder the project of global economy undertake only the disappearance of many types of frontiers? In market terms this means that finally we'll have a larger battle field.

This is the call for mentality and paradigmatic shifts. It should be abandoned the mentality of confrontation and look for other ways of organizing human relations,

as well as our cognitive and learning processes. The shift will take place gradually, much impeded by the tendency of path dependence. This shift enhances a learning process that changes the national cultural filter and prepares the emergence of a global culture. Once such conditions installed, it will enable proliferate of global intelligence. From the paradigmatic perspective, in our opinion the neo-institutional approaches still find a place in this landscape of scientific inquire based on mutually, intercultural cooperation. A new set of economic, social and politic institutions should be crafted to guide all of our future interactions on this planet. This new rules of game borne from cooperative actions, but not confrontational selection process will naturally lead ourselves to the achievement of the final goal – that of the sustainability of human development.

## 6. References

- [1] D. Acemoglu, S. Johnson, J. Robinson, Institutions as the Fundamental Cause of Long-Run Growth, in Handbook of Economic Growth, edited by Aghion, Philippe; Durlauf, Steve, North-Holland, 2006
- [2] N.R. Bundă, Creșterea și dezvoltarea economică. Repere teoretice, Universitaria Publishing House, Craiova, 2008
- [3] N.K. Denzin, Yvona S. Lincoln, The Landscape of Qualitative Research: Theories and Issues, Sage Publications Inc., London, 2003.
- [4] D.C. North, Economic Performance Through Time, Prize Lecturer in economic Science in memory of Alfred Nobel, 9 dec. 1993
- [6] D.C. North, Instituții, schimbare instituțională și performanță economică, Știința Publishing House, Chișinău, 2003
- [7] M.I. Spariosu, Global Intelligence and Human Development. Toward an Ecology of Global Learning, MIT Press, 2005.
- [8] \*\*\*, United Nations Decade of Education for Sustainable Development (2005-2014) <http://www.unece.org/env/esd/events.reg/UNESCO.JAN06.doc>

## The role of the human capital in the economic growth

Buta, Simona

Kicsi Rozalia

“Stefan cel Mare” University of Suceava

*simonab@seap.usv.ro*

*rozaliak@seap.usv.ro*

„Not everything can be numbered and not everything of what can be numbered matters”

Albert Einstein

### Abstract

The main idea on which is based this paper is the one that education and health or what the economists distantly called „human capital” and had a major role in any theoretical and empirical model of the economic growth and development. Of course, no economy can have success only with a workforce that is educated, there are other factors that must be taken into consideration. It is certain that in a capitalist context the educated workforce can give a major impulse to the economy, when other factors are not present.

The present article goes on the line of the economic growth following to delimit the interdependent factors that cause and support the growth of the GDP (gross domestic product) per inhabitant in a durable way, with predilection the role of education, of the human capital.

**Key words:** economic growth, human capital, education

**JEL Classification:** I21, O15, O40

### 1. Introduction

We are interested in the human capital because we hope to explain and, eventually, to contribute to carrying out the economic growth, which is traditionally measured by the increase of goods and services of a country (what economists call gross domestic product or GDP).

In many respects, the traditional indicators make an excellent job. The GDP (gross domestic product), for example, express the size of an economy, being an indicator, with many valences. It is used in a wide palette of

areas and, in general, the periodical update makes possible the comparison of the economy performances at an international level. This is also a main indicator that offers a wide image of the state of an economy. In fact, the GDP is so useful that it effectively became the gold standard of the economic progress: the governments show off with this one when it is growing, and search for justifications when the GDP is not growing or it stagnates.

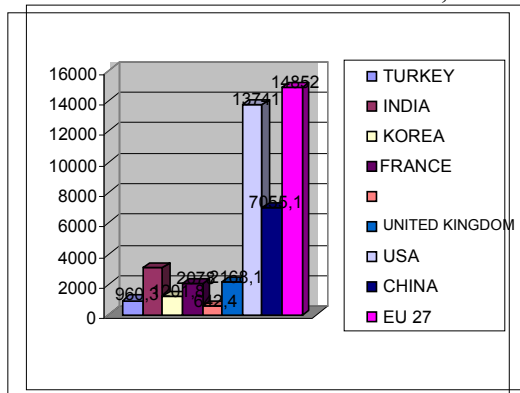
The GDP has a lot to say about the economic activity, but when we analyze if this activity is good or bad for the society, the GDP expresses nothing. It was established a pretty strange thing: car accidents contribute to the GDP because the cost of the medical treatment for the victims in the crashed car and the purchase of a new car supports the increase of the GDP. From the point of view of the GDP, car accidents are good, while from the point of view of the society, they are bad.

In many respects, the fact that the economic growth is reflected by the increase of the GDP, it is a mixture of good and bad. In general, this process is of positive nature, in the meaning that, the economic growth offers the societies, resources for fighting against poverty, it assures resources for education and at the same time it contributes to the health services improvement, and also to the options

expansion that the governments and the societies have at their disposal.

For the natural persons, this can mean, also, the incomes increase, that allows them to invest in their own welfare, health and happiness. On the consequence path, the presence of the winners could be accompanied by that of the losers: individuals and communities that, because of the lack of resources for competing in the economic development, they found themselves trapped in this cycle of poverty.

Figure 1. Economic power (GDP/capita)  
Mld USD, 2007



Source: OECD Factbook 2009

<http://www.oecdpublising.org/mobile/factbook/en/020101-sizegdp.html>

No aspect of the economic activity complexity is expressed in the GDP, and if we are to be realistic, the GDP is only one of a series of indicators that the economists use; others, such as the Gini coefficient, offer a series of answers to problems, such as the incomes inequality. That is why, this is one of the reasons for which there is a growth of the interest in the use of the alternative indicators that might offer a wider perspective of understanding of the societies health, and also their capacity to continue the growth.

At the present moment, the importance of the economic growth is obvious; at the base, the economic growth is essential not because the people are greedy or excessively materialist, but because they want to improve their lives. It is a normal desire, and only with the help of a high economic result it is possible for most of the people to have a better and more satisfying life. Of course, the economic growth is not the only purpose in life, the economists being the first to draw the attention

on the fact that there are always advantages and disadvantages: more work means less time for fun or family; a higher economic result is often accompanied by unwanted side effects, such as pollution.

Still, more rich nations are, more resources they will have to diminish the side effects of the economic growth, and also the different diseases that shorten lives or make them less satisfactory.

In order to understand why economies grow, we will have to ask ourselves why the economic activity takes place. In the heart of the classical school it is remarked the general consensus on the fact that there are four things-“the four factors of production”- that we need for progress. The first one is, of course, the land; without land, there will be no longer possible the growth of plants or there will no longer be the necessary base for building factories or farms; the second one is the workforce or the working class; they are followed by the capital and at the end, the enterpriser / entrepreneur or what the economist John Maynard Keynes called „*animal spirits*” (in other words the initiative that transforms a piece of land in a factory).

The premise from which we start in the analysis of the *human capital, as a factor of influence in the economic growth* is the one that economies are complex systems, that can not be reduced only to a few central factors and that can not be changed only applying one or more of the policies recommended by some many years by different institutions or economists.

The economic mechanism has a few interconnected elements that work together, and it can vary from one country to another and according to time; the context, history, culture, they all matter; there is not a single detailed plan for being applied to each country. The fact that different countries reached rapid growth rates, using sort of different institutional structures, represents a proof in this sense.

In a certain meaning, the understanding of the economic growth process is similar to preparing a cake: you just have to find the recipe. The recipes for preparing a cake include a few basic ingredients (sugar, flour, yeast, etc), work (being measured in hours and minutes) and some equipment (a mixer and an

oven). In the case of the economies there are as many recipes as products and services, but they all need, in essence, the same three elements: raw material, work and mechanisms (also called physical capital)[1].

Baumol and Litan in the paper “ *The good capitalism, the bad capitalism and the economy of development and prosperity* ” highlight, again, that there is also a fourth ingredient, and that is the technological evolution; they suggest that just as the mixers and ovens are more efficient in our days and they work better than in the past, the technological progress in the whole economies led to the appearance of some new products and services that are preferable to the market ones and also more efficient methods to generate and deliver the new or the already existing products. Also, they talk about two categories of recipes for the economic growth, meaning: “the growth by raw force” (meaning the accumulation of more entry factors, and we refer here to more work and more capital) and “intelligent growth” (meaning technological progress).

But let us go back to the second category of production factors that was mentioned before; meaning the workforce. With a few exceptions, the classic economists assimilated the employees/ workers of a raw force that sets in motion the production having as main role the physical work and them less highlighted the inherited or acquired abilities and intellectual knowledge.

An exception from this way of looking at things is represented by Adam Smith’s papers; he is the one that, since the XVIIIth century felt that the economic activity was nourished not by the raw force of the individuals but by the “*useful abilities and knowledge of the inhabitants or of the society members*” [2]. An individual must pay a price for gaining the: useful” abilities and knowledge, says Smith, but once obtained, they represent a fix and completed capital, if we can say so, in his person.

Smith’s ideas, by the simplicity of the message, they obtained grandeur and permanence so that the father of the political economy influences even nowadays the economic life, offering a series of answers that lasted over centuries only through his competence and synthesis spirit.

Anyway, his belief in the fact that the “useful” abilities and knowledge of the human being seen as a machine, having associated costs and the capacity to produce in exchange incomes, are a form of capital and make Smith a founder of the human capital theory.

The economists that followed him neglected the study of this particular type of capital, considering that what must contribute decisively to the growth of the production of goods and services are the plants, lands, buildings, etc and their proper investments.

Initially, it was omitted from the analysis the impact of the different level of education or the quality of the workforce on the economic growth. The periodical ulterior preoccupations related to the formal education, studying at the place where people work, health, fertility, the migration of the workforce represented the signals of the appearance of a new thinking current that was turned towards explaining the impact of some material factors, more difficult to identify and quantify, on the dynamic of the world economies.

The economic science needed almost two centuries for coming back to the Smithian remark according to which the *investments in the individuals’ knowledge and abilities produce profit and participate directly to the enriching of a nation*; the explanation is given by the quantitativist tint, that characterized the neoclassic analysis. These changes produced gradually and up to the beginning of the 60’s there were controversial opinions regarding the influence factors, especially in which concerns the importance of the human factor (the individual’s abilities, knowledge and skills- or in other words, the human capital) on the economic growth.

## **2. Education – engine of the growth or the opposite?**

The human capital seen as a quality of the workforce is just a factor that determines the economic growth. Nations can have, at a large scale, similar levels of education, but, at the same time, they can manifest wide variations in their growing rhythm. There are too many examples of educated countries in which the economic performance was deplorable; the former Soviet Union and the countries of the Eastern block, including Romania, they were

proud of the excellent primary and secondary educational results, for a large part of the population, but after the fall of the communism the world realized that these economies were in a much more precarious condition than some western people believed.

William Easterly, in his study on the economic growth, indicates another anomaly; he observed that as the poor countries substantially increased their investments in education in the period 1960-2000, the growth rate of these countries dropped constantly [3]; it is possible that the education improved in many of these countries, but the corruption and the military violence or other factors can counteract any impact of education in promoting the economic growth.

In consequence, we do not support the idea that education is irrelevant for the economic growth or for improving the functioning of the national societies (whether these are governed in a democratic way or not); education contributed to the economic growth from the last decades, but it only proves that it *represents a necessary condition, but not sufficient of the economic progress*. Other factors that compose this puzzle of the economic growth are those *demographic (especially the report of young people and old people in a population), technologies, innovation, free international trade, the quality of institutions and of the economic policies*.

A vast literature was written on the theme of the human capital from the desire to offer consistent and well-grounded answers to a crucial question: The education brings economic growth or the growth determines individuals to consume more education?

The OCDE experts, through the study entitled „Education at a Glance 2005” declared that “in practice the causality relation operates in both directions” [4]. In this sense, North and Thomas sustain that “*the enumerated factors (innovation, scale economies, capital accumulation, etc) are not causes of the growth; they are the growth*” [5].

The human capital plays and important role in the economic growth, its importance being observed since the XIXth century, when the mass education increased; and as the majority of the relations, it is not a simple connection.

No matter how meticulous, subtle and useful would be, the estimations of the

economic growth sources say nothing about the last causes of the economic growth. They do not present the motivations that led to the appearance of economies or investments or why the innovations or the capital accumulation were bigger in a society or in a period or another. They do not follow the growth sources until their origin: “they take it on the line of the river waters up to the brooks and lakes from which they come, but they do not explain the rain” [6].

In essence, education creates a workforce that is capable to obtain more complex and better paid jobs, but, at the same time, the existence of such jobs makes useful for the students to attend classes, eventually all the unpaid classes when they were in school, they will be transformed in a job that will compensate the time allocated to education and not the pecuniary earnings.

In the same way, the countries with high levels of education tend to become richer; so there are more resources destined to education. This fact can be mistaken with the eternal dilemma “the hen and the egg”; but it is not like that; the historical evolution of some countries like Germany or the USA, indicates how the appearance of the mass education at the end of the XIX-th century preceded an economic growth at a large scale.

Another example, among others, are the Asian tigers- Singapore and South Korea- that had a relatively high level of literacy before beginning the spectacular growth in the 1980s and the beginning of the 1990s.

Lee (2001) and Lall (2001) presented the way in which it evolved the resources assignment on different educational levels in Eastern Asia when, in the initial development phase, this region gave priority to elementary education in the years 1970, reaching a rate of almost 100%, the secondary and tertiary levels of education becoming a propriety after 1980. The economies from the South-eastern Asia made a lot of efforts for increasing the quality of their universities the main initiatives form the natural sciences areas from Singapore and Korea underlining the fact that this thing already takes place.

What must be remarked, is the fact that, *for the economic growth, more important than the quantity of resources meant for education is the way in which they are allocated between*

*the primary, secondary and tertiary cycle*; this fact is also explained by Judson in his paper „*Economic growth and investment in education: how allocation matters*”.

Admitting the idea that, in the appropriate institutional conditions, education represents an important factor for the economic development, there still remains the question if economies obtain a superior profit. Despite a population of almost 1 billion people, India still suffers from a lack of well qualified graduates, according to the statements given by managers from the information technology.

Self and Grabowski in the study entitled „Does education at All Levels Cause growth” India, a case Study [7] reach the conclusion that, in the case of India, the elementary education presents the biggest influence, even if the algorithm of India is of concentration of the investments among the elite.

Practically, the model chosen by India is nowadays responsible for its success in the businesses associated to the information technology, but this sector represents only 2% from the results and the workforce of the country (even if certain estimations indicate the fact that this one would rise up to 7% in 2008 ) [8].

In a wider meaning, the population of India reached much lower levels of education than China, Korea and Taiwan, only 61% of the Indian adults can read, while in the countries of South Eastern Asia, the number is above 90% according to the studies made by UNESCO. Hundreds of millions of Indians have an insufficient education, while in countries from South Eastern Asia the accent was put on the general elementary education when they found themselves in similar phases of economic progress. This strategy made that much bigger segment of the workforce to be gifted with specific skills for working in factories of intensive production that became, a few decades later, not only the most advanced technologies, but also they represented true sources of innovation.

As a consequence, which are the consequences for the developing countries where the rate of illiteracy is pretty high and the educational opportunities are not exactly universal? More exactly, these countries should try to imitate the universal model applied in South Eastern Asia or the elitist one,

like in India? In many developing countries there are elites that send their children to study abroad, just like happened in the rigid system of castes from India, while the educational system was regularized. In the case of India, the university departments were established with the help of educated young people abroad, who at maturity, they came back in the country. Other countries probably, do not have a sufficient big population for following this strategy based on merit, not even the advantage of India of having a big number of English speakers that can be easily assimilated in the global commercial system. There are arguments that make us support the general accepted opinion concerning the encouragement of the developing countries for making the basic, universal education accessible, rather after the model of South Eastern Asia and East Europe than adopting the elitist model of India. It is not an easy measure to take, especially in the poorest countries of the world, where the falling ill rate is very high, precarious health and poor nourishment. There are more than 100 million children that have the age for the elementary school that are not registered at any educational institution, of which 70% in South Eastern Asia and in Sub-Saharan Africa, according to UNESCO [9].

In the year 2000, the inhabitants of the Sub-Saharan region from Africa had, on average, 3.5 years of education, in comparison with 9.8 in the developed countries[10]. From those 155 developing countries, only almost half of them have sufficient elementary schools for all the children that have the necessary age[11].

And even more existing schools do not have the necessary facilities; for example, more than 90% of the pupils from the VI-th grade from Tanzania go to schools that do not have books, and 2/3 of the schools from Ciad do not have toilettes[12]. Another reason, for which the children from the developing countries do not receive the necessary education, is that of the fees costs and the distance they have pass until school, a fact underlined by Gene Sperling, the manager of the Centre for Universal Education of the Foreign Relations Council. “The decision to send the children to school, considers Sperling, that it is often taken by the parents who live in extreme poverty conditions and for whom the cost of education exceeds its



benefits” [13]. Obviously, these represent problems that are difficult to eradicate. In an obvious way, the *strategy oriented towards the general education seems more advantageous than the focalized approach of India*. An elitist educational strategy would lead, inevitably, to even greater income disparities that can worsen the social discontents, a problem that certain countries can not solve.

Besides the option for general education or for a superior one, another dispute is given by its applicative or theoretical character. In the paper „*Skill Specific rather than General Education: A reason for US-Europe Growth Differences?*” Krueger and Kumar analyze the problem of general or vocational education. The two analysts create a model that incorporates the decisions of the companies and of the individuals to adopt a certain type of education and they analyze the effect of education on the economic growth. Practically, the model proves that the growth rate is bigger in the economies where there are allocated more resources to the general education; so the general education, even if it is more expensive, it primes in which concerns the economic growth, to the detriment of the vocational one. The study reveals the fact that only the workers with general education can operate with new and risky technologies and, while the workers with vocational training are efficient in using the old and stable ones [14].

There still remains the question if the concentrated financing leads to bigger profits in which concerns the national income. Edificatory are the educational policies from Europe and the USA, Krueger and Kumar studying the impact of these educational policies. The causes for initiating this study were, among others, the deepening of the evolution differences between Europe and the USA, the intensification of the technological differences between the USA and Europe and the social attention given by the USA to the general education (74,5%) and by Europe to the vocational one (30%), the registration rates in the vocational education at a secondary level being much higher in Europe [15]. It was observed, from the point of view of the GDP and from the work productivity in the manufacturing sector, a weak economic growth in Europe in the years 1980 in comparison with the USA; on the consequence

path, we can say that the economies that concentrate themselves on the vocational education remain far behind those who choose the path of the general education.

### 3. Instead of conclusions

There are two main ways to which countries can appeal in order to educate the citizens, either “horizontal” or “vertical”.

The “horizontal” approach has as purpose to assure almost the same basic education – in an ideal way, the high school equivalent- to the whole population of the country. The public or private funds can support universities, but that is not what must be stressed, at least not in the beginning. The countries that followed this model opened the university education to the best students, financing their studies abroad (usually in the USA, but also in Australia, Canada and Europe).

The “vertical” approach come in opposition with the “horizontal” one because it is centered on the education of the most talented individuals on a local plan, in local academic institutions, giving less importance to the general education especially by limiting the number of the years of basic education for the less skilled individuals. This thing is carried out through an appropriate financing, the departments being developed whether at home, or through studies abroad for the teaching staff.

The optimal solution for the less developed countries, at least initially, is the one of sending a number of teachers with good potential over the boarders to training probations, of course with tempting financial rewards in order to assure their return, and who, on their turn, must train other teachers.

Practice shows countries that used both strategies for creating the human capital. The Asian and East-European countries prefer the “horizontal” educational approach, apparently successful, while India offers the best example of “vertical” or “elitist” educational approach. The pupils of the elementary schools and high schools from the East-European and Asian countries obtain, regularly, very good results to the international and mathematics exams and the percentage of illiteracy is among the lowest, in comparison with India, where this percentage is pretty high.

Still, even if it took it a few decades, India managed to create some of the world's most famous engineering universities. The access is strictly made on merit and the students' annual exams who want to be admitted in these superior institutions represent major events in their lives and not only, even for their schools, neighborhoods and cities in which they live.

We can say that India assumed the risk of letting some of the highest qualified students to immigrate to the USA, hoping that a part of them will come back and start a business in their home country. Even if a few decades passed until the results to show up, now they are visible; many of those who came back contributed to the development of the Indian economy [16].

China has an intermediary position regarding education, a country that educates in an extraordinary way the most talented students, especially in the technical disciplines, in elementary schools and high schools, investing enormously in the university education, even if the graduates do not seem to be as good as those from the Indian institutions.

The "vertical" (elitist) approach and also the "horizontal" (universal) one succeeded in stimulating the general economic growth, but with very different results, according to the offered educational opportunities. What was noticed was that when the educational resources are focused only on one direction and the earnings will be unevenly distributed. This explains the discrepancy between the relatively equal income from the economies of South-Eastern Asia, on one side, in comparison with the much bigger contrast from India and China on the other side.

With all these, it is not sure yet if the universal or elitist approach leads to a much pronounced economic growth. These happen because, as the economies become richer, they can afford to apply both strategies simultaneously and it can be difficult or even impossible to determine exactly which approach contributed more to the development.

For example, the main economic and social problem that India and China face, is the need to expand the economic growth on those significant parts of population, that benefited

from the rapid growth of the living standard, enjoyed the dynamic and educate people.

Both countries met social disorders and that is why, even in China the present conflicts are due to the more and more need of political freedom. The situation is not easy, not even for the rich countries that must fulfill their duties to the universal basic education, but also those regarding the quality of the superior education institutions. The USA for example, seemed to succeed in both ways, but, despite the high percentage of high school enrollments, there are still problems related to graduating from high school and obtaining the necessary abilities for an appropriate career in the case of the pupils who come from families with a low income.

Another position is occupied by the countries from the Western Europe and Japan that have prestigious educational programs for the elementary and secondary schools that got on the international top, but did not have the same success with the universities. Israel has performances in both- at the elementary and secondary level, and also in world wide universities – but a part of this success is due to the large number (reported to population) of overqualified immigrants from the former Soviet Union in the 90's [17].

#### 4. References

- [1] J. W. Baumol, E. R. Litan., J. C. Schramm, *Capitalismul bun, capitalismul rău și economia dezvoltării și a prosperității*, trad. Laura Moroșanu și Horia Târnovaru, Editura Polirom, Iași, 2009, p. 39
- [2] A. Smith, *Avuția Națiunilor*, vol. 1, Editura Universitas, Chișinău, 1992, apud C.C. Popescu, I. Pohoată, et al, *Capital uman, capital social și creștere economică*, Editura Universității „Al. I. Cuza”, Iași, 2007, p. 4
- [3] W. Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, MIT Press, Cambridge, p. 74
- [4] OCDE, *Education at a Glance 2005*, OECD, Paris, 2005
- [5] D.C. North, R. P. Thomas, *The Rise of the Western World: A New Economic History*, Cambridge University Press, 173, p. 2, apud R. N. Bundă, *Creșterea și dezvoltarea economică: repere teoretice*, Editura Universitaria, Craiova, 2008, p. 150
- [6] M. Olson, *Creșterea și declinul națiunilor. Prosperitate, stagflație și rigidități sociale*, Editura

- Humanitas, București, 1999, p. 24, apud R. N. Bundă, Creșterea și dezvoltarea economică: repere teoretice, Editura Universitaria, Craiova, 2008, p. 151
- [7] S. Self, R. Grabowski, Does education at All Levels Cause growth? India, a case Study, Economics of Education Review, vol. 23, 2004, pp. 47-55
- [8] T. N. Srinivasan, Information-Techology-Enabled Services and India's Growth Prospects, Brookings Trade Forum, pp. 203-231
- [9] United Nations Educational Scientific and Cultural Organization (UNESCO), Education for All, Global Monitoring Report 2005 – The Quality Imperative, United Nations, New York, <http://www.unesco.org/en/efareport/reports/2005-quality/>
- [10] B. Bruns, A. Mingat, și R. Rakotomalala, Achieving Universal Primary Education by 2015: A change for Every Child, Banca Mondială, Washington D.C., 2003
- [11] B. Bruns, et al, lucrare citată, 2003
- [12] United Nations Educational Scientific and Cultural Organization (UNESCO), Education for All, Global Monitoring Report 2005 – The quality Imperative, United Nations, New York, <http://www.unesco.org/en/efareport/reports/2005-quality/>
- [13] UNESCO, op. citată, 2005, p. 105
- [14] D. Krueger, K. Kumar, Skill Specific rather than General Education: A reason for US-Europe Growth Differences?, Journal of Economic Growth, Springer, vol. 9, 2004, p. 1
- [15] D. Krueger, K. Kumar, US-Europe Differences in Technology-Driven Growth: Quantifying the Role of Education, Journal of Monetary Economics, Elsevier, vol. 51, 2004, pp. 3-4
- [16] AnnaLee Saxenian, The New Argonauts: Regional Advantage in a Global Economy, Harvard University Press, Cambridge, 2006, p. 17
- [17] J. W. Baumol, E. R. Litan, J. C. Schramm, *op. citată*, , pp. 138-139

## Teleworking Survey

Chiru Claudiu

Greco Iulia

*Spiru Haret University*

*claudiu\_chiru@yahoo.com*

*elianro@yahoo.com*

### Abstract

This paper examines teleworking, a modern concept, more and more present in the work relationships in our society. We will review some introductory elements, the evolution, the current status of teleworking in Europe and US and the development of teleworking in Romania.

**Key words:** teleworking, cost, benefit, telecenter, productivity.

**JEL Classification:** Q33;

### 1. Introduction

Teleworking can be defined as the use of Information Technology and Telecommunications to work at home and in the mean time to keep contact with work colleagues, customers or the central offices of the employers' companies. Teleworking offers large benefits to communities, employees or employers. For communities, teleworking may determine the decrease of the unemployment rate and offers a chance for the persons with disabilities that can not travel to work or to the retired persons or to those who work in remote areas. Teleworking also reduces traffic congestion. For companies, teleworking offers a large pool of workforce selection, reduces costs, raises productivity. For individuals teleworking drastically reduces time spent with commuting, reduces fuel consumption, introduces a flexible way of work.

There are different forms of teleworking by considering where the teleworking is taking place, by looking at the amount spent in teleworking, by considering the individual or collective forms of teleworking, by considering the economic

sector where the teleworker should work.

Teleworking is suitable for data analysis activities, book reviews, elaborate reports, intensive telephone speaking activities, conference organizing, computer based activities such as data input, text processing, programming. There are still work positions that are not suitable for teleworking. These positions require the physical presence on the job at all times, extensive face to face meetings with supervisors, other employees, customers or the public, access to materials with high security requirements or that can not be moved from the office.

### 2. Teleworking evolution

It seems that 1972 year marks the beginning of teleworking when Jack Nilles also known as "The Father of Telecommuting" conducted an extensive research in this area at the University of Southern California.

In 1973 Jack Nilles made the first teleworking demonstration. The project involved 30 employees from a private company and was supported by the National Science Foundation. Jack Nilles became one of the most famous experts in teleworking programs implementation, wrote books and articles on this subject. In 1979 Frank Schiff, Vice President and Chief Economist of the Committee of the Economic Development introduced the term "flexiplace" and published one of the most important telework articles in Washington Post ("Working at Home Can Save Gasoline").

In 1980 one of the first telecenter was established in Marne-la-Valle, France. The second was established in Nykvarn, Sweden and the third in Benglen Switzerland. A variety of private and public

companies began implementing pilot teleworking programs. Federal Agencies like NASA, IRS, Army, Air Force, etc. implemented small teleworking projects and performed studies on telework.

In 1982 Gill Gordon organized the first Conference on Telecommuting in US. In 1985 California State launched the first large scale telecommuting center. In 1992 The European Community Telework Forum organized the first conference on telecommuting in Europe with Jack Nilles as a keynote speaker in Den Helder the Netherlands. California Department of Transport (CALTRANS) and US Federal Highway Administration funded the Neighbourhood Telecenters Project which established 15 telecenters across California.

In 1993 The Office of Personnel Management approved the use of telework by the federal agencies. The US Department of Transportation published the first report on the implications of telework in transport activity.

In 1995 AT & T proposed an education program called "Telecommute America".

In 1996 International Telework Association and Council announced that more than 11 million people telecommute compared to 8 million in 1995.

In 2000 President Clinton issued an executive memorandum instructing all agencies to identify work positions that may be used in teleworking.

Teleworking had an accelerated development in the recent years being stimulated by the information technology development. The teleworker has real time access to high quality video and a high transfer rate. It is now possible to organize video conferences, virtual offices or to transfer gigabytes in several minutes.

### **3. Teleworking in European Union**

As a result of the negotiations at European level, on 16 July 2002 social partners BusinessEurope, the European Association of Craft, Small and Medium-sized Enterprises (UEAPME), the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) and the

European Trade Union Confederation (ETUC) signed a document called the European Framework Agreement on Telework. This framework regulates employment and working conditions, health and safety, training and the collective rights of teleworkers. The signatories agreed not to implement this document through an European directive but by implementing specific measures in each EU state member.

In June 2006 the social partners published a report about European Framework Agreement on Telework implementation and in 2008 European Union Commission published its own report on the implementation of this agreement.

According to statistics given by the EWCS report in the analyzed 27 UE member states (table 1), Czech Republic has the highest percentage of teleworkers 15.2% and Bulgaria has the lowest percentage 1.6%.

There is a big difference between percentage of people involved in telework at least a quarter of the time or more and the percentage of people involved almost all of the time. This confirms that telework is used often as a part time job and not as a full time one.

Looking at the figures describing the percentage of teleworkers we can observe that there are several groups: one group of western countries with a high percentage of teleworkers (Belgium, Denmark, The Netherlands), a group where teleworking is significant (Czech Republic, Poland, Latvia, Estonia, Finland), a group with a low rate of teleworkers (some East European and South Europe countries – Bulgaria, Romania, Italy, Portugal) and a group with percentage close to the average (UK, Slovakia, Greece).

Figure 1 [1] reflects the development of teleworking in the 2000-2005 period. The percentage of teleworkers has been constantly increasing and in some countries (Czech Republic for example) it has increased five times. Some western countries like Belgium and Denmark experienced in 2005 a double percentage of teleworkers compared to 2000.

Luxembourg and Bulgaria are the countries where the percentage of teleworkers has decreased.

Table 1. Incidence of telework in the EU27 and Norway, 2005 (%)

	% involved in telework at least 'a quarter of the time' or more	% involved in telework 'almost all of the time'
Czech Republic (CZ)	15.2	9.0
Denmark (DK)	14.4	2.6
Belgium (BE)	13.0	2.2
Latvia (LV)	12.2	1.8
Netherlands (NL)	12.0	1.9
Estonia (EE)	11.8	1.4
Finland (FI)	10.6	1.6
Poland (PL)	10.3	2.3
Norway (NO)	9.7	1.3
Sweden (SE)	9.4	0.4
Austria (AT)	8.6	3.2
United Kingdom (UK)	8.1	2.5
Slovakia (SK)	7.2	3.4
Greece (EL)	7.2	1.4
Spain (ES)	6.9	1.5
Lithuania (LT)	6.8	0.7
Slovenia (SI)	6.7	1.9
Germany (DE)	6.7	1.2
France (FR)	5.7	1.6
Cyprus (CY)	5.7	0.0
Luxembourg (LU)	4.8	0.0
Ireland (IE)	4.2	0.5
Hungary (HU)	2.8	0.5
Romania (RO)	2.5	0.7
Italy (IT)	2.3	0.5
Portugal (PT)	1.8	0.4
Bulgaria (BG)	1.6	0.0
Malta (MT)	0.0	0.0
EU27	7.0	1.7

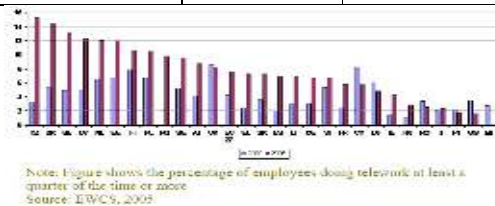


Figure 1. Telework development in EU in 2000 and 2005

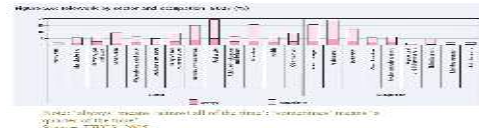


Figure 2. Telework by sector and occupation in EU

Figure 2 [1] reflects the use of teleworking in industries, occupations and the educational level of the teleworkers. The figures show that teleworking is used intensively in real estate, financial intermediation and education. More than 15% of the workforce is engaged in teleworking at least a quarter of their worktime. The figures also show that senior managers, professionals and technicians are more than 10% engaged in teleworking activities.

#### 4. Teleworking in Romania

As a result of the studies, analysis and evaluations from 1996 to 1999 Western IQ company established the first experimental Telework Center in 1999. In its early stages the telework center had 3-5 telework positions, a website for telework promotion, a database for customers, training section, international contacts with telework organizations experts and practitioners from Europe. The first telework activities were:

- Data and image processing;
- Translating services;
- Training courses.

From 2001 to 2003 Romania contributed to the E3WORK international project with its expertise. E3WORK project had France as coordinator and Poland, Latvia, Hungary, Lithuania and Romania as members. The project had its main objective: supporting and promotion of teleworking in the project's member countries organizations.

In Romania there is no agreement signed between social partners on teleworking and there is no official act to define telework. Also there is no official statistics concerning teleworking in Romania. The National Institute of Statistics published in 2006 data about workers and their

workplace. According to the statistics mentioned, in 2005 there were 13.7% people working at home. The age distribution of the people working at home was: 16.4% of the 15-24 age group, 8,8% of the 25-49 age group, 25.8% over 50 age group. There is no statistic of the percentage of teleworkers but the 15-24 age of group is more likely to be envolved in teleworking activities than other groups [3].

Romania has no regulatory framework on teleworking. The rules that can be applied for teleworking are mentioned in the Labour Code article 106 (“Work at Home” chapter).

## 5. Conclusion

Teleworking has multiple benefits. Key benefits of teleworking include:

- Reduces commuting time;
- Reduces pollution;
- Reduces fuel consumption;
- Reduces unemployment rate for people with disabilities;
- Allows employees to work in remote areas far from the central offices of the company.

US and Western European countries have developed a coherent policy for telework development. The figures show that the percentage of teleworkers who spend most of their time in teleworking activities is above the european average level.

Romania has made vital steps in IT infrastructure development. According to statistics, the number of internet users has

increased from 800,000 in 2000 to 12,000,000 in 2008 (see table 2). The price for a teleworking post is now affordable for the average romanian. All this data show that teleworking has a certain future in Romania.

Table 2. Statistics on internet users from Romania

Year	Internet Users [mil]	Populati on [mil.]	% populati on	Statist ic source
2000	0,8	22,217	3.6 %	ITU *
2004	4,0	21,377	18.7 %	ITU *
2006	4,94	21,154	23.4 %	CI Alma nac
2008	12,0	22,246	53.9 %	ITU *

\* International Telecommunication Union

## 6. References

- [1] European Working Conditions Surveys (EWCS), [www.eurofund.europa.eu](http://www.eurofund.europa.eu), 2005.
- [2] Telework in the European Union, [www.eurofund.europa.eu](http://www.eurofund.europa.eu), 2010.
- [3] Ungurean, M., Economical, Social and Psychological Barriers in Application of Teleworking in Romania, Journal of Applied Computer Science, 1(1), 2007, Suceava
- [4] Ciutacu, C., Telework in Romania, [www.eurofund.europa.eu](http://www.eurofund.europa.eu), 2008.
- [5] Joyce, W., History of telework, Telework America Online Curriculum, 1998, [www.teleworknetwork.com](http://www.teleworknetwork.com).

## The external competitiveness of the New Member States

Ciurilă Nicoleta  
*Academy of Economic Studies, Bucharest*  
*nciurila@yahoo.com*

### Abstract

The present paper analyses the export performance of the New Member States in terms of export growth and market share in the period of 2000-2009. Also, the main factors that prompt the external competitiveness in these economies are determined. The results show that the most dynamic New Member States (NMS) in terms of market share and export volumes are Poland and the Czech Republic followed at some distance by Hungary and Romania. While Hungary and the Czech Republic have improved or maintained their price competitiveness throughout the analysed period, a few countries like Romania and Lithuania suffered a serious deterioration in this area due to increases in labour costs. After the onset of the international financial and economic crisis price competitiveness has been partially restored. In the case of non-price competitiveness, the most dynamic NMS is the Czech Republic. Romania is ranked quite low in this area and has experienced small improvements in the analysed period.

**Keywords:** external competitiveness, New Member States, export volumes, market share.

**JEL Classification:** F14, F15, F17, F41, O24

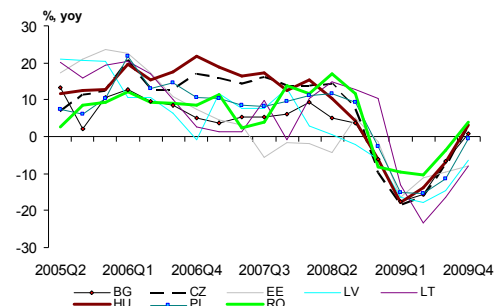
### 1. Introduction

Competitiveness is defined ([5]) in a broad sense as “the set of institutions, policies and factors that determine the level of productivity of a country”. In a restricted sense however, the level of competitiveness is determined by a country’s ability to achieve economic growth through exports.

The present paper analyses the developments in the competitiveness of the NMS and the factors which prompted these developments. The study is conducted for the period of 2000-2009 and is based on quarterly data collected from the Eurostat.

Data shows that Hungary, Czech Republic and Poland have posted the highest yearly growth rates throughout almost the entire period analysed (figure 1). Also, the commercial balance has been positive in case of the Czech Republic, and had only a small negative value as a percent of GDP in Hungary and Poland. Romania has constantly increased its exports until the onset of the international financial and economic crisis. The exports’ growth rate has however slowed down during the year 2007 but rebounded to high values in the beginning of 2008. The onset of the international economic crisis led to a strong decrease in exports in the case of all NMS, but Romania was the country that experienced the smallest decline.

Figure 1. The development in real exports’ growth rate in the NMS



Source: Eurostat, author’s calculations

In terms of the market share held in the European Union, Poland and the Czech Republic clearly dominate, while the third and fourth performers are Hungary and Romania. Although, all countries have improved their market share throughout the analysed period in detriment of the euro area countries, Poland and the Czech Republic appear to be more dynamic.

The following sections elaborate on the determinants of external competitiveness and their developments in the NMS in the



analysed period.

## **2. The determinants of external competitiveness**

The literature regarding the determinants of external competitiveness is quite vast and international organizations use a number of different indicators to assess a country's level of competitiveness.

The World Economic Forum takes into account when constructing their Global Competitiveness Index ([1]) a number of twelve categories of factors: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods and market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. While macroeconomic stability and labour market efficiency could be connected with competitiveness through prices, the other categories are related more to non-price determinant factors.

Other institutions like the European Central Bank ([4]) and the OECD ([2], [3]) distinguish clearly between two main categories of determinants:

a) price competitiveness determinants. These refer to factors such as the real effective exchange rate and unit labour costs. The real effective exchange rate should ideally be computed using all the trading partners of an economy and the price indexes of only tradable goods. This is a computationally intensive task and taking into account the fact that the main trading partner of all NMS is the euro area, we will use the bilateral exchange rate against the euro and the prices of the euro zone to compute the real exchange rate. In order to include only the prices of tradable goods, we compute the real exchange rate based on the export deflators.

b) non-price competitiveness determinants (technological and structural competitiveness). This category focuses on factors such as product quality, innovation (measured by research and development expenditure, number of patents etc), the structure of exports on products (concentrating on the technological intensity of products) and geographical destination, the flows of foreign

direct investments and so on. In case of the technological intensity of the products, the exports are divided into three broad categories: low, medium and high-tech products. A country is considered more competitive if it focuses more on medium and high-tech products and less on low-tech ones.

The next section will focus on the main developments in these fundamental factors of competitiveness in the NMS.

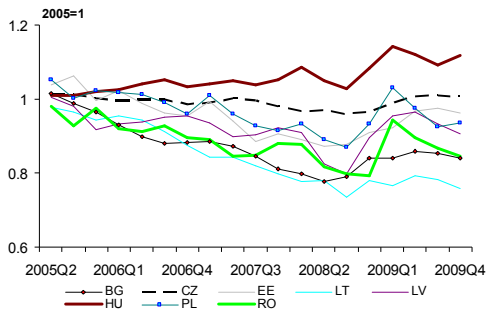
## **3. The developments in the determinants of competitiveness in the New Member States**

The Global Competitive Index published by the World Economic Forum ([5]) places Romania on the 64<sup>th</sup> spot out of 132 countries. Out of the NMS the best performer is the Czech Republic, followed by Poland and Hungary, while the worst performers are Latvia and Bulgaria. Romania scored particularly poor at two categories (institutions and infrastructure) and received the best scores in case of higher education and training and market size.

Empirical studies ([1]) have shown that in the case of the NMS, their competitiveness has improved in the detriment of the euro area countries, in complete disagreement with the evolution predicted by the real trend appreciation of their currencies. The analysis was based on the development of the real effective exchange rate computed using unit labour costs, the consumer prices index, the GDP deflator or the industrial producer prices index. However, using the exports' deflator, the real appreciation of the exchange rate is smaller in countries like the Czech Republic and Poland, indicating only a small deterioration of the price competitiveness in the case of these two countries in the period of 2000-2008 and a rebound starting from the last quarter of 2008. Moreover, Hungary seems to have improved its price competitiveness throughout the period. The countries which have experienced the most severe reduction in price competitiveness are Lithuania, Romania and Bulgaria. All NMS seem to

have regained their price competitiveness after the onset of the international financial and economic crisis. It is worth noting however, that the correction in price competitiveness was higher in case of the countries with flexible exchange rates which suffered a sizable nominal depreciation of their currencies. In case of the countries with a currency board or pegged exchange rate, the adjustment of the real exchange rate was prompted by an important decrease in nominal labour costs.

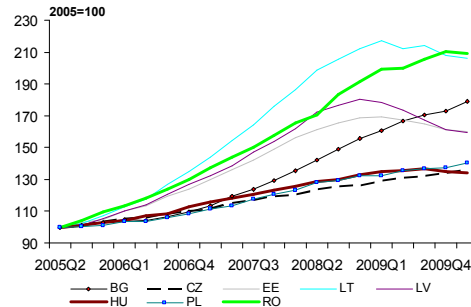
Figure 2. The real exchange rate against the euro based on the exports deflator



Source: Eurostat, author's calculations

Regarding the labour costs, these have systematically increased in all NMS; this is to be expected considering the low level of nominal wages existing in these economies compared to the euro area average. The highest increases in the analysed period were clearly experienced in Lithuania and Romania, while increases in the all fixed currency regimes countries have also been important. This has impacted severely on price competitiveness as we have already concluded by analysing the developments in the real exchange rate (figure 2). However, countries like Lithuania, Latvia and Estonia rate have experienced a sizeable adjustment in labour costs during the economic crisis, attempting to regain their competitiveness without devaluing their currencies. Despite the important increases in labour costs in Romania, the average wage expressed in euro is still the second smallest among the NMS. Consequently, we should expect further increases in labour costs in Romania, which, although smaller than those experienced in the past, will erode external price competitiveness in the future.

Figure 3. Labour cost index developments in the NMS



Source: Eurostat, author's calculations

The analysis of the research and development expenditure as a proportion of GDP shows that the Czech Republic is the leader in this area followed, at some distance, by Estonia, Hungary and Latvia. Romania had for a long period the smallest ratio of research and development expenditure to GDP out of all NMS, but has surpassed Bulgaria since 2006.

In terms of foreign direct investments (FDI), the best performer is Bulgaria, which had a ratio of FDI flows accounting for as much as 30% percent of GDP. However, this country has remained the worst performer in terms of external competitiveness out of all NMS. The second recipient of FDI's is Romania, although the inflows have reduced since the onset of the international financial and economic crisis.

Another indicator of the external competitiveness of a country is the technological intensity of its exports. An analysis of the products exported by Romania broken down into eight broad product groups following the Standard International Trade Classification indicate a clear pattern: the exports of equipment and machines (a category of medium tech products) has gradually increased in the detriment of manufactured products (a category of low tech products). In this respect, Romania's external competitiveness seems to have gradually increased.

#### 4. Conclusions

The paper analyses the export performance of the New Member States in terms of export growth and market share in the period of 2000-2009. The results show that the most dynamic New Member States (NMS) in terms of market share are Poland and the Czech Republic, followed by some distance by Hungary and Romania. Also, the main determinants of external competitiveness for these economies are examined. Hungary has benefited from an improvement in price competitiveness, while the trend appreciation of catching up economies has only slightly affected the Czech Republic. On the other hand, Romania and Lithuania are the countries that have lost their price competitiveness the most due to a rapid increase in labour costs. In all NMS, price competitiveness has been partially restored during the economic crisis but the mechanisms have been substantially different: while the countries with flexible exchange rates have benefited from the nominal depreciation of their currencies, the countries with a fixed exchange rate have relied on the adjustment in nominal wages.

In terms of non-price competitiveness, the best performing country is the Czech Republic, a country which is also ranked the highest according to the Global Competitiveness Index. Romania's non-price competitiveness is quite low considering the small amount of

research and development expenditure and the unfavourable scores it received from the World Economic Forum at chapters such as institutions and infrastructure.

As the level of the average wage in Romania is currently smaller than in the other NMS, we would expect it to increase in the future, thus further damaging price competitiveness. In this case, Romania will be able to gain market share and improve its capacity to export only by making progress in non-price competitiveness determinants: the structure of exports, innovation, institutions, infrastructure and so on.

#### 5. References

- [1] Allard C. "Competitiveness in Central-Europe: What Has Happened Since EU Accession?" IMF Working Paper WP/09/121, 2009.
- [2] Durand M., C. Madaschi and F. Terribile: „Trends in OECD countries' international competitiveness - the influence of emerging market economies”, OECD Economics Department Working Papers no 195, 1998.
- [3] Durand M., J. Simon and C. Webb "OECD's indicators of international trade and competitiveness" OECD Economics Department Working Papers No 120, 199.
- [4] Task Force of the Monetary Policy Committee of the European System of the Central Banks: "Competitiveness and the Export Performance of the Euro Area", Occasional Paper no 30, ECB, 2005.
- [5] Schwab, K.: "The Global Competitiveness Report 2009-2010", World Economic Forum, 2009.

# Impact of Consumption Models' Change on Sustainable Development

Coculescu Cristina,  
Despa Radu,  
Folcuț Ovidiu,

*Romanian-American University, Bucharest*  
*cristina\_coculescu@yahoo.com*  
*radudespa@yahoo.com*  
*ofolcut@yahoo.com*

## Abstract

The consumption economic theory, which was propounded by Ernest Engel (1821-1896), has been substantially improved over time, by the contributions of the modern economists. However, the extensive themes of the studies about the euro-atlantics populations' consumption models (as well as populations from other geographical areas) still remain a domain relatively less explored and known.

At present, no appreciable understanding of the consumers' behavior exists and especially of the real motivation for adopting certain consumption practices. Although in this domain a lot of studies, observations and investigations had been conducted.

In this paper, the authors analyzed the change impact of the consumption models in the context of a sustainable development. The analysis follows the evolution of the phenomena, as well as it concerns the general characteristics at the global level.

**Key words:** consumer behavior, consumption models, sustainable development, efficiency, sufficiency

**JEL Classification:** D01, D11, Q01, Q57

## 1. Introducere

Even in the last years, there were many institutions and large companies who initiate scientific investigations on the consumption model belonging to different populations. The existence of a relatively small number of researches using sample comparable methods complicates the integration in a unitary item of knowledge.

At present, there is no exhaustive comprehension of the consumption behavior and especially of the real motivations in adaptation of consumption practices. Even in this domain, there are a lot of years of searching, studies and observations. But, in every situation, the searching does not delimit the investigation area using only a peculiar method. No one can, however, investigate in a satisfactory manner, the field of consumers' reason and impulses which are at the base of the effective consumption behavior.

Anyway, the socio-economic consumption theory has evaluated the relationship between rational and emotional feelings. It has often been observed that the universal human needs are generally satisfied only by certain attributes of the products or services image.

The dynamics of change which occurs on different market of the goods and consumer services attained a high level during the last decades [1].

In any market economy, the elastic demand profile responds to changes in some elements of the methods and techniques for research of the consumption models.

## 2. Sustainable Consumption – Sustainable Development

The sustainability principles designate the gearing of three dimensions: ecology, economy and social area. In combination with the consumer behavior, the ecological dimension of the sustainability becomes more and more important. The economic development and the social welfare are not possible on long term, particularly in a well limited environment, which arise the nature to the rank of vital element. On the other hand,

the economical and social aspects enable the trial of making ecology workable. The ecological production and consumption are elements which can be realized if the consumer can afford it and if both the consumption and the production are based on acceptable social auspices [2].

The sustainable consumption is a field of activity that is explicitly stated and is interdisciplinary. The change of the consumer behavior is a process involving a large number of social groupings. Apart from households, the biggest consumer grouping, are the authorities, the economy, educational institutions, Non-Governmental Organizations, and more other. This is why the authorities need to create a proper legal frame so as to protect and sustain the style of consumption of the consumers.

The consumption and production, short sustainable models, represent an important cause of the environment issues at all levels – from the local level to the global one. Therefore, there are intensive preoccupations about “the changing of the consumer’s custom” subject. Additionally, the “sustainable consumption” issue - also like “sustainability” issue in general - is linked by other subjects as justice (at global level), distribution or globalization. Especially in the rich industrialized countries this prevails as a rule customs underlined by the exaggerate consumption. When in some world parts, people consume in a wasteful manner, there are other poor areas of the world where people cannot satisfy even the basic needs. For this reason, a change in consumption and production models requires the planning of a strategy which should take into account the disequilibrium observed above [2,4].

### **2.1. The change of the consumers’ customs**

First of all, the change of the consumers’ customs supposes a fundamental change of the values and the life style. The consumers’ change in the way of thinking and to action cannot be imposed by the authorities. For this reason, the occurrence of new and sustainable customs in the consumers’ behavior needs a comprehensive, informative and consultative campaign. Concerning the consumer, the

products and the mode of transportation must become transparent, the “right ecological” price must be known and the alternatives which should protect the environment must be revealed [3].

Only in a second stage one question occurs: which should be the concrete measures through a sustainable comportment concerning the consumer be implemented?

Taking into account the consumption complexity phenomena, even at the level of relatively small population group, the steps of empirical study often enforce the effectuation of methodological adaptation, based on the rigor of standardisation of research methods.

The indicators used by the United Nations Organization, for evaluate the consumption model dynamics make up essential instruments in monitoring the changes which occur in the volume and the intensity of the exploitation and use of natural-economic available resources, as well as in the formulation of the profile politics [9].

The social politics specialists from different countries had tried to identify series of indicators to signify the welfare and the wealth of a nation and its sustainability. An indicator of high accuracy in this sense is the gross domestic product; even it presents a lot of limitation concerning the comprehensive formulation of the population, access to the goods and consumption of the products.

The UNO Commission on Sustainable Development has instituted an international working schedule on the indicators concerning the sustainable development. An element of this program consists of the identification of a set of basic indicators for changing measurement on consumption/production models.

The exigencies imposed on the consumption indicators, for their admission into this set must be simple, attractive and accessible. From these points of view, the GDP/inhabitant presents relevance, relatively high at the level of inferences, which can be made on the peculiarities (quantities) of the consumption models [6].

The UNO distinguished between two large categories of relevant indicators for studying the consumption model: the key-resources and the principal group consumers. The indicators concerning the key-resources aim at the

energy, the materials, the water and the land. The indicators concerning the principal group consumers aim the mobility, consumption of goods and services, buildings, savings, foods and at entertaining activities.

The selection of such indicators takes into account the perspective of designing of sustainable production and consumption models. The differences between these indicators and classical indicators express, on one hand, the impact of the use the key-resources on the environment and on the other hand, reflect the type of concrete nature of the adopted decisions, of both the producers and consumers of goods and services. In order to build and to develop such indicators, the governments of developed and in transition countries can use a wide range of indicators based on the peculiarities, needs and national priorities.

Since 1992, many institutional groupings of big affairs interests in industry, non-governmental organizations or large academic communities have made effort in order to classify the concepts regarding the engagement of long-term sustainable production/consumption models. This is relevant in determining the responsibilities which accrue to the different economical, social and political actors in this domain and implicitly orient the scientific research in the sense of investigation the premises of sustainable production/consumption models.

Many factors/indicators of the sustainable development are correlated with the consumption/production models. One of these factors influences the consumption/ production models, others factors are influenced by the existing models, but for most of factors/indicators, the causal relations function in both ways [5].

One factor which has a high influence on the consumption/production models is the poverty phenomena. The families with low incomes activate in the low productive and ecologically fragile environments, which they used to exploit in an unsustainable manner in order to survive. Such families have a reduced access to the capital flow, to the production means, to the promotion opportunities on the social-economical stair, to the cheapest energy distribution, to the public services and even to some social services, to other types of

resources which are capable of alleviating/eliminating their poverty status.

The UNO working schedule with the sustainable development indicators has proposed the control keeping of a large number of poverty indicators. These include: the poverty rate, the at-persistent-risk-of-poverty rate, the inequality of income distribution ratio (Gini coefficient), the gender pay gap in unadjusted form ratio, the access to the wealth, the access to the education, indicators of sanitary assistance, etc.

The consumption/production models are also influenced by the migration of population phenomena, by the goods, capital and information movement. The rural-urban migration and the international migration determine the changing of the consumption models of the ones involves and often the ones existent in the start/destination area of the migration flow. The consumption models for the different geographical areas are reciprocally influenced by some commercial practices and by the realization of some investment.

The promotional phenomena, the television and other mass-media means, as tourism or other way of trip, also constitute sending opportunities of some consumption models, especially from the developed countries to the ones in transitions.

The consumption/production models influence many domains as natural resource availability like water, land, green areas, etc. These influence also the population health, the development of human settlement and wasting resource patterns. All these influences have become very relevant in the last decades, having an important contribution to the globalization phenomena.

## **2.2. The efficiency strategy and sufficiency**

There must be settled principles in order to open the way for a long sustainable society. A lot of courage and creativity are needed to put into practice these principles.

The efficient strategy is meant to drastically reduce the consumption through the technical progress redirection. In the center there is the resource productivity growth. A reduction of the natural resource

consumption to its tenth part is a big challenge for all creative and enterprising human beings. It is considered to represent a “new technological revolution comparable to Industrial Revolution”. This courageous project is still less litigious comparable to other projects [7].

The efficiency strategy is just a passing level to a sustainable development. This level must be completed and sustained by another dimension, called by the Wuppertal Institute authors “The Sufficiency Strategy”. It is about the necessities and life styles and a redefinition of life quality. This does not mean the end of a well-being.

### 3. Conclusions

There is not only one principle available for the future consumption. The characteristic feature of consumer's decisions is an integral component of the modern, democratic, pluralistic society which is not doubted by the scenarios which anticipate new, sustainable life styles. The consumer's decisions are and will be strongly influenced by the frame-conditions such as: political decisions, prices, available technologies, incomes and their distribution, social rates and the principles which guide the different existing groups in the society, the advertising and marketing influence.

The adoption of long sustainable consumption processes assumes the usage of assets and correlated services which guarantee the satisfaction of basic necessities, with the condition of playing down the exploitation of natural resources and toxic substances, avoiding the wastage of resources and pollution, among a whole life cycle so that this will not jeopardize the existence of future generations.

As a result of the new exigency assessed by the production processes, the desirable changes of the consumption models features assume [10]:

- the promotion of the examination of consumption behaviors, which brake the sustainable growth, as well as the examination of possibilities of changing these behaviors at the global population's level and especially at the level of populations with consumerist type;
- the identification of the most efficient policies and dissolution instruments of the

unsustainable consumption/ production models, inclusively through information dissemination and ecological warnings;

- the achievement of the equitable distribution of development resources, inside and between countries.

To have a sustainable existence means having a healthy living, in partnership and in a tolerant way, to admit the value of things, to enjoy and use them with pleasure. It also means to attach much value to quality, not to run for every fashion tendency, but follow some of them. To consume in a sustainable manner means to remember that “better” is the enemy of “good”, not “cheaper”; it means to remember that the community and the individuals are parts of society [9]. The sustainable life style is the art of knowing how to behave honestly in fake structures. So we need both of peak policy and our basic actions to do that. Only acting together will ensure a long sustainable economic, production and consumption structures.

### 4. References

- [1]. Corrigan, P., (1997), *The Sociology of Consumption*, Sage, London
  - [2]. Edwards, T., (2000), *Contradictions of Consumption: Concepts, Practices and Politics in Consumer Society*, Open University Press, Buckingham
  - [3]. Gottdiener M. (ed), (2000), *New Forms of Consumption: Consumers, Culture and Commodification*, Rowman & Littlefield, Lanham
  - [4]. Lunt, P., Liningstone, K.S., (1992), *Mass Consumption and Personal Identity*, Open University Press, Buckingham
  - [5]. Lury, C., (1996), *Consumer Culture*, Polity, Cambridge
  - [6]. Scanlon, J.(ed), (2000), *The Gender and Consumer Culture Reader*, New York University Press, New York
  - [7]. Slater, D., (1996), *Consumer Culture and Modernity*, Polity, Cambridge.
  - [8]. Stanciu, M., (2002), *Consuming models for Romanian population*, Expert Press, Bucharest, Romania.
  - [9]. Strasser, S., McGovern, C., Judt, M., Mattern, D. (eds), (1998), *Getting and Spending American and European Consumer Society in the Twentieth Century*, Cambridge University Press, New York.
  - [10]. Zavestoski, S., (ed), (2002), *Anti-Consumption Attitudes: Psycholo Marketing*, Special Issue, Wiley, New York.
- \*\*\* 2006, National Institute of Statistics, *Data and information EUROSTAT*, <http://epp.eurostat.cec.eu.int/portal>
- \*\*\* 1999-2007, National Institute of Statistics
- \*\*\* 1995, Wuppertal Institute, *Towards Sustainable Europe*, January.

## Application Integration - Financial Accounting Model in Applications *Enterprise Resource Planning*

Codreanu Diana-Elena,  
Popa Ionela,  
Marin Camelia

“Constantin Brancoveanu” University of Pitesti  
*codreanudia@yahoo.com*  
*popainela80@yahoo.com*  
*cameliamarin81@yahoo.com*

### Abstract

Most specialists believe that there is no Enterprise Resource Planning without any financial and accounting information in the operations they administer in these systems.

A financial-accounting pattern gathers and strengthens information related to all the activities of a company thus allowing unitary management to be possible. A financial-accounting pattern itself is not the most important but it is necessary when implementing any ERP application. All the data in a system are centralized in such a financial-accounting pattern, therefore providing the support for various reports.

The word integration is very common nowadays, whether we talk about integration in the European Union or other structure, whether we talk about economic integration applications.

**Key words:** Enterprise Resource Planning (ERP), management system, financial and accounting information.

**JEL Classification:** M41;

Global economic development, competitiveness, have led to organizational information systems solutions in models of increasingly complex.

Currently, due to progress in information technology and telecommunications, access to data and information is easier, and so the question is to know more and more, and know how to use the maximum information that you have to a time.

Ours is a country highly skilled human capital in terms of professional accounting and computer but internationally recognized. Also, there is continued interest of IT specialists to offer the best possible solutions in terms of accounting.

An integrated computer system to be the answer for any company that needs a modern computer system to automate processes internedin organization, or relations with customers, partners, suppliers.

Application integration and organizational expertise is called in the language of EAI (Enterprise Application Integration). In companies shows that there are fewer computer to carry out design and write applications and increasing number of applications that integrate computer. Be integrated entity is not represented by an object or a software component, but is a software application.

Application integration is present in two forms:

- Intense integration applications - company-wide application integration

- External integration applications - integration of business-to-Business applications.

Among the advantages of integration can be mentioned[9]:

- *Scalability* - replacing all with a single interface that provides all access points to the information system, their ease of administration and the possibility of adding other tools or applications;

- *Performance* - software package provides full data security;

- *Ease of deployment* - the ability to change parameters (source name, target name) is essential;



- *Centralized management* - interfaces are automatically managed from a central point;
- *Accuracy in processing / zero errors* - the ability to deliver data to the target immediately after reading the source is very important;
- *Heterogeneity of sources* – the process of transforming data into information involves the possibility of combining heterogeneous data source;
- *Centralized management* - interfaces are automatically managed from a central point;
- *User groups* - organizing a database of users, sharing of experiences and dissemination of best practices and successful cases of failures;
- *References* - obtaining an integrated platform is the best recommendation in electronic business world;
- *Security* - Security applications require high standards;
- *Quality of technology partners* - large projects requires companies to develop business relationships only with partners who are already integrated;
- *Training* - conduct training programs for groups of users;
- *Unlimited Support* - 24 hours in 24, seven days in July, Web and telephone support with easy access to company knowledge base for fast resolution of problems;

An integrated computer system to be the answer for any company that needs a modern computer system to automate processes internedin organization, or relations with customers, partners, suppliers.

Financial system - accounting plays an important role in any organization because it involves all activities that ensure the financial resources necessary to achieve organizational objectives and track while its heritage value of the entire movement.

Also reflected in other economic activities taking place in economic organization.

Integrating software applications is a complex activity that brings together people, equipment, programs, and management practices.

One of the main problems facing IT managers is to develop an effective integration of information systems and organizational.

Information from economic integration organization strongly influence the organization's financial accounting. Different information sources should always work with

financial accounting system to collect the necessary data recording operational accounting transactions.

An ERP management system of a company means planning the four major factors in successful business: human, financial, technical and resource factors (the four M's – Man, Money, Machines and Materials) [6].

Due to the progress of information systems, the study of accounting trends pursues three aspects:

- *accounting as a descriptive and modelling instrument of an enterprise*, thanks to the enterprise's and its economic, social and technical environment's evolution. In this context, there are attempts to identify the evolution directions which occur within a modern enterprise;

- *accounting as a system processing the necessary information in enterprise modelling*. The American Accounting Association sees accounting as an information system since the latter comprises the general aspects of information theory as well as typical features of systems' general theory;

- *accounting as a social practice in a network of regulated restrictions* taking into account the strong relationships among an organization, accountants and users.

At present, accountants benefit from new information means that help them gather, process, manage and analyze both the concrete data resulting from certain processes, and those referring to knowledge, an enterprise's tangible assets which are possible due to the following applications: the Intranet, knowledge bases, data mining, especially the Electronic Data Interchange.

Finding new solutions to integrate certain dissipated informational sources within an enterprise which should collaborate with the financial-accounting system has become a must. At present, an idea is stated about complete integration which is a major goal of managing informational resources which are getting more and more complex and numerous and therefore it is necessary to accomplish and implement integrated information systems.

A primary sense of the information system notion is provided in Government Decision no. 841/1997, where it is stated that an integrated information system is one that meets the following requirements:

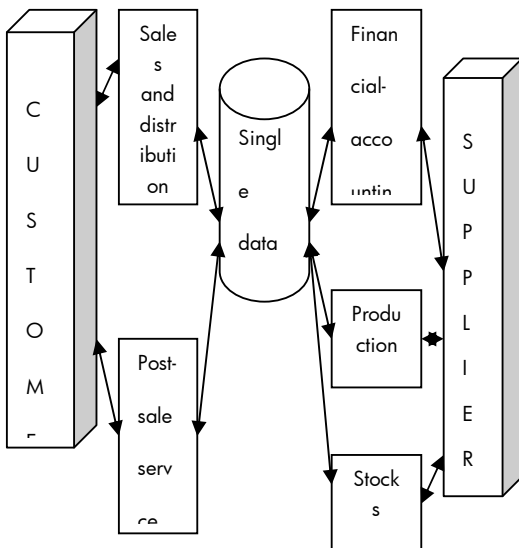
- it uses a unitary data base;
- comprises information programmes which include the activities of all company functional departments according to its organization chart;
- there is a security plan of the information system which includes proper technical and organizational steps.

ERP Systems emerged in company applications in the context of the information boom and the extraordinary growth of information technology and communications in the early 1990's.

An ERP (*Enterprise Resource Planning*), "seen as the best way to express the interdependence between the economic field and information technology, is a software multi-modular infrastructure which provides management and coordination support of various structures and processes in a company with a view to achieving business goals" [1]. The main goal of an ERP system (*business processes' integrated management system*) is to accomplish better communication within a company, to improve the cooperation and interaction among various departments such as production planning, acquisitions, production, sales and customer relations.

Davenport T.H., one of the famous specialists in the fields of management and information systems for business, suggests the following definition of an ERP: "a package that promises the complete integration of all the information within an organization" [1]. This concept is illustrated in **Graph 1**.

**Graph 1.** The conceptual scheme of an ERP system (abridgement of [5])



Front-office applications  
Back-office applications

An ERP system is a complex software solution based on the customer-server architecture whose elements are integrated within an ordinary platform in order to manage a company's resources, process transactions and facilitate the integration of all the necessary processes in business centralizing them, making data dissemination easy and removing redundancy [1].

The ERP systems developed until now include a set of elements: schedules, money collecting and payments, salaries, human resources, planning and production, project management, production monitoring, consumption and cost planning and supervision, along with the *financial-accounting element or general book-keeping*.

The main functions of these elements are the following: the automation of financial-accounting data entries taken from primary documents; the accomplishment of full accountancy at analytic and synthetic level. More often than not, this element achieves only the functions of financial book-keeping namely getting the synthesis accounting documents required by the legislation in force (accounting balance sheets, VAT reporting, taxes and fees for the budget) and the accountancy documents (accounting notations, day books, account cards, cash books, sale and acquisition books, trial balances etc.). This element can be associated to an analysis module just like an instrument panel (typical of a MIS or even EIS system) which provides synthetic and operative information about company performance necessary to a manager when making decisions. According to the accounting data, various indicators are calculated which show the financial results of a company such as: revenues and expenses for products/services, the status of financial availability etc.

The Financial-Accounting Module is the central element of any ERP application. All the data in the system are centralized in the financial-accounting module and they provide the support of various legal reports. As far as small companies are concerned, the investment in a financial-accounting solution is a primary step; yet, as they grow, resorting to an ERP

solution to integrate all the business processes becomes a compulsory request”, stated Raluca Ioana Komartin, Managing Director, LLP Bucharest in review ”Market Watch”, February 2010, no. 122”[7].

The specialists in the field believe that a financial-accounting pattern manages information which in their perspective is central to any company.

Implementing an ERP system often takes place in two stages in order to diminish the impact upon the entire activity of a customer and also to reduce the stress in an organization after changing the work methods. Therefore, the first stage includes the implementation of the basic modules, namely: Production, Financial-Accounting, Fixed Assets, Commercial and the additional patterns subsequently. Implementing the Financial-Accounting module should be part of the first stage of an ERP system implementation due to the overall picture it provides to the management.

Along with integrating the data and achieving full reports about organization activities which are major advantages of an ERP implementation, the Financial-Accounting module has as a principal strength the automation of specific operations up to 95% according to the customization degree of an application. Operations’ automation is possible due to the high repeatability of financial-accounting operations and implies some models already present in an application or predefined when implementing. Along with the increase in the operation speed, automation allows people who do not have too much accounting knowledge to work with this application and it

also does not allow human errors in certain operations.

The Financial-Accounting Department is very important in any organization as the main goal of any organization is to make profit and this is what the department takes care of, watching the money of all the departments in a company.

The Financial-Accounting model in ERP systems allows other departments in the organization to function at a high efficiency level and provides those in charge with company management the support, the right and timely information they need to make the right decision. It is believed this model should be the first step in the implementation of an ERP system and it should be granted much attention both when developing a software product, and during implementation project.

## References

- [1] Fotache D., Hurbean L., *Soluții informatice integrate pentru gestiunea afacerilor – ERP*, Editura Economică, 2004;
- [2] Finaru L., *Sisteme informaționale și gestiunea financiară a întreprinderii*, Iași, Editura junimea, 2000;
- [3] Lungu I., Bologa A-R, Diaconița V., Bâra A., Botha I., *Integrarea sistemelor informatice*, Editura Ase, București, 2007.
- [4] Myerson J., *Enterprise Systems Integration*, Auerbach Publications, 2002
- [5] Rashid M., Hossain L., Patrick J.D., *Enterprise Resource Planning: global opportunities and challenges*, Idea Group Publishing, 2002;
- [6] <http://www.cio.com/research/erp/>.
- [7] <http://www.marketwach.ro>
- [8] <http://markmedia.ro>
- [9] [www.metagroup.com](http://www.metagroup.com)

## E-governance Between Whim and Necessity

Horga Maria-Gabriela  
*Ovidius University of Constanta*  
*gabihorga@gmail.com*

Coman Marius  
*Valahia University of Targoviste*  
Virforeanu Mihaela-Denisa  
*Valahia University of Targoviste*

*cmnmarius@yahoo.com*  
*m\_ellysa@yahoo.com*

### Abstract

Access to information technologies and INTERNET create prerequisites for building information systems to serve the interest of individuals or entities. In this regard it is notable European initiative and is currently Romania to implement e-services as a solution to solve e-governance bureaucracy and inefficiencies that affect the government.

This study reviews the benefits of implementing e-government system in government, barriers affecting the implementation and development of e-government systems and elements of cost-benefit analysis to be undertaken any project before and during implementation to become a successful example.

**Keywords:** e-government, cost-benefit analysis, information services, Internet network, ITC

**JEL Classification:** L86

### 1. Introduction

Accessible "on-line public service through information technology, via the Internet was an important and significant step made by the European countries in recent years. Governments of various European countries have become aware of the importance of Internet and information technology as the optimal channel, efficient

and effective promotion of the interests of both rulers and citizens interests.

In general, the term e-governance means use of IT, particularly Internet services, as a tool for better governance, good governance through better understanding of public policy outcomes, high quality services provided a greater commitment from the public [9]. The e-governance can be seen as a permanent commitment by the government to improve relations between citizens or private sector on the one hand and public sector on the other hand, having to the lower cost, providing efficient and quality services, providing information and knowledge [5].

In a broader definition of e-government includes the use of all information and communication technologies, from simple fax machines and finishing with the sophisticated systems used by different ministries or government apparatus, to improve citizen access to government information and services, and monitoring satisfaction, commitment and participation of citizens on the process of government [10].

In another narrower definition, e-government is the production and delivery of government services through IT applications used to simplify and improve communication, collaboration and transactions between government and the various elements of the apparatus of government, between different ministries, various government agencies, between private and public sector [1].

The purpose of the paper is to highlight the following aspects related to the use of e-government in public administration:

- Benefits arising, for citizens and the private sector through the implementation of e-governance in public administration;
- Factors and barriers affecting implementation and developing e-governance ;
- Efficiency investments in new public service.

## **2. Implementing e-governance in public administration**

The relationship of public administration - citizens has always been a rather controversial, both sides having quite a lot of the other accused. Lack of professionalism of civil servants, excessive bureaucracy, corruption that reigns over all but officially there, going slow administrative procedures, lack of professionalism in public relations, congestion, confusion or employee errors, lack of awareness among the public are largely matters Management involved in this relationship-manage.

A modern government requires overcoming all these problems with the emphasis not only on maximizing the efficiency of public services but also the layout and the provision of such services on their quality. This is to make everything transparent, to provide equal services to all who request it, Fast and the highest quality. Using information technology offers the possibility of changing the quality of government services citizens and social and organizational entities.

Information technology can help public institutions in two ways:

- Implementation of programs undertaken in the administration processes - helps to conduct internal business, data processing and management, the design of different systems and different analysis. This is the "invisible" to the public.
- Use of Internet domains - allows the display of information on the institution and its services and collect feedback from users, various other information about them

or proposal for electronic services that can be used much faster and far more comfortable citizens, only the computer.

In public administration, both at local government level and at government agencies, e-government involves the interaction of central government / local citizens to provide quality services and by their use of electronic means to communicate with other fellows, to discuss problems and complaints regarding the operation of this administrative system

To summarize what was said above, the main objectives of using information technology in the public sector are:

- free access to information and exchange of information;
- development of democracy offers citizens the opportunity to express opinions;
- opening the public sector to be more transparent, efficient, rationally organized, able to offer better service [2];
- measurement, monitoring and performance reporting, efficiency and effectiveness of public institutions.

Viewed in terms of benefits to citizens and private sector, implementation of "e-government in government sector can contribute in many ways:

- More efficient public sector organizations;
- Increase accessibility of citizens to public services and public databases;
- Decrease various costs and waiting times for customers of various public services;
- Improving the quality of public services;
- Building trust between public organizations and citizens;
- Increasing monitoring and surveillance of public service to the community.

It also benefits [3] to both citizens and the private sector resulting from the very characteristics of this new type of specific service digital economy:

- opening and participation: opportunity to express your opinion and to have greater control over decisions affecting you;
- accessibility: lower costs and access for all citizens;
- ease of use: language simple and easy steps to follow;
- availability: all they want people, whenever and wherever;

- speed: discounts or gain time.

In Romania the way government institutions, with very weak links between institutions and lack of understanding of common elements with integrated institutions and real joint is mediated by the Agency for Information Society Services (ASSI) [11] and is supported by four large pillars:

- Central Supply - providing back-office systems for central administration. This is intended implementation of elements of common knowledge, reducing costs, improving simultaneous analysis and enhanced security areas;

- Data exchange administration - Using position which he created by operation of only portal ([www.e-guvernare.ro](http://www.e-guvernare.ro)) for the provision of e-government by central government institutions and Memorandum for the implementation of electronic portal as a personal contact, ASSI agent data can become public institutions. However, law enforcement may be insufficient and more actions would be necessary. The main challenge is to become ASSI trusted partner for other institutions. Cultural barrier can be overcome mainly by cultural means, and confidence is one of the most important means.

- Unified methodology - To obtain a synergistic effect among public institutions in terms of improved outcomes of IT & C should be used a common methodology. Here, ASSI has, by law, the authority to regulate / govern the field of e-government.

- Standardization - Some of the main targets are: development of an architectural basis of government and methodology for business processes.

Agency ensures the smooth functioning of some of the e-government systems critical:

- National Electronic System is the law, the official portal for central government services. This gives companies greater opportunity to file tax returns online. The system also centralizes all official forms from central government so that citizens can download them free and they can send you only completed by the institution simply by accessing;

- Electronics in Transportation System Award is a two-way transmission licensed under the criteria set by Romanian authorities for Transport and the Ministry of Interior. Shipping companies introduce their offers complete vehicles (engine type, number) and the desired path and the Romanian authorities of Transportation or local authorities introduce other criteria (experience in transport, etc.) And finally, to designate the winners of each range.

- Electronic Procurement System is the most important component of the Agency. One of the three e-procurement systems in Europe has been developed since 2002, and 2008 will be fully subject to all EU rules.

All systems, as some staff have belonged to another government body, which had as main task to supervise and manage the frequency spectrum. Their main challenge was to provide quality services and even though their movement has been newly created agency, the challenge remained the same. Agency is another organization more "service oriented" than "customer oriented" and based on principles of governance will remain an indefinite time, maybe with minor changes according to the specific new services.

### **3. Impediments to deployment of the system e-governance in public administration**

In most cases, strategies and plans for systems implementation "e-government in developing countries, is based on the theories and experiences of developed countries [4]. Feeling the pressure of requests from citizens to provide public services on-line type e-governance, developing countries have no other way than to take the perfect model of implementations of e-government in developed countries [5].

Implementing a system of e-government in developing states, and particularly in our country is influenced by major factors.

Center for International Development of Harvard University, identified four factors impact on the implementation of systems e-governance, describing in terms of implementing the system of e-governance gap between the developed and developing

countries [6]. The four factors mentioned can be synthesized as follows:

- Accessibility to the Internet - includes communications infrastructure development, resource allocation and support of information technology and communications;
- Learning and using the Internet - including the extent to which the education system fails to integrate information and communications technology in a process to help improve education, the existence of common training programs for the purpose of training people in information and communications technology (the digital sample of the baccalaureate examination, or obtain the ECDL certificate);
- e-economy development - including the use of information and communications technology by private firms and public sector to interact;
- A legislative framework for the Internet - including policies to promote or discouragement on the use and / or implementation of information technology and communications

If some experts have focused on factors influencing the deployment of e-governance, other professionals focused on another aspect of the implementation of this, namely the barriers that lead to systems incomplete e-governance or hold back the development time of systems already.

In general, if the government in implementing or developing a system for e-governance not takes account of the influence and impact of various factors mentioned above, these factors become real return from deployment to exceed the barrier pretty hard by the government.

According to the OECD Observer publication [9], the barriers that may arise regarding the implementation of the system of e-governance can be summarized as follows:

- Legislative barriers - lack of a clear framework to clarifying government agencies or any public organization about what can and cannot be included in the e-governance, particularly in areas which require security of data or technical standards may be a major barrier against

the implementation or development systems;

- Budgetary constraints - budgetary allocations for the e-governance;
- High cost IT investments, that massive allocations of budget funds cannot be supported or not present, for some reason, the budgets. In many cases the structure and the design of the budget act against the deployment of e-governance in that by not recognizing that budget expenditure on e-government as being in fact a cost-effective and efficient investment.
- A barrier of technology and implementation solutions adopted - investments in e-governance IT and involves high costs, costs borne by the budget. In general, the higher a country's technological level is higher - I refer here to a well structured IT market, IT major indigenous producers, there are strong centers of research in the IT field, the more country first has a much faster access to information and cutting-edge IT technologies and on the other IT technology acquisition costs are lower.

Another classification of barriers affecting the implementation of systems e-governance is presented below [7]:

- Legislative barriers - on the existence of laws, procedures, regulations and specific directives to allow or facilitate the development of electronic services.
- Administrative barriers - on the existence and assignment of qualified personnel, the personalities of the public service mentality and the need and desire for structural reform, lack of funds necessary to purchase IT technology;
- Technological barriers - associated with the availability of IT infrastructure, there are many and varied applications, standards and safety standards;
- Cultural barriers - public attitudes associated with IT technology, degree of openness that society has to technologies such as IT, the level of information and findings on the use of population information and communication technologies, the degree of trust / mistrust of people in solutions Proposed by IT systems, the costs that users generate in the use of electronic services;
- Social barriers - associated with impediments to the social status of users and / or staff use of e-governance (fear of job loss or

degradation of social status, resistance to change of personnel because of how slow to adapt to new IT technology).

#### 4. Efficiency investment in e-governance

Creating and implementing a system of e-governance involves serious investment so that it is essential to Cost - benefit from expected costs and benefits of the project, taking into account also the risks and the project.

The main elements [8] of such an analysis include:

##### A. Costs

- Domestic investment needed to shift from traditional to electronic services;
- The costs of establishing an electronic government portal;
- Administration and maintenance.

##### B. Benefits

- Benefits for the institution;
- Benefits for citizens (or other beneficiaries);
- Overall benefits.

##### C. Risks

- Political risk;
- Organizational risk;
- Technological risk.

Such analysis is based on principles of assessment of any proposed business and eliminates those investment projects in electronic government services consuming public funds and not makes anything. As a negative example can be given to e-government system in a developed European country where 23 of the 60 services have not been used ever in the last 5 years and the number of electronic transactions is less than 0.1% of the total.

Following a cost benefit analysis of such investment in electronic government services can be outlined the following recommendations

- Make a detailed and rigorous analysis - to determine the actual project, it should be considered in detail. Part of planning is essential in providing the information necessary to evaluate the project. The institution must establish

detailed objectives, milestones and success criteria in time for the projects it proposes.

- Assessment project during implementation and after completion - this approach allows you to tailor and improve underperforming areas, which will increase the chances of success of the project. However, this assessment will determine the initial assessment and effectiveness, enabling better planning of projects next. It is appropriate to create a working group to assess and monitor (which can be composed of representatives of all those affected by the project: government, community, companies, experts)

- Taking measures to increase the impact of the project:

- Reducing costs by:

- Technological leap - the choice of the most modern and comprehensive solutions;

- Focus on actions to maximize impact: offering the required services and delaying others until users are ready (there are many studies on the use of Internet by citizens that can be used for this);

- Management contracts with major hardware and software bidders, whereby payment is made according to the results, to reduce initial investment and risk.

- Increasing impact by:

- Enlarging the target group - the creation of service in order to be used by a wide range of clients;

- Stimulating the use of Internet and computer - creating public access points, facilities for investment firms offering IT / Internet;

- Developing new services, making links to other indirect services to extend the offer and get any additional income (must be borne in mind that the gates of public institutions generally attract a huge number of visitors).

#### 5. Conclusions

The implementation of e-governance is clearly for the government sector as an important step to increase efficiency of public services and in terms of increasing customer satisfaction (categories of citizens who call a particular type of public services).

While the benefits of using this type of systems are major implementation of these systems is not easy, it involves detailed and



serious analysis of the various and multiple aspects that may influence the success / failure of implementation and further development of the system.

Also ignoring or non-analyzing factors have a major influence in the implementation and development of systems for e-governance drive to transform these factors into genuine and serious "barriers" barriers that work against the implementation of e-governance and are in fact responsible for going slow or failed implementations of this.

Finally any plans to create a system of e-government budget include the allocation of significant amounts of money. As the economic environment where investments are planned and analyzed in detail to serve the best interest of the trader and the public system such projects should be subject to a cost-benefit analysis to highlight the need or otherwise of such a project.

## 6. References

- [1] Sprecher M., "Racing to e-government: Using the Internet for citizen service delivery", *Government Finance Review*, 2000, No.16, pp.21
- [2] Sandor D., "Administrația publică în era revoluției informaționale" in *Administrație publică* (Ed), Editura Accent, Cluj-Napoca, 2000
- [3] Pérez-Villaplana J., "Retechnology for e-Government: A Study Case", *The European Journal for the Informatics Professional*, Vol. IV, nr.2, 2003
- [4] Huang W., D'Ambra J., Bhalla V., "An empirical investigation of adoption of e-government in Australian citizens: Some unexpected reseach findings", *Journal of Computer Information Systems*, 2002, No.3 pp.15
- [5] Hofstede G., "Cultures and organizations. Software of the mind ", McGraw Hill, London, 1991
- [6] Y. N. Chen, H.M. Chen, W. Huang, R.K.H Ching, "E-Government Strategies in developed and Developing Countries: An Implementation Framework and case Study", *Journal of Global Information Management*, 2006, Vol. 14, pp.23
- [7] Kirkman G.S., Osorio C.A., Sachs J.D., "The networked readiness index: Measuring the preparedness of nations for networked world", in "The global information technology report: Readiness for the networked world", Oxford University Press, 2002, pp.10
- [8] Costas V., Lepouras G., Fraser J., Georgiatis P., *Barriers to Electronic Service Development*, *E-Service Journal*, 2005, Vol.4, pp.41
- [9] Kertesz S., 2003, Cost-benefit analysis of e-Governance Investment, document available online at <http://www.edemocratie.ro/publicatii/Cost-Benefit.pdf>
- [10] "The e-government imperative: main findings", *OECD Observer*, 2003.
- [11] Wimmer, M., Traunmuller R., Lenk, K., "Electronic business invading the public sector: Considerations on change and design", *The 34th Hawaii International Conference on System Sciences*. 2001
- [12] Gruia D., *Agentia pentru Serviciile Societații Informaționale (ASSI) – eGovernment ToBe - O noua abordare*, document available online at <http://www.computerworld.ro/?page=node&id=14465&print=true>

## Access Customized Forms

Cosma Emil  
Jeflea Victor  
"Ovidius" University of Constanța,  
ecosma@univ-ovidius.ro,  
jefleavf@yahoo.com

Controls group) – Fig. 1:

### Abstract

By using *Word*, *Excel* or *PowerPoint* one can automate routine operations using the VBA language (*Visual Basic for Applications*). This language is also used in *Access*, allowing access to data stored in tables or queries. Thus, Access and VBA resources can be used together. Access is designed for programming forms and reports (among other things), so there won't be found any of the VBA editor's specific forms.

**Keywords:** Acces, programming forms, reports

**JEL Classification:**H2

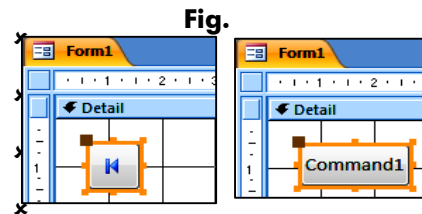
### 1. Introduction

*Access Forms* is primarily a way to input a more friendly data introduction way than the classic method of grid operation with rows and columns in *Datasheet* view mode.

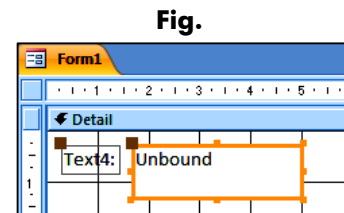
One form *includes controls* that are related or unrelated to fields (of one or more tables or queries) which allow the definition of a graphical interface with the user: labels (*Label*), text boxes (*Text box*), buttons (*Button*), lists (*Combo Box* or *List Box*), radio buttons (*Option Button*), check boxes (*Check Box*), images (*Logo*), graphics (*Chart*), etc. These controls may be assigned code sequences (*Visual Basic* instructions).

In the *Forms* group one chooses the *Form Design* button, while controls can be inserted in the form (in the *Design* tab,

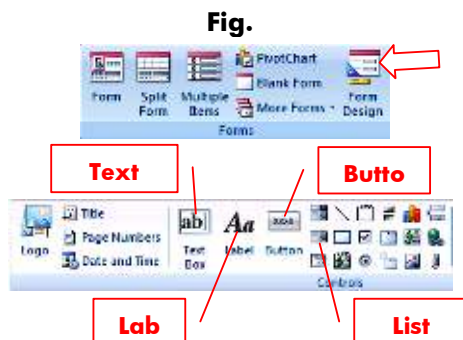
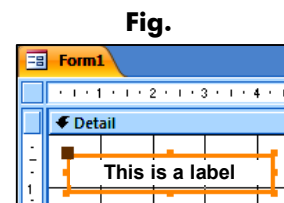
× **Button.** From the *Command Button Wizard* window select a *system button* specific to a category (associated with a code) or a *user button* - which the programmer can edit and to which a personal sequence of instructions can be assigned (in this case, click on *Cancel*) - Fig. 2:



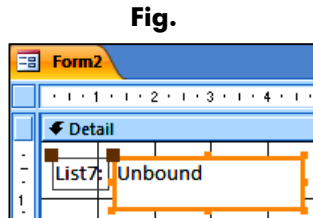
× **TextBox**, related with a field in the data tables (**Bound Control**) or *unrelated* (**Unbound Control**). The unrelated text box also contains a label which prefixes it. This label can be edited or removed (when it is not necessary) – Fig. 3:



× **Label**, text displayed on the form (controlled via software) - Fig. 4:



× **ListBox, ComboBox**, list of one or more elements. If the total number of items exceeds the number of those that can be attached, a *scroll bar* is automatically added to that control. These boxes may be populated with data from tables - Fig. 5:



In order to edit forms, it is necessary to carry out specific operations such as:

- × controls' movement and dimensioning;
- × controls' properties modification (in *Property Sheet*);
- × controls' appearance modification through borders, shades and text effects (*Bold, Italic*);
- × introduction of new controls.

Controls included on the forms are of three types: *Bound Controls*, *Unbound Controls* and *Calculated Controls*.

- **Bound Controls** are data fields within a table or a query. A form must contain a control related with each field you want to appear in the form. *You cannot insert calculation within a related control.*

- **Unbound Controls** are controls that contain a label and a text box. Normally, unrelated controls are used to identify other controls or areas of the form. *Calculations can be inserted into an unrelated control.*

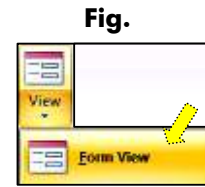
- **Calculated Controls** are all calculated values of the form, namely totals, subtotals, averages, percentages, etc.



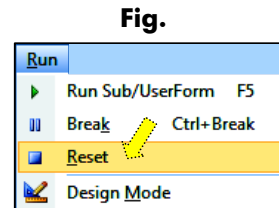
⇒ Controls included in the forms have properties that may be fixed in the

*Property Sheet* window (corresponding button is included in the Design tab).

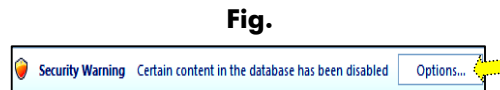
⇒ Forms edited in *Design view* are running in Form View - Fig. 6:



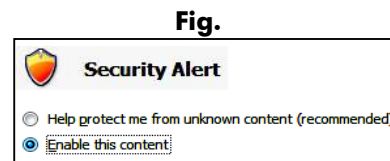
⇒ While testing code sequences, there often occurs syntax or logical errors caused especially by beginners. In order to solve them, a **Reset** is necessary (in the **Run** menu of the *VBA*) – Fig. 7:



⇒ In further exemplifications it is necessary the running of some code sequences, so for the message - Fig. 8:



one selects *Enable this content* through the *Options* button operation - Fig. 9:



It is possible the invalidation of the message: *Click on the Office Button, Access Options, Trust Center, Trust Center Settings ..., Macro Settings, Enable All Macros (not recommended; a potentially dangerous code can be run).*

Calculates payment for a loan based on constant payments and a constant interest rate.

**IPMT**(rate, per, nper, pv, fv, type)

Determines the payment of interest rate on a given period for an investment based on constant periodic payments and a constant interest rate.

## 2. Financial functions

Financial functions perform normal calculations for business, such as determining a loan payment, future value or current net value of an investment and bond or coupon values.

Common arguments for financial functions include:

- ✓ *Future value (fv)* - the amount of investment or loan after all payments are made.

- ✓ *Number of periods (nper)* - total number of payments or periods of an investment.

- ✓ *Present value (pv)* - the value of an investment or loan at the beginning of the investment. For example, the current value of a loan is the basic capital that is borrowed.

- ✓ *Rate (rate)*- the interest rate or discount rate for a loan or investment.

- ✓ *Type (type)* - the period in which payments are made during the period of payment, such as at the beginning of the month or at the end of it (0 or 1, implicit 0).

The most important financial functions are:

**FV**(rate, nper, pmt, pv, type)

Calculates future value of an investment based on periodic and constant payments and a constant interest rate.

**PV**(rate, nper, pmt, fv, type)

Returns the present value of an investment. Present value stands for the amount that represents in the present a range of future payments. For example, for a loan, the amount borrowed is the present value for creditors.

**NPER**(rate, pmt, pv, fv, type)

Provides the number of periods for an investment based on constant periodic payments and a constant interest rate.

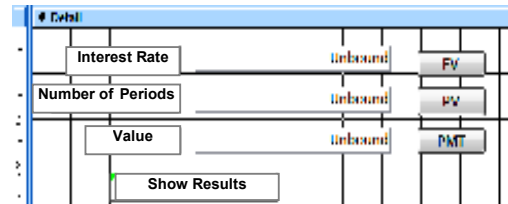
**PMT**(rate, nper, pv, fv, type)

### ↓ Example

One may define a customized form for performing financial calculations using VBA programming language


- × In the form are introduced three *TextBox* type controls, three *Button* type controls and a *Label*. Fig. 10:

Fig.



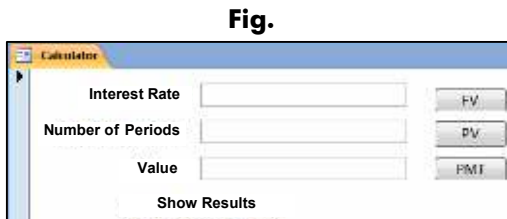
- × Controls' properties set in *Property Sheet*:

Name	Control
Interest Rate	a1
Number of Periods	a2
Value	a3
Show Results	r
bFV	
bPV	
bPMT	

\*For buttons at the *On Click* property,  the following statements are written:

```
Private Sub bFV_Click()  
r.Caption = FV(Val(a1),  
Val(a2),  
Val(a3))  
End Sub  
Private Sub bPV_Click()  
r.Caption = PV(Val(a1),  
Val(a2),  
Val(a3))  
End Sub  
Private Sub bPMT_Click()  
r.Caption = PMT(Val(a1),  
Val(a2),  
Val(a3))  
End Sub
```

\*In *Form View* the form will be displayed as follows - Fig. 11:



**Fig.**

One can enter (from the keyboard) calculating values – with point instead of decimal point as the programming language requires. Calculations are made by clicking the buttons (for example for *FV*) - Fig. 12:

**Fig. 12**



**Example** ↑

### 3. References

- [1] Emil Cosma, *VBA Visual Basic ... 2007 ... Studio 2005*, MatrixRom Publisher, Bucharest, 2007.
- [2] Emil Cosma, *Office 2007 - VBA, Excel, Access*, ExPonto Publisher, Constanta, 2008.
- [3] Paul McFedries, *VBA, Guide for beginners*, Teora Publisher, Bucharest, 2006.

# Landmarks in Ecological Economics

Cosma Sorinel  
„Ovidius” University of Constanta  
sorinelcosma@yahoo.fr

## Abstract

While numerous criticisms of economic theory and thought have been expressed over time, ecological critiques of economics are relatively new in broader discourse, becoming more prevalent in the past thirty to forty years. But ecological economics has historical roots as long and deep as any field in economics or the natural sciences, going back to at least the 17th century. Nevertheless, its immediate roots lie in work done in the 1960s and 1970s. Ecological economics as such was founded in the works of Kenneth E. Boulding, Nicholas Georgescu-Roegen, Herman Daly, Robert Costanza, and others.

**Key words:** ecological economics, Nicholas Georgescu-Roegen' theory

**JEL Classification:** Q01, Q57

## 1. Introduction

While it appears that critiques of economic thought on ecological grounds have arisen relatively recently in response to global environmental and sustainability issues, a review of historical thought back to the eighteenth century reveals otherwise. Research illustrates both economists and natural scientists discussed, debated and held different perceptions on the relationship between the human economy and the environment, particularly energy flows, in the origin of economic thought; indeed, it is argued that a body of ecological economic thought has objectively existed since the 1880s. Pre-classical, Physiocratic and early nineteenth century classical economists gave attention to the physical side of economic activity (i.e. the treatment of natural resources and

the physical assumptions of production theory), and early work also discussed issues of ecological energetics of human economies.

An abrupt change occurred in the mid-nineteenth century, as theorists in economics shifted from studying production dynamics to the adoption of the maximization model from analytical mechanics, thereby moving away from physical realities towards an analysis of exchange value. A static optimization theory resulted, concerned primarily with efficiency and equilibrium, and inputs, tastes, drives and preferences of consumers were given: material and energy resources thus disappeared from theoretical view.

## 2. The physiocrats and early classical economists

The classical model found its origins in a physiological analogy, which **Thomas Hobbes** had taken over from **Aristotle** and **Harvey**, where a model of the circulation of 'nutriments' by the blood was used as an analogy for the materials foundation of the commonwealth. While this source was forgotten, the classical model subsequently developed by **Petty, Cantillon, the French Physiocrats, Smith** and **their nineteenth century classical successors** continued to embody this materials-based approach to production and prices, embedded in physical reality where only land could produce food and materials.

The first school of economics is attributed to the **Physiocrats**, a French school of social philosophy writing in the mid-eighteenth century, a group believing in the principle that natural resources, and fertile agricultural land in particular, were the source of material wealth. Land was seen to work alongside the laborer in

production and the surplus product was considered to result solely from the contribution of land.

Although the Physiocrats never identified exactly how their belief that the rule of the universal laws of physics extended to create a natural social order, their way of thought, in regard to thinking of mechanics, was duplicated in its pattern and conception of market interactions. While the influence of the Physiocratic school peaked in the 1760s and declined rapidly thereafter, their importance in regard to ecological economics lays in attempting to base economics in physical reality, and tracing the origin of all wealth to the land.

An element introduced into economics by the **Physiocrats** which has endured until the present is their insistence of treating individuals as sovereign entities, like atoms. This perception of individuals was embedded in **Adam Smith's** work, and hides ethical issues of whether the pursuit of individual greed is in the interest of society as a whole. Such 'an atomistic view of individuals and mechanistic view of a social system contrasts sharply with the more organic, or ecological, view that community relations define who people are, affect what they want, facilitate collective action, and have a historical continuity of their own'.

This suggests a divergence in regard to humans as a larger part of the ecosystem from the origins of economic thought.

### 3. The classical approach

Such ideas are carried through in the subsequent development of the classical approach, whose starting point was a theory of production. The capital stock, following Smith, was divided into two broad, physically complementary categories: fixed capital, consisting of machines and structures, and circulating capital, including food, fodder, raw materials, working finance and so forth. Essentially, it was explicitly noted that there was no production without appropriate tools, materials, food and fodder, and a crucial distinction was made between land and

industrial machinery. Subsequent theorists continued such ideas: Malthus (1815) argued that only 'the machinery of the land' could produce food and raw materials, and Ricardo (1817) similarly wrote of the 'original and indestructible powers of the soil'.

Classical economists, explicitly expressed by **John Stuart Mill**, saw a temporary phase of growth that must culminate in a new steady-state economy, recognizing that the laws 'governing' the economic system change as the system changes. In essence, the Classical school held a dynamic and steady-state conception of the economy which was consistent with the natural world. **John Stuart Mill** hypothesized that the „stationary state” of an economy might be something that could be considered desirable, anticipating later insights of modern ecological economists, without having had their experience of the social and ecological costs of the dramatic post-World War II industrial expansion.

The Earth's carrying capacity is a question that was first examined by **Thomas Malthus**, and more recently in an MIT study entitled *Limits to Growth* (1972). Although the predictions of **Malthus** have not come to pass, some limit to the Earth's ability to support life are acknowledged.

The models of **Malthus**, who expressed concerns over population, and **Ricardo** led to economics being called the 'dismal science', as the carrying capacity limits in Malthus's model and the lower quality of the next available resources in the Ricardian model conflicted with the beliefs in progress so prevalent during the nineteenth century.

### 4. The emergence of neoclassical theory

**Neoclassical economics** lacks any representation of the materials, energy sources, physical structures and time-dependent processes that are basic to an ecological approach, and is inconsistent with the physical connectivity and positive-feedback dynamics of energy and information systems. The essential

problems is due to the fact that modern economic theories have neglected the implications of basic physical principles governing material and energy use for an economic theory of production, for the operation of a production-based price system, for macroeconomic (disequilibrium) dynamics and for longer run growth processes and prospects.

This negligence undermines the long-term perspective, steady-state and planetary scale-focus of ecological economic thought, and points in essence to the divergence in paradigms between conventional and ecological economics.

**Walras**, in his *Elements of Pure Economics*, undertook to do for economics what Newton had done two centuries earlier for celestial mechanics, a view with which **Jevons** agreed, with his preoccupation over the mechanics of utility and self-interest. Thus a wholesale shift occurred from a production and growth approach to a static analysis of an exchange economy, with a rejection of the classical cost-of-production theory of value and a new formulation centered around scarcity and diminishing marginal utility.

The mechanistic reduction began as **Jevons** took the approach of defining fixed capital as a version of circulating capital, thereby eliminating materials, fuels and fixed capital as direct inputs in production. This is surprising when one considers his recognition of the critical importance of energy and coal reserves in *The Coal Question* (1865), and discussion of concepts of sustainability: other countries lived on the annual regular income from harvest, but Britain lived on capital, 'a capital which would not yield interest because once it was turned into heat, light and power, it disappeared forever into space'.

In relation to **Jevons'** disregard of such issues in his formulation of neoclassical theory, the marginalist program appears to have created a conceptual blindness in a scientist who well understood the physical significance of energy in production activity.

**Menger** and **Walras** were also influential in the further elimination of raw

materials from production, where the latter made the fundamental step of arguing the independent contribution of individual inputs to output: just as a field will grow us a crop year after year, so machines, instruments, tools...engender incomes in the same way. **Walras** eliminated raw materials by vertically aggregating production into an instantaneous one-stage transformation of original factors into final output. Items of fixed capital are assumed to yield flows of producer and consumer goods, yet he did not appear to question how a machine produces physical flows of output independent of material feedstocks and the energy required to do work

Neoclassical theorists' neglect of time, raw materials, energy carriers and complementarity in production sets the stage for such formulations in the 1890s: **Wicksteed** assumes the existence of variable proportions in the short run, which is then extended to the long run to provide a general theory of substitutability between inputs. Such ideas are advanced without any discussion of relevant physical features of production activity.

The emergence of the sub-branch of **environmental economics** during the middle and latter part of the twentieth century continued within this neoclassical framework, i.e. with theorists such as **Pigou** and **Hotelling**. While these theorists have contributed some tools to ecological economic analysis, i.e. environmental valuation, efficient resource use over time and so forth, their background is fundamentally neoclassical and reductionist.

## 5. Early twentieth century ecological critiques of economic theory

While the specialization of economics and formulations of pure theory intensified, the early twentieth century was concurrently characterised by a growing body of literature devoted to the analysis of the role of energy and natural resources in human affairs, and particularly in economic production. One of the first realistic studies of the carrying capacity of the earth was published by **Pfaundler**, a professor in



physics in Austria and Rector of the University of Innsbruck, in 1902. His main thesis was that the carrying capacity of the earth was not determined by the availability of materials but by the availability of free energies, since materials could be recycled due to the law of conservation of matter, and furthermore suggested that the Law of Entropy was needed in order to be able to understand the economy.

A decade later, the Austrian physicist and engineer **Popper-Lynkeus** made a fundamental contribution to **ecological economics**, presenting a significant (utopian) proposal to decrease the use of exhaustible resources in order to make the economy permanently viable, rather than increasing capital accumulation and economic growth. He drew a long, detailed portrait of the economy, and also carried out an in depth analysis on the possibility of substituting renewable energy for coal energy.

Popper-Lynkeus influenced the Vienna Circle and particularly Otto Neurath, who proposed the integration of all sciences into a 'unified science' that would include, as in an encyclopedia, all the propositions of 'universal history.

Perhaps one of the most significant contributions made to ecological critiques of economic theory in the early to mid twentieth century was the Nobel Prize winning chemist **Frederick Soddy**, whose critiques were based on a rationalist approach to economic categories. He appeared to be motivated by a conviction that looking for solutions to the human predicament was of utmost significance, and came to believe such predicaments were not located in the physical or chemical world but in human social interactions, particularly in the sphere of the economy.

**Soddy's** main idea in his critiques of economic theory was that economists were mistaking real capital for financial capital – in other words, mistaking chrematistics for economics – and took direct issue with Keynes' view on long-term growth. According to **Soddy**, real wealth came solely from the flow of energy from the sun; it was therefore a flow that could not

be saved, only spent. He believed that capital could thus not really be stored, as in reality it was energy embodied in certain objects, subject to the law of entropy. **Soddy** therefore saw the accumulation of capital as an impossibility due to the physical absurdity of mistaking the expenditure of energy for the accumulation of productive capacity: 'Plants accumulated solar energy, whereas man expended it. Coal burned was burn forever. It cannot be burned and kept in the cellar at the same time, and still less can interest continue to be accumulated on the value of burnt coal; this is precisely what happens with the economists' and entrepreneurs' so-called 'capital'. That wealth has not been saved, but spent, with a counterpart in the form of a receipt, and whose holder could go on earning interest every year on the amount of the debt: this was purely a social convention'.

**Soddy** thus believed in a science of economics that would not study the economy as regulated by the price system (which could be called the study of chrematistics), but as an analysis of the provision of the common wealth with the means of life which modern science made possible. He also saw a fatal flaw in economics as the confusion of wealth, which had a direct physical dimension, with debt, a purely imaginary mathematical quantity with no physical dimensions. Soddy wished to obtain a physical conception of wealth that would obey the physical laws of conservation. He derived a crude energy theory of value and also illustrated the existence of monetary divergences from those value principles.

It is important to note that while **Soddy** was considered one of the precursors of the technocracy movement, developed in the United States in the 1930s, his views and perceptions of the world were quite different to those of this latter group: 'Technocracy claims that by the use of the inanimate energy of Nature and by means of machines and mass production, man had become independent of his own physical exertions for his maintenance'. Soddy did not emphasise the impossibility of capital accumulation as based on lack of effective

demand, as did the technocrats, but rather the long run question of whether the increase in productive capacity which the economists attributed to investment was not a mirage.

Writing at about the same time as Soddy was the physical chemist **Alfred Lotka**, whose broad interests in chemistry, physics, biology and **economics** led to a far-reaching synthesis of these fields together with thermodynamics in his *Elements of Physical Biology* in 1925. He asserted that the goal of his research was to lay bare the 'biophysical foundations of **economics**', with energy being the fundamental underlying principle, and was the first to attempt an integration of **ecological** and economic systems in quantitative and mathematical terms.

## 6. Ecological critiques of economics: mid/late twentieth century

While many ideas were developed in the mid twentieth century regarding open-access resource management and commons institutions (i.e. Pigou, Hotelling, Hardin and others), the final critical foundations in **ecological** economic thought which heed discussion arose in response to the resource crisis and limits to growth debate in the late 1960s and early 1970s.

The ecological critique of economics experienced a minor boom a few years before 1973: **Kenneth Boulding's** *The Economics of the Coming Spaceship Earth* (1966) set the stage for **ecological economics** with its description of the transition from the 'frontier economics' of the past, where growth in human welfare implied growth in material consumption, to the 'spaceship economics' of the future, where growth in welfare can no longer be fueled by growth in material consumption. Daly (1973) further elaborated on this theme with his work on steady-state economics, building on the work of John Stuart Mill, over a century ago, where he discussed the implications of acknowledging that the Earth is materially finite and non-growing, and that the economy is a subset of this finite global

system. He explicitly indicated the logical inconsistencies between the emphasis placed on economic growth and the energy and environmental realities confronting humankind, and outlined institutions and efficiency issues that must be addressed in the move toward a steady-state economy. These two critiques on economists' perception of ecological and global systems imply a shift in what Schumpeter (1950) calls 'pre-analytic vision', where a fundamental change is suggested in the *perception* of the problems of resource allocation and how such problems should be addressed (Costanza et. Al. 1997).

## 7. The Romanian economist Nicholas Georgescu-Roegen

The Romanian economist **Nicholas Georgescu-Roegen** made significant contributions to the mathematical refinement of standard neoclassical economics during the post World War II period, yet later in life also heavily critiqued economic theory in regard to entropy and economics.

The Romanian economist **Nicholas Georgescu-Roegen** (1906-1994), who was among Daly's teachers at Vanderbilt University, provided ecological economics with a modern conceptual framework based on the material and energy flows of economic production and consumption. His *magnum opus*, *The Entropy Law and the Economic Process* (1971), has been highly influential.

**Georgescu-Roegen's** work on entropy and economics still stirs considerable controversial discussion among economists perhaps in part because it conflicts with beliefs in progress that are still strongly held by economists, and also because it does not us inform us of how quickly the transition needs to be made from stock to flow energy resources.

**Georgescu-Roegen** forcefully pointed out what he terms the 'philosophical bareness of standard economic theory': every subsequent development in thermodynamics and the physical sciences has lent additional proof of the bond between the economic process and physical

laws, yet such a view is entirely missing from standard economic theory (Cleveland 1987). He discussed the critical role of energy, described the fallacies of reducing the economic process to a self-sustained mechanical analogue and outlined the significance of second law of thermodynamics, the Entropy Law, for economic thought: 'The significant fact for the economist is that the new science of thermodynamics began as a physics of economic value and, basically, can still be regarded as such. The Entropy Law itself emerges as the most economic in nature of all natural laws. It is in the perspective of these developments in the primary science of matter that the fundamentally nonmechanistic nature of the economic process fully reveals itself' (Georgescu-Roegen 1971: 3).

He implacably stated that 'the value of the standard form of the production function as a blueprint of reality is nil' (see Georgescu-Roegen 1971: 244), and that it is therefore absurd to hold onto such theory in practical applications (Mirowski 1988). Perhaps the most significant, explicitly stated notion **Georgescu-Roegen** made clear was the inherent problem in conceptualising the economic process as a mechanical analogue: the view of an isolated, self-contained and a-historical economic process, a circular flow between production and consumption with no outlets and no inlets, is ignorant of any qualitative or quantitative change in the environment into which it is anchored (Georgescu-Roegen 1971). He emphasised the uni-directional, irreversible nature of the economic process: what goes in is valuable, low-entropy energy and matter, and what comes out is valuable goods and services plus valueless high-entropy waste heat and degraded matter (Cleveland 1987). Daly (1995) sketched the changes that would occur if one attempted to rewrite a basic economic principles text incorporating the paradigm shift expressed in *The Entropy Law and the Economic Process*. Once one introduces the concept of entropic flow, so many revisions would be required as to make the text no longer standard (Daly 1995).

## 8. Conclusion

This review has illustrated the existence of tangible theoretical roots to the discipline of **ecological economics**, from the Physiocrats and the Classics in the eighteenth century through to ecological critiques of economic thought at the end of the twentieth. Beginning with the Physiocratic conception that the ultimate source of wealth laid in the physical world, expressed in the productivity of agricultural land, the early classical writers carried through such ideas in the first theories of production. This latter school held a dynamic and ultimately steady-state conception of the economy; the economy was naturally situated in time, with decisions to consume today analysed in the light of their consequences for the future (Foley 1989), an idea consistent with natural world phenomena.

Concurrent to the ecologically based critique of economics, neoclassical theory began to emerge with a new vision based on analytical mechanics; the physical approach to production, capital goods and manufacturing as a materials-processing activity thus disappeared. A wholesale shift occurred from a dynamic production and growth approach to a static analysis of an exchange economy. The neglect of time, raw materials, energy carriers and complementarity in production paved the way for such formulations in the 1890s, and economics continued to increasingly become pure and mathematised in nature. Furthermore, the neoclassical vision was reinforced as professionalisation, specialisation and immanent standards in the sciences intensified, and the disciplinary nature of university departments reduced cross-discipline communication.

Economics witnessed a growing isolation from its natural resource component and the natural sciences, and a homogenisation of these elements.

Ecological critiques of economic thought continued in the early to mid twentieth century with Pflaunder, Popper-Lynkeus, Soddy and Lotka. These theorists

recognised and proposed ideas such as: calculations for the carrying capacity of the earth; a utopian vision of a sustainable economy; the problems of mistaking chresmetics for economics and the integration of ecological and economic systems in quantitative and mathematical terms respectively. The concepts presented by Boulding, Daly and Georgescu-Roegen, among others, along with the increasing recognition of global environmental problems and sustainability issues, served to push the emergence of the discipline of ecological economics in the past thirty years.

## 9. References

- [1] J. A. Schumpeter, "Histoire de l'analyse economique", Gallimard, Paris, 1983
- [2] S. Treillet, "L'economie du developpement", Armand Colin, Paris, 2008
- [3] A. Rogoianu, "Stăpânii ideilor economice", Editura Economică, București, 2009
- [4] J.C. Drăgan, M.C. Demetrescu "Economistul mileniului III. Nicholas Georgescu-Roegen-profetul arhitect al noii gândiri", Editura Europa Nova, București, 1994
- [5] I. Dăduianu-Vasilescu, "Scurtă istorie a ideilor economice", Editura Matrix Rom, București, 2005 și 2007.

# Smart Grid Technology

Cosma Sorinel  
„Ovidius” University of Constanta  
[sorinelcosma@yahoo.fr](mailto:sorinelcosma@yahoo.fr)

## Abstract

The largest interconnected machine on Earth, the century-old power grid is so massively complex and inextricably linked to human involvement and endeavor that it has been called an ecosystem.

To meet sustainability requirements, the electric industry is poised to make the transformation from a centralized, producer-controlled network to one that is less centralized and more consumer-interactive. This move promises to change the industry's entire business model and its relationship with all stakeholders, involving and affecting utilities, regulators, energy service providers, technology and automation vendors and all consumers of electric power.

Efficient transmission and distribution of electricity is a fundamental requirement for providing citizens, societies and economies with essential energy resources.

In the short term, a smarter grid will indeed function more efficiently, enabling it to deliver the level of service we have come to expect more affordably in an era of rising costs, while also offering considerable societal benefits – such as less impact on our environment. In the longer term, we should expect the Smart Grid to spur the kind of transformation that the internet has already brought to the way we live, work, play and learn. And certain veteran observers within the technology space maintain that the Smart Grids represent an opportunity to technology providers larger than the internet.

Given new awareness, understanding, tools and education made possible by a smarter grid, all consumers will be able to make choices that save money, enhance personal convenience, improve the environment – or all three.

**Key words:** efficiency, energy, smart grid,

**JEL Classification:** O13

## 1. Definition and structure

There is no fixed definition for a Smart Grid. It is perceived as a highly automated and interconnected intelligent electricity delivery system through which energy suppliers and consumers are interconnected in a bi-directional information network. It involves implementing a network that parallels the electrical one and transitioning from a commodity broadcast delivery to a two way information highway. To address these challenges, the industry has to accelerate adoption of information technologies.

A Smart Grid delivers electricity from suppliers to consumers using two-way digital technology to control appliances at consumers' homes to save energy, reduce cost and increase reliability and transparency. It overlays the electricity distribution grid with an information and net metering system.

Such a modernized electricity network is being promoted by many governments as a way of addressing energy independence, global warming and emergency resilience issues.

Businesses and homes begin generating more wind and solar electricity, enabling them to sell surplus energy back to their utilities.

Islanding is the ability of distributed generation to continue to generate power even when power from a utility is absent. Combining distributed resources of every description – rooftop PV (solar), fuel cells, electric

Vehicles – the community can generate sufficient electricity meet their essential

needs in case of an event that can isolate the community or the region, such as an unusually strong storm.

Smart Grid infrastructure consists of electronic meters at each residence and business, an information network to carry data from the meters to the utilities in near real-time and to bring information on the instantaneous price of electricity back to consumers; gadgets which help us automatically adjust our electrical use to prices in whatever way we want to do that; and lots of electronics and other devices in the electrical grid itself, which let the grid use the information on usage to adjust transmission and supply and accommodate the varying output from alternative energy sources.

## 2. Future electricity markets

The liberalization of electricity markets is an important factor to take into account. It affects the business framework of companies in a fundamental way and, when implemented well, it can bring the benefits of competition, choice and incentives for an efficient development. The change might be better described as a revision of the traditional monopoly-based regulation of electricity supply. It has been accompanied by a trend towards an open market in power, meaning free choice of power supplier by electricity consumers. In addition, liberalization has separated the responsibility for the secure transmission and distribution operation from the electricity generation business.

Liberalization is not the only challenge for how networks will evolve in the future. The organization of the network in the future will be affected by the dynamics of energy markets. Scarcity of primary energy sources on one hand and climate change on the other is likely to greatly affect decisions on new investments in generation. It is not so much the case of playing central versus distributed solutions, but much more to take advantage of a wide energy technology portfolio and the coexistence of many possible solutions.

The costs and prices of electricity will suffer alterations.

To reduce demand during the high cost peak usage periods, communications and metering technologies inform smart devices in the home and business when energy demand is high and track how much electricity is used and when it is used. To motivate them to cut back use and perform what is called peak curtailment or peak leveling, prices of electricity are increased during high demand periods, and decreased during low demand periods. It is thought that consumers and businesses will tend to consume less during high demand periods if it is possible for consumers and consumer devices to be aware of the high price premium for using electricity at peak periods, this could mean cooking dinner at 9pm instead of 5pm. When businesses and consumers see a direct economic benefit of not having to pay double for the same energy use to become more energy efficient, the theory is that they will include energy cost of operation into their consumer device and building construction decisions.

Supporters of renewable energy favor Smart Grids, because most renewable energy sources are intermittent in nature, depending on natural phenomena (the sun and the wind) to generate power. Thus, any type of power infrastructure using a significant portion of intermittent renewable energy resources must have means of effectively reducing electrical demand by „load shedding” in the event that the natural phenomena necessary to generate power do not occur. By increasing electricity prices exactly when the desired natural phenomena are not present, consumers will, in theory, decrease consumption. However this means prices are unpredictable and literally vary with the weather, at least to the distribution utility.

The price could be changing in seconds and electric equipment is given methods to react on that.

As customers can choose their electricity suppliers, depending on their different tariff methods, the focus of transportation costs will be increased. Reduction of maintenance and replacements costs will stimulate more advanced control.

A Smart Grid precisely limits electrical power down to the residential level, network small-scale distributed energy generation and storage devices, communicate information on operating status and needs, collect information on prices and grid conditions, and move the grid beyond central control to a collaborative network

Real-time pricing is a central concept of this new grid. These are energy prices that are set for a specific time period on an advance or forward basis and which may change according to price changes in the market. Prices paid for energy consumed during these periods are typically established and known to consumers a day ahead (“day-ahead pricing”) or an hour ahead (“hour-ahead pricing”) in advance of such consumption, allowing them to vary their demand and usage in response to such prices and manage their energy costs by shifting usage to a lower cost period, or reducing consumption overall.

### **3. Costs and benefits of Smart Grids**

While much has been written about the potential benefits of the smart grid, less has been written about its costs. It is difficult to find studies that quantify the benefits and costs because they can be computed only on a utility by utility basis. One way of looking at benefits is to calculate them as avoided costs of new generation, transmission and distribution.

Undoubtedly, smart grid technologies do come at a cost, representing significant investments. Greater investments are being made in regions of the country that have high electricity costs, are thermal power based, have peak energy challenges, and have deregulated retail markets. These regions have more incentive to invest in smart grid technologies that help them identify system inefficiencies and manage daily peak demand. For all their promise, however, smart grid technologies have not been fully implemented anywhere. Utility analysis shows that nearly all utilities will save enough in avoided costs with a comprehensive smart grid deployment to at least cover smart grid development and

deployment costs; however, many utilities barely break even.

Transformation of the current grid into a Smart Grid is a vision to make it more reliable, more secure, more economic, more efficient, more environmental friendly and more safer. These values could be realized through the applications of digital technologies including sensors, communication links, computing technologies and controls. It will allow for active participation of the customers, accommodate all generation resources and storage, provide for power quality, anticipate and responds to possibilities of blackouts, manage and utilize physical assets efficiently.

The implementation of a Smart Grid provides direct benefits to the end consumers of the electricity. However, these types of benefits accrue to society in general and are not just limited to the end consumers. Therefore, it is important to make a distinction between “consumer” benefits and “third party societal benefits”. An example of a consumer benefit would be the economic loss a consumer can prevent with better outage management provided by the Smart Grid. In other words, outages may cause consumers to dispose of food in the refrigerator because it gets spoiled due to the electricity outage. If a Smart Grid helps in reducing the frequency and/or duration of the outage, then the avoided economic loss (food costs in this example) is termed as a consumer benefit of the Smart Grid. By comparison, an example of a “third party societal benefit” would be a decrease in environmental degradation because of better electric demand management that results from a Smart Grid. Note that the societal benefits impact everybody regardless of whether an entity is a direct customer of the utility.

Smart Grids provide the infrastructure to facilitate load reduction and demand management programs. Each participating customer in this program creates a positive consumption externality that helps in reducing peak loads coincident with the utility’s system peak. Utilities can take advantage of this condition to displace

generating units' run-time, thereby decreasing the amount of pollutants discharged by peaking units. In addition, by automating certain field operations, manual field trips can be avoided, further reducing tailpipe emissions associated with these vehicular trips. Of course, reductions of pollutants have many other benefits that include health benefits and reduced cost.

Benefits that accrue from enabling the efficient and flexible connection of distributed energy resources (DER) devices to lower voltage distribution grids. DER devices include renewable energy (low or zero carbon impact) generation such as wind and photo-voltaic cells and also bulk electricity storage devices that are now becoming available. DER devices break the pattern of 'economy of scale' that for 50 years has led to generation connections migrating to central power plants connected to high-voltage transmission grids. Many DER sources are of a scale that makes it economic to connect to distribution grids directly at the distribution voltage level, provided that the existing grids are upgraded to Smart Grids to accept these energy infeeds, collect intelligent information, and handle their variability. The challenge to traditional grid design is most evident where it needs to accommodate microgeneration with its power quality and revenue metering challenges. This aspect is likely to be a key determinant for governments in which carbon reduction targets have been set. Conversely, traditional grids are potentially a significant barrier to achieving such targets if they are not converted to smart operation.

Benefits that accrue from enabling large-scale DER devices (such as off-shore wind farms, marine energy, and storage systems) to connect and operate efficiently and securely. Large scale DER may connect to transmission grids, but in many circumstances it may be economically and technically attractive to connect them to grids located in coastal areas. This, however, places a new duty on distribution grids, requiring them to operate more like transmission systems with new requirements for power flow control,

voltage management, and automatic control actions. Smart Grids architectures and technology solutions are likely to be important enablers here.

Benefits that accrue from enabling plug-in electric vehicles. A Smart Grid infrastructure will be required to support a fully operational practical implementation of plug-in electric vehicles in the near future. Most of these initiatives are presently in the "concept stage" but many automobile companies are becoming increasingly aggressive in their development activities. The principal idea behind plug-in vehicles is to view an automobile as an electric appliance. To make the concept of plug-in vehicles a pervasive, commercially viable, and operationally practical, requires the development of effective markets and a broader access to these vehicles. At this point, the anticipated benefits are plug-in vehicles are enormous, especially when the reduction oil consumption, decreased dependence of foreign oil, and the ensuing national security concerns and environmental ramifications are included in the equation.

The ancillary services hold the potential for storing power and selling it back to the grid when the grid requires it. Enabled by new technologies, plug-in hybrid vehicles are currently scheduled for showroom floors by 2010.

Assuming customer acceptance regarding price, performance and longevity, these vehicles offer consumers the opportunity to shift use of oil and gasoline to electricity – and to power a car for the equivalent of \$.90 per gallon. (As inefficient as the grid is today, it is cleaner on balance than oil and gasoline.) Consumers get far more affordable transportation. Relying more on electricity for transportation and less on fossil fuels increases our energy independence as well as our environmental prospects. PHEVs take advantage of lower cost and off-peak capacity and can provide grid support during the peak periods.

The above benefits provide a sense of the type of societal benefits that are possible in a Smart Grid program. In



addition to these above benefits, there are other, not-so-easily quantifiable benefits. These include benefits like social perception of the utility and the goodwill created in the marketplace. This not only can serve as source of competitive advantage with other utilities, but also impacts seeking corporate funding in equity and credit markets. Typically such benefits create a “bandwagon” effect in the industry that forces other utilities to undertake programs that also create significant economic welfare for the society.

#### 4. Conclusion

Smart Grid benefits to consumers are lower overall rates and the chance to use very cheap way off-peak electricity for charging electric vehicles and appliances, generating and storing heat for later use, and adjustable activities like clothes washing and drying. Businesses have even greater opportunity to reduce energy costs. The benefits for the economy are less money spent on fossil fuel and a better return on alternative energy investments. The benefit for the environment is less use of fossil fuel to generate electricity. Smart Grid deployment is a key tool in addressing the challenges of climate change, ultimately

and significantly reducing greenhouse gases and criteria pollutants. Smart grids are able to accommodate renewable energies. Smart grids are not only interesting from the point of view of renewables. They also offer a way for households to better control their electricity bill thanks to individual metering devices. So there are lots of winners. But above all, developing Smart Grid technology has become an urgent global priority as its economic, environmental, and societal benefit will be enjoyed by generations to come in the spirit of sustainable development.

#### 5. References

- [1] \*\*\* N. Georgescu-Roegen, “Opere complete vol. VI: Energia, resursele naturale și teoria economică”, Editura Expert, București 2006 și 2008
- [2] L. R. Brown (coord.), “Starea lumii 1999”, Editura Tehnică, București, 1999
- [3] E. U. Von Weizsacker, A. B. Lovins, L. H. Lovins, “Factor patru. Dublarea prosperității prin înjumătățirea consumului de resurse”, Editura Tehnică, București, 1998
- [4] C. Flavin, N. Lenssen, “Valul energetic. Ghid pentru iminenta revoluție energetică”, Editura Tehnică, București, 1996
- [5] <http://www.smartgrids.eu>

## Aspects Referring to Utility and Risk of Investments Decision Systems

Despa Radu,  
Folcuț Ovidiu  
Coculescu Cristina

*Romanian-American University, Bucharest*

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

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

[cristina\\_coculescu@yahoo.com](mailto:cristina_coculescu@yahoo.com)

### Abstract

The explanation of investment behaviour in the light of expected utility it meant an important step in the substantiation of the theory regarding investment portofolio. It was demonstrated that the linear form of utility function excludes certain decisive decisions (Allais's paradox), so that in a short period of time from Neumann-Morgenstein's hypotheses specialists' attention directed to finding a utility function that would explain as well as possible the relationship with the risk in investment behaviour. The most important contributions on this issue are more recent, from 1980: The hypotheses of „expected diminished utility” of MacCrimmon (1979) and Machina(1982), the hypotheses of „ non-linear expected utility” of John Quiggin (1993), the hypotheses of „ conditional expected utility”, sustained by Chew, Karni si Safra in 1987, the hypotheses of „non-additivity expected utility” of Fishburn (1988) or the hypotheses of „expected utility based on investment behaviour”, brought by Machina (1988).

**Keywords:** investment behaviour, expected utility, risk, investors' preference axiom

**JEL Classification:** D03, D81, D92, G11

### 1. Introduction

At present, the notion of risk seems to be synonymous to that of activity. Although omnipresent in the business environment and not only, risk is often relatively difficult to

detect or anticipate. The events that may affect the income and subsequent performances of investment are so numerous and varied, that their identification is a challenge even for the most experienced investors, since future remains unknown to a great extent. Many business decisions are made starting from future forecasts. Making a good decision bas don estimates, presumptions, expectations, forecasts of future events involves a reasonable amount of risk, sometimes quite difficult to define and, in most cases, impossible to quantify with accuracy, given the abstract nature of the concept with uncertain outcomes or consequences [1].

Generally, the concept is used to describe situations or events with uncertain outcomes or consequences. In fields such as statistics, financial and investment management, risk, as a notion, sends to the possibility and probability of a result variations as to the initially estimated values or levels.

### 2. Traditional approaches to risk and usefulness

Risk and its consequences have been the preoccupations of economists, mathematicians, engineers in all economic fields. Interesting definitions and approaches were given to it by significant analysts, especially in the second half of last century. For such approaches ad studies, Nobel (Markowitz, Sharpe) prizes have been awarded or theories that meant a revolution to investment management were discovered.

An important step forward in the traditional risk theory was performed by Morgenstern and Neumann (theory of expected usefulness - 1944). They approached risk from a different perspective than Knight's, for example, based on the ability to associate relevant probabilities of a sequence of events [2].

The starting point in Morgenstern and Neumann's design of a new vision on risk in economic decision-making was the "expected usefulness hypothesis" issued by Daniel Bernoulli as a solution to the famous St. Petersburg paradox (Nicholas Bernoulli in 1713). The St. Petersburg paradox started from the idea accepted up to that moment that the investment decision and the behaviour of market operators are directly linked to the expected profit. The paradox proposed the following situation: a game in which a coin was used for which an amount of money was paid to the players the moment the coin indicates one of its facets. Which would be the maximum amount an operator was willing to pay for such a game?

Taking into account that at the moment  $n$  the coin indicated one side (the one side that the player chose initially), the expected profit is calculated using the formula  $1/2^n$  - the probability that at the  $n$  moment the coin indicate the initially chosen side,  $2^n$  - the paid sum if at the  $n$  moment the coin should have fallen on the initially chosen side):

$$E(r) = \sum_{n=1}^{\infty} \frac{1}{2^n} \times 2^n = \left[ \frac{1}{2} \times 2 + \frac{1}{4} \times 4 + \frac{1}{8} \times 8 + \dots + \frac{1}{2^n} \times 2^n \right]_{n \rightarrow \infty} = \quad (1)$$

$$[1+1+1+\dots]_{n \rightarrow \infty} = \infty$$

The Paradox lies in the fact that such a game generated an expected and infinite profit and, consequently, the sum of money the players wanted to invest was infinite. The solution forwarded by Bernoulli to solve this paradox was based on 2 ideas which practically revolutionized the theory of the investment decision:

- the utility of a revenue/income  $u(w)$  as the result of the investment does not rise in

direct proportion with the  $w$  income. In this case  $u'(w) > 0$  and  $u''(w) < 0$ .

- the sum that an operator wants to invest does not depend on the expected profit (productivity), but on the expected utility. Mentioning again the formula of the expected profit, this is the result [3]:

$$E(r) = \sum_{n=1}^{\infty} \frac{1}{2^n} \times u(2^n) = \left[ \frac{1}{2} \times u(2) + \frac{1}{4} \times u(4) + \frac{1}{8} \times u(8) + \dots + \frac{1}{2^n} \times u(2^n) \right]_{n \rightarrow \infty} < \infty \quad (2)$$

where:  $u'(w) > 0$  and  $u''(w) < 0$ .

In these circumstances, the expected profit from an investment has a finite value (its utility does not depend directly on the income, even more, it goes down in comparison with a factor of variation  $\alpha$ ). In the original form of Bernoulli's hypothesis, this one used a logarithmic function of utility:

$$u(w) = \alpha \log(w),$$

later demonstrating that this situation characterizes the investors who don't like taking risks. To sum up, the expected profit proposed by Bernoulli as solution to St. Petersburg paradox, has the following form:

$$E(u | p, X) = \sum_x p(x)u(x) \quad (3)$$

where:  $X$  - does not represent a set of variants of profit,  $p(x)$  - the probability of getting those profits and  $u(x)$  - the utility of the  $x$  profits.

Bernoulli's hypothesis has revolutionized the area of the investment decision in risky situations, offering a new perspective with the solution that he forwarded to an apparently paradoxical problem. This new approach has led the way to the modern theory of the portfolio, the expected utility being more relevant for the investment decision than the estimated profit.

### 3. The theory of the expected utility Neumann-Morgenstern

The new theory in the domain of financial investments of high risk was based not on the capacity of association of some relevant probabilities to a decisional situation but on the expected utility of the gains generated by the investment [4]. This approach makes reference to Bernoulli's hypothesis, the contribution brought by Neumann and Morgenstern dealing mainly with the lottery axiom and the axiom of the operators' preferences towards different investments which offer aleatory ways of gains.

#### The axiom of the composed lottery

Any alternative of investment generates with a certain probability  $p$  a gain  $x$ .

We note by  $X$  the set of gain variants  $x_i$  obtained using a probability  $p(x_i)$  (where  $\sum p(x_i)=1$  and  $p(x_i) \geq 0$  for  $i=1, \dots, n$ ) and  $\Delta(X)$  a set of simple probabilities of  $X$ , we call *lottery* a point  $p$  within this set  $\Delta(X)$ .

A first captious problem connected with the lottery concept refers to what the specialists call composed lotteries. Neumann proved for the first time that such a lottery can be separated into a sum of simple lotteries. Let us assume the following example: a lottery composed  $r$  which provides a 50% probability gain to the lottery  $p$  and a 50% probability gain to the lottery  $q$ . The lottery  $p$  provides the players the following gain sets:  $(x_1, x_2, x_3)=(0, 1, 2)$  with probabilities  $(p_1, p_2, p_3)=(0.5, 0.3, 0.2)$  and the lottery  $q$  provides the players the gain sets of:  $(y_1, y_2)=(2,3)$  with the probabilities  $(q_1, q_2)=(0.6, 0.4)$ .

Generalizing the example above, a composed lottery is a set of  $K$  simple lotteries  $\{p_k\}_{k=1}^k$ , connected between them through probabilities  $\{\alpha_k\}_{k=1}^k$ , to each simple lottery  $p_k$  a  $\alpha_k$  probability corresponds [5].

Such a composed  $q$  lottery, formed as  $q = \alpha_1 p_1 + \alpha_2 p_2 + \dots + \alpha_k p_k$ , can be reduced to a "simple" lottery, formed as:  $q(x_i) = \alpha_1 p_1(x_i) + \alpha_2 p_2(x_i) + \dots + \alpha_k p_k(x_i)$ . From the equation of the composed  $q$  lottery the sum of the

probabilities of the gain variants  $p_1, p_2, \dots, p_k$  provided by the simple lotteries is equal to:

$$S = \alpha_1 \sum a_i + \alpha_2 \sum b_i + \alpha_3 \sum c_i + \dots = \alpha_1 + \alpha_2 + \alpha_3 + \dots = 1^3$$

This is a simple lottery because:

$$\left\{ \begin{array}{l} p_1(x_i) = \sum a_i p_i \text{ (unde } \sum a_i = 1); \\ p_2(x_i) = \sum b_i p_i \text{ (unde } \sum b_i = 1); \\ \dots \\ p_k(x_i) = \sum k_i p_i^{(k)} \text{ (unde } \sum k_i = 1); \end{array} \right. \Downarrow$$

$$q(x_i) = \alpha_1 p_1(x_i) + \alpha_2 p_2(x_i) + \dots + \alpha_k p_k(x_i) = \alpha_1 \sum a_i p_i + \alpha_2 \sum b_i p_i + \dots + \alpha_k \sum k_i p_i^{(k)}. (\#)$$

From this example we get to the following axiom:

*If  $\Delta(X)$  is a set of simple lotteries  $X$ , any compound lottery  $r = \alpha p + (1-\alpha)q$ , where  $\alpha \in (0,1)$  belongs to  $\Delta(X)$  (can be reduced to a simple lottery).*

According to the two, the probabilities associated with the different variants of winning are considered "objective", i.e. they are determined exclusively by exogenous factors (the economic operators had no significant influence). *The only role played by the operators who were working in an uncertain environment was to choose the winning possibility (lottery) that offered a better option of winning from all the winning possibilities.* Morgenstern and Neumann explained the different options for a "lottery" coming from economic operators by associating a utility function  $U_i$  with every lottery  $p$  in  $\Delta(X)$ . Like Bernoulli, the two believed that winning itself was not taken into consideration when operators chose one "lottery" over the other (proceeding from the utility associated with this "game). For example, if operators were to choose between winning \$10 and \$20, they would most certainly choose the second option. If they were to choose between two "lotteries", one giving them the possibility to win \$10, with

probability 20%, respectively \$20, with probability 80%, and another one giving them the chance of winning \$10, with probability 40%, respectively \$20 with probability 60%, operators would obviously choose the first placement variant. Preferring one “lottery” or another doesn’t aim for profit, but for its distribution probability. *In this case, the utility function is not associated with the profit from placement variants (Bernoulli), but with the profit determined by means of distribution probabilities.* This new approach resulted in a better understanding of investors’ behavior with respect to different placement variants [6].

### Investors’ Preference Axiom

$F \succeq \text{pref}$  is a binary relation defined on  $\Delta(X) \times \Delta(X)$ , which helps us explain the preference for a lottery  $p$  in  $\Delta(X)$  over a lottery  $q$  such that:  $p \succeq \text{pref } q$ . If  $p \succ \text{pref } q$  and  $q \succ \text{pref } p$ , then  $p \sim \text{pref } q$  (the two lotteries are equivalent). For such a binary relation that defines investors’ preference for a lottery or the other, there are the following axioms (the investors’ preference axiom) [3]:

**A.1.** The complementarity of investors’ preference: if  $p \succ \text{pref } q$ , then  $q \succ \text{pref } p$  for any “lottery”  $p, q \in \Delta(X)$ .

**A.2.** The transitivity of investors’ preference: if  $p \succ \text{pref } q$ , and  $q \succ \text{pref } r$ , then  $p \succ \text{pref } r$  for all the “lotteries”  $p, q, r \in \Delta(X)$ .

**A.3.** Archimedes’ Axiom: if  $p, q, r \in \Delta(X)$  such that  $p \succ \text{pref } q \succ \text{pref } r$ , there is an  $\alpha, \beta \in \Delta(0,1)$  such that  $\alpha p + (1-\alpha)r \succ \text{pref } q$  and  $q \succ \text{pref } \beta p + (1-\beta)r$ .

**A.4.** The axiom of the independence in investors’ preference: for any lottery  $p, q, r \in \Delta(X)$  and any  $\alpha \in [0,1]$ , then  $p \succ \text{pref } q$  iff  $\alpha p + (1-\alpha)r \succ \text{pref } \alpha q + (1-\alpha)r$ .

The axiom of Archimedes is also known as the axiom of continuity in investors’ preference. This axiom proves that if a lottery  $p$  is preferred over a lottery  $q$  that is in its turn preferred over a lottery  $r$ , then the most preferred lottery ( $p$ ) may be combined with the least preferred lottery ( $r$ ) by means of a variable  $\alpha \in (0,1)$  such that the compound lottery  $\alpha p + (1-\alpha)r$  is preferred over lottery  $q$ . Nevertheless, there is a  $\beta \in (0,1)$  for which investors prefer lottery  $q$  over the compound lottery  $\beta p + (1-\beta)r$ .

The independence axiom is a little more complex and proves that the preference between two lotteries  $p$  and  $q$  is not altered if both lotteries are combined with a third lottery  $r$  to the same extent. This axiom precedes a series of theories regarding the choice between two pairs of lotteries [7].

These axioms, as presented, had not been entirely completed by Neumann and Morgenstern, a significant role being played later (especially with regard to the axiom of independence) by I.N. Herstein and J. Milnor (1953), N.E. Jensen (1967) or Peter C. Fishburn (1970-1988). The axiomatization regarding the investors’ preference for a certain earning form represents, beyond doubt, an important step in what concerns the portfolio choice.

### 4. Conclusions

Beyond doubt, the implementation of the expected usefulness of the profits granted by a title portfolio (regardless of its location) within the investment decision equation represents a step further in understanding the investment behavior and the functional mechanisms of the financial markets. Taking into account only the profit, without considering its usefulness for the person interested in investing in the financial markets, has proved to be an incomplete and insufficient hypothesis in terms of investment decision.

The meaning given by Neumann and Morgenstern to the conceptualization of the investment decision in conditions of risk and uncertainty has proved to be a good one, with a few exceptions and adjustments. The psychological and behavioral features subsequently associated to probabilities (deemed as partially objective) have completed and added new perspectives to the investment theory. Unanimously accepting the idea that the expected usefulness is important for the investment decision, the experts’ subsequent efforts have focused on finding new forms for the usefulness function, which would explain better the behavior of the people making decisions when facing the risks undertaken.

In conclusion, drafting a set of realist alternatives regarding the risk decrease and control depends, mainly, on a comprehensive and thorough analysis, and on the behavior of the person making the decision, of the people involved in the business' fulfillment on the decision-making level. Although, they require a large amount of time and a systematic procedure, the risks' identification and quantification are highly useful.

## 5. References

- [1]. N.Allais, J.Hagen, „*Expected Utility Hypothesis and the Allais Paradox*”, 1979;
- [2]. W. Baumol , „*The Cardinal Utility which is Ordinal*”, Economic Journal, 1958;
- [3]. J.M. Dalton, „*How the Stock Market Works*”, New York Institute of Finance Corp.”, 1999;
- [4]. P. Fishburn, “*Utility theory for decision making*”, 1970;
- [5]. J. Marschak – “*Rational Behavior, Uncertain Prospects and Measurable Utility*”, *Econometrica*, 1950;
- [6]. M.J. Machina „*Choice under Uncertainty: Problems solved and unsolved*”, *Journal of Economic Perspectives*, 1987, Vol. 1;
- [7]. M.J. Machina, „*Expected Utility. Analysis without the Independence Axiom*”, *Econometrica*, 1981, Vol. 50.

# The Competitiveness of the Romanian Tourism within the European Market

Dodu Silvia Patricia  
Patrichi Ioana Crsitiana  
*Romanian-American University, Bucharest*  
[patricia\\_dodu@yahoo.com](mailto:patricia_dodu@yahoo.com)  
[ioanapatrichi@yahoo.com](mailto:ioanapatrichi@yahoo.com)

## Abstract

Within the context of the globalization of the social-economic life, tourism becomes a factor promoting a country's national identity and its unique position within the marketplace, competing against all the other countries that are marketing their own natural and cultural strengths in an attempt to attract domestic, regional, and international travelers. The market conditions are expected to become even more competitive, as more and more tourism destinations will be added to the global travel map, resulting in significant changes to today's national and international flows of tourists and resources. Therefore, it is imperative that Romania establish clear social-economic development goals that rely on tourism as a key sector that can contribute to its efforts to build a modern and prosperous image among the European countries and civilizations.

**Key word:**tourism, market, competitiveness

**JEL Classification:** L83

## 1. Introduction

Like the majority of the economic sectors in 1989, tourism was deeply impacted by the realities of the communist regime, being improperly managed and misaligned with the market requirements and expectations. Its target markets were mainly consisting of the Eastern block countries, as well as domestic tourists – who, unable to travel abroad – were providing sufficient levels of demand for the then-available tourism infrastructure. The development of the mass tourism in the '80s led to the significant issues observed during the transition to the

market economy: low quality of facilities and services, concentration of most hotels in a limited number of high-potential destinations filled with massive, aesthetically unattractive tourist structures, crowded destinations, with architecture styles, dining hall-like restaurants, totally disconnected from the requirements of the tourism international markets.

Major investments in tourism and tourism structures were made in the '60s, especially on the Black Sea seaside, followed by another wave of investments in the 1970-1985 timeframe, when tourism was considered a vital economic sector and a key source of foreign currency; however, the development efforts lacked a well-established strategy, correlated with the trends in the international tourism & travel markets. This approach generated a legacy of rich resources that – despite its obvious shortcomings – could have become a valuable launching pad for a new and competitive Romanian tourism.

The political instability of the '90s, the lack of decisive actions and strategic development strategies, combined with the serious legislative and managerial errors and mistakes, were the main factors that led to the failure of this economic sector.

During the very same period, other ex-communist countries such as Hungary, Poland and the Czech Republic quickly recognized that tourism is a key component of the new economic reality and they subsequently granted it the attention required, turning it into a highly functional and productive sector.

## 2. Tourism Competitiveness Index

Currently, Romania is ranked no. 66 out of 133 countries (second-lowest ranking among

the ex communist countries) based on the Travel & Tourism Competitiveness Index published by the World Economic Forum in 2009, a counter performance that illustrates the inability of the post-1989 governments to turn a high-potential sector into a source of economic growth and development.

While the top ranked countries in the Travel & Tourism Competitiveness Index are those with long traditions in the tourism industries (Top 3 spots being taken by Switzerland, Austria, and Germany, closely followed by France, Canada, Spain, Sweden, and the United States), other former Communist countries (such as Czech Republic, Hungary, and Croatia) also show high levels of competitiveness. In recent years Romanian tourism has started to show signs of improvement, moving up from no. 76 (2007), to 69 (2008), and even higher, to no. 66 in 2009, with a total score of 4.04 points (see Table 1.).

Table 1. Travel & Tourism Competitiveness Index Ranking for the Former Communist Countries (2009)

Country	2009 Ranking		2008 Ranking
	Rank	Score	
Czech Republic	26	4.86	30
Croatia	34	4.54	34
Slovenia	35	4.53	36
Hungary	38	4.45	33
Slovakia	46	4.34	38
Bulgaria	50	4.30	43
Montenegro	52	4.29	59
Poland	58	4.18	56
Russian Federation	59	4.14	64
<b>Romania</b>	<b>66</b>	<b>4.04</b>	<b>69</b>
Ukraine	77	3.84	77

Source: World Economic Forum, *The Travel & Tourism Competitiveness Report 2009*.

It must be stressed that – despite the opinion of some Romanian specialists who think that our tourism has sufficient strengths to perform competitively at regional and international levels – Romania still faces serious issues in adjusting to the requirements of the international markets (as evident from its position in the Competitiveness Index).

Tourism infrastructure, as well as human,

natural and material resources are key determinants of the tourism' competitiveness, a fact that underlines the need to identify Romania's rank among the other Central and Eastern European countries.

Table 2. Travel & Tourism Competitiveness Ranking on Key Components (Select Countries)

Country	Legal env.	Infrastructure & business env.	Human, cultural and natural resources
Czech Republic	16	36	24
Croatia	43	37	43
Slovenia	38	33	61
Hungary	26	42	59
Slovakia	34	54	55
Bulgaria	56	48	46
Montenegro	50	66	35
Poland	72	68	29
Russian Federation	79	61	38
<b>Romania</b>	<b>61</b>	<b>64</b>	<b>77</b>
Ukraine	62	72	103

Source: adapted from World Economic Forum, *The Travel & Tourism Competitiveness Report 2009*.

The key issues facing the Romanian tourism, as described in the 2009 "Travel & Tourism Competitiveness" report, include the lack of sustainable development (ranked 121<sup>st</sup> out of 133 countries), lack of transparency related to the government decisions (126<sup>th</sup>), quality of the natural environment (110<sup>th</sup>), road quality (126<sup>th</sup>, down from 124<sup>th</sup>), price competitiveness, openness (118<sup>th</sup>), and efficiency of the branding and marketing policies (119<sup>th</sup>).

The decline in rankings (from 119<sup>th</sup> to 121<sup>st</sup>) for the importance placed by the government on the tourism-related strategies is further proof that the deficiencies seen in this sector are mainly caused by the state authorities' inability to properly assess the importance of tourism for the overall economy and to act accordingly by supporting it. To put things in perspective, Romania is the second from bottom among the countries ranked (with Spain ranked 13<sup>th</sup>; Austria 15<sup>th</sup>; Greece 20<sup>th</sup>; Croatia 44<sup>th</sup>; Hungary 71<sup>st</sup>; Bulgaria 101<sup>st</sup>; only one country is ranked lower, Poland 126<sup>th</sup>).

Among all criteria considered, Romania's



highest ranking is obtained for its legal environment (61<sup>st</sup>); our tourism-related resources are ranked 76<sup>th</sup> among all countries considered, the lack of trained human resources, the lack of openness, and the quality of the natural environment being listed among the factors contributing to this poor performance.

Comparisons between Romania and its neighboring countries reveals Romania's lack of competitiveness, with rankings of 10 (resources), 8 (infrastructure and business environment) among 11 countries included in the analysis.

In terms of investments in hotels and restaurants, the analysis reveals a similar picture – very low interest in investing in tourism compared with other economic sectors.

Data in Table 3 show tourism investments of under 2% of total investments in the overall economy, despite a recent boost in investments mainly associated with building and renovating hotels in various urban areas.

The OECD report (using data from the Romanian Association for Foreign Investments) considers that “the fact that only 2% of the foreign investments in Romania are allocated to the tourism sector is proof of an overall low productivity of Romanian tourism”. [1]

Table 3. Investments in Hotels and Restaurants (2000-2007)  
-Billion ROL

Year	Total Investments	Investments in Hotels & Restaurants	in %
2000	12.498,7	109,8	0,88%
2001	20.419,5	274,6	1,34%
2002	27.173,5	331,5	1,22%
2003	35.651,2	481,5	1,35%
2004	44.869,9	750,4	1,67%
2005	54.566,0	936,6	1,72%
2006	72.891,0	1.249,2	1,71%
2007	98.417,7	1.600,9	1,62%

Source: Romanian Statistical Yearbook 2008

According to WTTC statistics, total 2008 tourism investments (including investments in hotels, restaurants, tourism facilities, infrastructure, etc) reached 3.26 billion USD, with 3.04 billion USD expected for 2009.

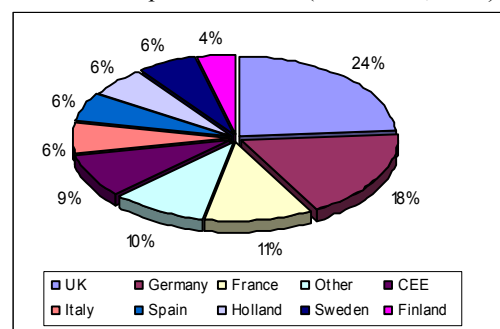
Lately, Romania has become a more attractive target for investors interested in the tourism sector, a sector long ignored by

them. Romanian tourism appears to be on an ascending trend, with increased interest manifested by international hotel chains (many of them, such as J.W. Marriott, Howard Johnson, Crowne Plaza, Golden Tulip, Hilton, Ibis, Inter-Continental, Novotel, Ramada, Best Western, Radisson SAS, and the newly-launched Pullman already present on the Romanian market). Most of these hotels are located in Bucharest (due to the high demand from business travelers and – as a result – occupancy rates higher than those in other European cities), with very few of them located outside the capital city.

According to a market study completed by Trend Hospitality [2], at the end of 2008 there were 122 hotels (with a total of over 10,000 rooms) located in Bucharest, fewer than in other European Capitals, such as Warsaw, Budapest, or Prague. During 2008, the number of available rooms has increased by 25%, due to grand openings of some major hotels, such as Rin Grand Hotel (1,400 rooms), Ramada Plaza (302 rooms), and Radisson SAS (424 rooms), boosting the percentage of 4-star rooms to 47% of the total number of rooms available.

Trends in the Romanian tourism market mirror those witnessed by the other Central and South-Eastern European countries, expecting major tourism investments in the coming years. Bucharest – as a key destination for business travelers – appears as the European city with the highest expected rate of growth for the number of available rooms, a trend that will continue in the short and medium term, provided only a mild impact of the current economic crisis on the region's tourism industry.

Figure 1. Investments in Tourism Infrastructure in Select European Countries (Semester 1, 2008)



(Source: Jean-Francois Laporte)

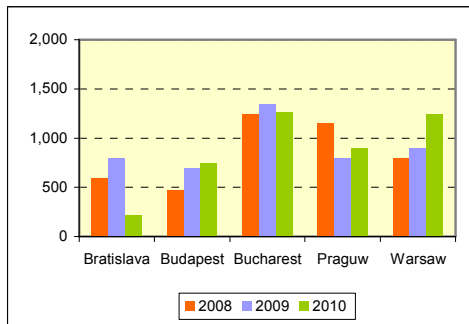
We can expect Bucharest to continue to

attract international hotel chains interested to enter the market in 2010. The major investments are expected to focus on larger 4- and 5-star properties (150+ rooms each) targeted at business travelers.

### 3. Conclusion

The integration of Romania within the European Union brought an investment strategy in agreement with the development plans and goals of the common European market, within which Romania is an active member. Before the integration, Romania received UE assistance through various development programs (such as PHARE and SAPARD) that focused mainly on investments and marketing and training initiatives. Today, Romania is granted assistance through operational programs part of the European Union Structural Funds.

Figure 2. Number of New Hotel Rooms Planned in Select CEE Capitals (2008-2010)



(Source: Jean-Francois Laporte, "Hospitality Business Environment Overview", 2008)

The National Strategy for Regional Development, based on the Regional Development Plans and the 2007-2013 National Strategic Reference Framework, has identified tourism as a regional development priority, considering the tourism potential and resources available in all regions of the country. This existing potential justifies granting financial support to rehabilitate the tourism infrastructure, to take advantage of the country's natural resources and to improve the domestic and international marketing of the tourism sector.

### 4. References

- [1] OECD- Tourism in OECD Countries 2008: Trends and Policies, p. 228.
- [2] Trend Hospitality Consulting and Management, [www.trendhospitality.com](http://www.trendhospitality.com).
- [3] Jean-Francois Laporte, CB Richard Ellis representative, "Hospitality Business Environment Overview", report presented at the Hospitality Trends Bucharest Conference, October 6<sup>th</sup>, 2008.

## Economic Education for Understanding Economic Behavior

Druică Elena  
Cornescu Viorel  
Bratu Anca  
*University of Bucharest*  
*druica\_e@faa.ro*  
*cornescuviorel@yahooo.com*  
*bratuanca@yahoo.com*

### Abstract

During the last 20 years, Romania has been passing important social and economic transformations and it is considered today as a developing country aiming to adjust its processes and features to those of UE countries. The significant increase in the number of bachelor programs supplied by various faculties is one of the issues we can refer to in order to explain the great interest paid to a proper economic education. The aim of this paper is to argue that, despite the big number of the economic programs, the Romanian curriculum is structured such that students can't benefit from a proper understanding of Economic Behavior. The authors argue that Behavioral Economics should be included in curriculum as being the trigger in students' awareness in respect to integrating some weaknesses of making economic decisions process.

**Key words:** economic education, Romanian curriculum, behavioral economics, bounded rationality

**JEL Classification:** D03, D79, D81, D83

### 1. Introduction

During the last 20 years, Romania has been passing important social and economic transformations and it is considered today as a developing country aiming to adjust its processes and features to those of UE countries. Passing from a controlled economy toward a market economy resulted in many challenges that

Romanian people had to face, and the process of integration of new values and practices, like for example free competition, less protectionist regulations, increasing income inequality, products diversification and the pressure of the free choice, led to an increased demand for economic education.

Based on ARACIS report, during the last 20 years the number of faculties which offer economic programs has constantly been increasing and in our days there are about 300 master programs in economic domain. The deep interest manifested in this field and the attention paid these years to the Economics is normal, if we think on the shift the economists had to face after December 1989.

Among various transformations this country has been facing in the recent years, the changes in consumers' attitudes, practices and mentalities, the challenges that stress producers' priorities and strategies are some of the issues that must be now studied by the Romanian economists. There is a wide literature that helps producers to understand how to deal with the new economic conditions. However, the individual as such benefits from less information in respect to the exposures he faces, even in case he is in process of graduating from an economic bachelor program.

There are, of course, important contributions that specialist provide us with in order to make more understandable the new problems that individuals face and their specificities (see for example [1], [9] or [10]) but most of them are focused on developed

countries case, as for example [2], [4], [7] or [13] and even in this international framework some protests can be found against a lack of interdisciplinary approach in dealing with individuals' attitudes and acts.

This paper aims to focus on the gap between the current economic education and some improved interdisciplinary approaches that can help individual in understanding the challenges he faces under Afluenza society. The remained part of the paper is structured as follows: the second section aims to emphasis the importance of education in general and economic education in special, while the goal of the third section is to explain that, despite the increase in the interest for economic specializations, students are not aware of some basic weaknesses of their own economic behavior. The fourth section aims to describe some of the general features of the new field of Behavioral Economics and to stress the idea that a proper economic preparation would greatly benefit from including this discipline in the curriculum.

## **2. Understanding the Importance of Economic Education**

Based on statistic evidences, Philip Stevens and Martin Weale (see [14]) indicate that it is generally accepted that life standards are increasing due to education. People are the beneficiary of education and in the same time are responsible for its existence and improvement. Secondly, econometric studies indicate that the level of education and the income of an individual seem to be directly correlated. The conclusion of this issue is a logical one, in the sense that a country could became richer based on a high level of education, as well as any individual in that country could increase his or her income based on the same education.

A wide range of studies and papers argue the strong existing connection between education and economic growth. Since 1974, when Jacob Mincer's model was accepted as a proper framework used to estimate returns to schooling, to

schooling quality or to measure the impact of work experience on male – female gaps, economists have agreed with the existence of this relation. Despite the fact that today the Mincerian model seems to be an old fashion one, there are others models which try and succeeded in detecting the measure of the impact of education over economic growth.

To conclude, we have to take into consideration on the one hand the evidences according to which education and economic growth are strongly connected to each other and on the other hand the widely accepted opinion that the role of higher education in a knowledge driven economy has never been more crucial (see [11]) than today.

According to Evoh [3]: „Poverty in all its manifestations – hunger, illiteracy, sickness, unemployment, political disengagement – are directly or indirectly associated with lack of information.” Understanding the basic principle of Economics, being able to deal with its main mechanisms, and graduating from a program which offer all the opportunities for such preparation in Economics seems to be for many students today the core of a future welfare. This paper aims to focus on understanding the differences between the information provided by the Standard Economic Model and the information which is provided by Behavioral approaches and seeks to explain the main issues that coming from the same Standard Economic Model make students less aware of when acting as individual economic agents.

## **3. Understanding Our Own Economic Behavior Triggers**

As a matter of studying individual risks coming from less discussed social and economic exposures, in the early of 2010 students of the Faculty of Business and Administration within University of Bucharest were subjected to a study based on two questionnaires provided by James [5, p.7]. The aim of the first study was to test whether students have already been infested with “Afluenza” virus, resulting in hyper – consumerist behavior, and the

second study aimed to test the level of “infection”. The two questionnaires were applied both at master and at the 3<sup>rd</sup> year of bachelor level, and the samples size were 32 for the master level, and 54 for bachelor level.

From the results we obtained, we could observe that the level of infection is approximately normal distributed, showing that the age segment between 26 and 42 is mostly affected, while the other age segments show less or no infection at all. Those master or bachelor students who have been getting in touch for a while with labor market as well as with the consumption as a social signal, displayed more confusion in consumption behavior and in the values they perceived as being important in life.

The size of the samples used in this study is not very large but still the results raised some questions in respect to how well the triggers of the economic behavior are perceived by students and how well protected are the students we are preparing for graduating from an economic program, against the main challenges a market economy impose.

In an attempt to check whether some information coming from Behavioral Economics side will change students’ approach in judging economic problems, another study was conducted – this time at bachelor level only. Some aspects were discussed, coming from the remarkable contributions of Daniel Kahneman works. The first issue comes from [6] and refers to the following questions:

“Question 6. Imagine that you are richer by \$20,000 than you are today, and that you face a choice between options:

6. receive \$5,000 or B. A 50% chance to win \$10,000 and a 50% chance to win nothing.

Question 7. Now imagine that you are richer by \$30,000 than you are today, and that you are compelled to choose one of two options:

7. lose \$5,000 or D. A 50% chance to lose \$10,000 and a 50% chance to lose nothing.”

The second issue comes from the “Asian disease” Problem [16] and refers to the following two step choice that should be

done:

“People are informed about a disease that threatens 600 citizens and asked to choose between two undesirable options:

Option 1. (a) saving 200 lives with certainty and (b) one – third chance of saving all 600 and two – thirds chance of saving nobody

Option 2. (c) 400 people dying with certainty and (d) two – thirds chance of 600 dying and one – third chance of nobody dying.”

In the control group, students were asked to make the choice in the first problem, and after a week they were presented the “Asian disease” problem and invited to make a choice again. In the treatment group, students were asked to make the choice in the first problem, and then they were explained the framing effect. They were told that the two questions are in fact similar in terms of financial state and that only emotional factors lead to inconsistent choices as for example A – D or B – C. Next week, the same students were asked to make a choice in “Asian disease” problem.

The result of the study shows that the students coming from the control group were unable to recognize that Option 1 and Option 2 in this problem are identical in terms of objective results, in the same proportion as they were unable to recognize similar facts in the previous problem where the financial states were the same. The same inconsistency in making choice was found in “Asian disease” problem to a similar degree as in the previous week example. However, most of the students coming from the treatment group were able to isolate the framing effect in the “Asian disease” problem and their choices were consistent. The same students coming from the treatment group were able to observe and manage the fact that they were inclined to make inconsistent choice once they were confronted to the negative frame of the Option 2.

Again, the authors of this paper admit that the size of the samples used in this second study is not very large but still the results raise again some questions in respect to how much informed students can become

aware of their behavior and of the determinants involved in making economic choices.

#### **4. Standard Economic Model versus Behavioral Economic Approach in Economic Education**

As we have already mentioned in the introductory section of this paper, the dynamic of the interest that students manifest for economic education has been increasing over the last 20 years, fact reflected by the impressive number of bachelor and master programs that got authorization from ARACIS. Thousands students apply yearly for economic programs and thousands graduate from such institution hoping in obtaining a good job and a decent position in society. Soon after December 1989, as a natural consequence of, to the one edge, failure of the command economy and, to the other edge, the start of the transition toward market economy, the Romanian scholars begun to rethink the information that was supposed to be taught in faculties. The curricula and the syllabus were changed according to the new requests of the economic development and some of the cores of international academic models were used in designing the new approaches. Yet, many Romanian scholars had to informally admit after some years that the past habits lie heavy on Romanian education's shoulders. In spite of the new curriculum design and the new disciplines description, many professors continued actually to teach the same out of date information and to use the same concepts as before.

A new approach in teaching Economics could be discussed? A new understanding of the models and a mature acceptance of an interdisciplinary approach could have been brought into discussion? The authors of this paper repeatedly tried to signalize some weaknesses of the programs in Economic field and faced resistance from people too much in habit with certain information and with certain approaches.

The attitude is somehow easy to be understood. Taking into consideration aspects coming from Sociology, Anthropology or Psychology is an attempt that received much resistance even in academic communities having a long tradition in dealing with market economy. In the same time, there are institutions all over the world which pay considerable attention to the impact of emotions on economic behavior and a new field in Economics emerged in the early '60.

The authors of this paper have the intention to discuss in praise of Behavioral Economics as being one of the disciplines which should be included in curriculum for each economic domain, either at bachelor level, or – in the worse case – at master level.

Of course that some readers would argue that economics, in any form it takes, is about behavior and that once we refer to Economics we implicitly take into consideration human perspective. Is this true? Or is this the reason why the Behavioral Economics has been changing, during the last decades, the way economists transformed world into concept? Let's be fair and admit that the behavioral approach tends to focus on a different framework than the standard economic model did before and this is why some relevant features of human behavior tend to enlighten sides of economic decision making process never took into consideration before. We authors of this paper believe that actions like underlying the standard economic model anomalies, exploring alternative models, describing and testing these models in real world, are valuable aspects used both in normative and positive economic attempts.

The Behavioral Economics would be valuable in teaching students about their own boundaries that are systematically ignored in the standard economic model. The rationality hypothesis, the lack in self – control and self – interest are part of the classical triad discussed in Behavioral Economics. Our previous experience in teaching students about these issues proves that there is a considerable interest

in understanding the hidden part of their personality.

During the sixth semester of the Business Administration program in Faculty of Business and Administration within University of Bucharest, the Risk Economics discipline is part of curriculum. Among much information about risk factors in any economy, the three above mentioned economic agent boundaries are discussed. As part of bounded rationality, students are taught about their incomplete information processing ability, about their random approach in making decisions, about their loss aversion profile as well as about anchoring and frame effects they are subjected to. Once the bounded rationality is fully understood, students are able to realize that they are inclined to biased probabilistic biased and that the hypothesis of utility maximization that is so much promoted in standard economic model has almost nothing to do with their own approach.

It is also of great help for our students to learn about things they are doing against their own “long – run” interest. Concepts like, for example, diagnostic utility make clear to them that the tendency of ignoring the “long – run” effects is the core of addictive behaviors like for example drug and alcohol consumption, of under-savings or procrastination. Students are taught not only that the neoclassical view stating that “the more alternatives for choice you have, the more sovereign you are” is somehow against the brain tendency of getting blocked the minute it has too many alternatives [15].

Both the effects of the lack of self – control and bounded rationality described above are perceived by our students as being spectacular and unexpected, but the third part of the triad is even more of interest for them. The lack of self – interest, translated into words as being our willingness to act according to others expectations and values, leads us to preferences having pronounced social features. Instead maximizing our own interest, it seems that we are more inclined to feed others well – being

especially when those are fair with us. The economic agent seems to be either nicer than the standard economic model claims or worse (when the fairness condition is not matched) than expected, but in any case the economic agent doesn't follow the neoclassical assumption of being fully rational.

## 5. Conclusions and recommendations

From what we authors are aware, there is no economic program in Romania including Behavioral Economics in its curriculum. Even it is impossible to speak about the advantages of understanding the behavioral perspective in few pages of a paper; there is a wide literature in this field. One can find behavioral approaches in marketing, finance, microeconomic and macroeconomic level, and even managerial accounting started using the new interdisciplinary approach as specific tools. The authors tried to introduce some of the core concepts and tools of Behavioral Economics in the process of students' preparation in Faculty of Administration and Business within University of Bucharest. After becoming aware of effects like for example framing effects, anchoring, arousal impact, overconfidence in assessing probabilities and so on, students were much more able to recognize when their own emotions made the decision and not their rationality and they benefited from a better self control in decision process. The paper aimed to argue that, based on the increasing interest that students have been manifesting for economic programs during the last 20 years, the specific curriculums should include Behavioral Economics as a factor of informing young economists about the interdisciplinary approach of the studies that aim to explain the making decisions process using human behavior features.

## 6. References

- [1] Bourdieu, Pierre, 1984, *Distinction: A social Critique of the Judgment of Taste*, Cambridge, MA: Harvard University Press.

- [2] Duesenberry, James, 1949, *Income, Savings and the Theory of Consumer Behaviour*, Cambridge, MA: Harvard University Press.
- [3] Evoh, C.J. (2009). *The role of Social Entrepreneurs in Deploying ICTs for Youth and Community Development in South Africa*, The Journal of Community Informatics, Vol. 5, No 1.
- [4] Holt, Douglas, (1997), *Poststructuralist Lifestyle Analysis: Conceptualizing the Social Patterning of Consumption*, Journal of Consumer Research, 23(March), 326 – 350.
- [5] James, Oliver, (2007), *Afluenza*, Ed. Vellant,
- [6] Kahneman Daniel, Riepe Mark, *Aspects of Investor Psychology*, Journal of Portfolio Management, vol. 24, Nov. 1998
- [7] (2000), “*Postmodern Markets*”, in Juliet Schor, *Do Americans Shop Too Much?*, Boston, Beacon Press.
- [8] Lebergott, Stanley, 1993, *Pursuing Happiness: American Consumers in the Twentieth Century*, Princeton: Princeton University Press.
- [9] Lipovetski, Gilles, 1994, *The Empire of Fashion: Dressing Modern Democracy*, Princeton: Princeton University Press.
- [10] Lipovetski, Gilles, 2007, *The Paradoxical Happiness: Essay on the Consumption Society*, Iasi, Polirom Publisher.
- [11] Mattoon H. Richard (2006), *Can Higher Education Foster Economic Growth?* Chicago Fed Letter, Federal Reserve Bank of Chicago, No. 229, <http://www.chicagofed.org/>
- [12] O’Guinn, Thomas C. And L. J. Shrum, 1997, *The Role of Television in the Construction of Consumer Reality*, Journal of Consumer Research (28)4, March.
- [13] Schor, Juliet, 2002, *Understanding the New Consumerism, Inequality, Emulation and the Erosion of Well Being*, PSW – paper 2002/2, available at <http://webhost.ua.ac.be/psw/pswpapers/PSWpaper%202002-02%20schor.pdf>.
- [14] Stevens P., Weale M. (2003), *Education and Economic Growth*, Paper 221, NIESTER Discussion Paper from National Institute of Economics and Social Research, <http://econpapers.repec.org/paper/nsrniesrd/default1.htm>
- [15] Thaler H. Richard, Sunstein R. Cass, *Nudge: Improving Decisions About Health, Wealth, and Happiness*, Paperback, Penguin Books, 2009
- [16] Tversky Amos, Kahneman Daniel, (1981) *The Framing of Decisions and the Psychology of Choice*, Science, New Series, Vol. 211, No. 4481. (Jan. 30, 1981), pp. 453-458.



## Finding a Minimal Transport Cost for a Transport Problem

Dumitru Ileana

Teodorescu Ana-Maria

*Petroleum-Gas University of Ploiești*

[Ilenush2003@yahoo.com](mailto:Ilenush2003@yahoo.com) [80ro@yahoo.com](mailto:80ro@yahoo.com)

### Abstract

This paper is about finding a solution to a transport problem, using visual programming applications, with one of the specialty software – Visual Basic. Among company's spendings there are product transport spendings supported by economic agent in his way from each producers to beneficiaries.

We presented the transport problem under the form of a table which contains entry data: producers (ex. București, Ploiești, Arad, Pitești), beneficiaries (ex. Metro, Kaufland, Carrefour, Sellgros) and transport costs from each producers to beneficiaries.

We used the minimum cost line method and north-west corner method as economic mathematic methods for determining a minimal transport cost.

**Key words:** transport problem, transport cost, solution, visual programming application;

**JEL Classification:** C61;R48;

### 1. Introduction

In market economy in order to maximize a company's profit you to first have to lower the expenses as much as possible.

A transport problem is represented under the form of a table which contains entry data: producers (ex. București, Ploiești, Arad, Pitești), beneficiaries (ex. Metro, Kaufland, Carrefour, Sellgros), the producers available quantity, consumer demanded quantity of goods and transport costs from each producers to beneficiaries. As you know, a balanced market means equal offer and demand. In a transport

problem, the offer is represented by the available quantity of products on the

market, and demand is represented by the quantity of products the beneficiaries need. The quantity of produced goods will have to be equal to the quantity of needed goods. Although the transport problems are not only balanced problems (there are transport problems which are not balanced – the offer is not equal with the demand), this article presents a balanced market (the transport problems which are not balanced will be discussed into another article).

One of the economic mathematic method for determining a minimal transport cost is the minimum cost line method; this method will offer a value of transport cost for the product from producer to consumer.

The minimum line cost method, the minimum table cost method and N-W corner method are some of the initial transport methods.

Table 1 presents the transport problem, for what we realised an application in Visual Basic. In this table we have a entry data as: -producers (București, Ploiești, Arad, Pitești); -consumers (Metro, Kaufland, Carrefour, Sellgros); -values of transport cost for the product from producer to consumer; -available quantity of products – disponibile; -demanded quantity of consumers – necessary;

	<b>Me tro</b>	<b>Ka ufl and</b>	<b>Ca rre fou r</b>	<b>Sell gro s</b>	<b>Dis pon ibil</b>
<i>București</i>	$X_{11}$ $C_{11}$	$X_{12}$ $C_{12}$	$X_{13}$ $C_{13}$	$X_{14}$ $C_{14}$	<b>D<sub>1</sub></b>
<i>Ploiești</i>	$X_{21}$ $C_{21}$	$X_{22}$ $C_{22}$	$X_{23}$ $C_{23}$	$X_{24}$ $C_{24}$	<b>D<sub>2</sub></b>
<i>Arad</i>	$X_{31}$ $C_{31}$	$X_{32}$ $C_{32}$	$X_{33}$ $C_{33}$	$X_{34}$ $C_{34}$	<b>D<sub>3</sub></b>
<i>Pitești</i>	$X_{41}$ $C_{41}$	$X_{42}$ $C_{42}$	$X_{43}$ $C_{43}$	$X_{44}$ $C_{44}$	<b>D<sub>4</sub></b>
<i>Necesar</i>	<b>N<sub>1</sub></b>	<b>N<sub>2</sub></b>	<b>N<sub>3</sub></b>	<b>N<sub>4</sub></b>	<b>Tot al</b>

Table 1 – The transport problem presentation

were:  $X_{ij}$  – quantity goods that producer  $i$  „loads” to consumer  $j$ ,  $i, j = \overline{1,4}$ ;

$C_{ij}$  – transport cost from producer  $i$  to consumer  $j$ ,  $i, j = \overline{1,4}$ ;

$D_i$  – producers available quantity  $i$ ,  $i = \overline{1,4}$ ;

$N_j$  – consumer demanded quantity of goods  $j$ ,  $j = \overline{1,4}$ ;

After we applied a minimal cost transport method, we used the objects function for determine transport cost.

$$f_{ob} = \sum_{i=1}^4 \sum_{j=1}^4 (X_{ij} * C_{ij})$$

(Formula 1)

The minimum cost line method is one the other initial methods for finding initial solution in transport problems. In economic mathematic, this method is presented:

-we select minimum transport cost on first line ( $C_{1j}$ );

-in suiting cell we “load” possible product quantity corresponding available quantity of goods ( $D_1$ ) and demanded quantity of

goods ( $N_j$ ) – minimum product quantity  $D_1$  and  $N_j$ ;

-in case available quantity of goods was not used up on first line (for first producer-Bucuresti) we stay on same line and we select next minimum transport cost ;

-we keep “loading” on first line until available quantity of goods  $D_1$  is finished (for first producer-Bucuresti);

-when first producer’s available quantity of goods is finished we continue with second line – next producer – Ploiesti;

-the algorithm keeps going on the same reasoning until all available quantity of goods is finished.

If transport problem is balanced (equal offer and demand), available quantity of goods and demanded quantity of goods are finished in the same time. Transport problem finalization is made when objects function will be induced.

North-west corner method is presented

-we start from cell (1,1) related first producer (București) and first consumer (Metro) collating producer available quantity  $D_1$  and consumer demanded quantity of goods  $N_1$ ;

-we “load” possible product quantity according to necessary and available quantity;

- if after the “loading” the available quantity is not finished, the next cell to “load” will be (1,2), contrariwise – when demanded quantity of goods is not finished, we start loading cell (2,1) ; when producers available quantity and consumer demanded quantity of goods will be finished, we will „load” cell (2,2)

- we proceed the algorithm until the product available quantity and demanded quantity of goods are finished.

Using the minimum cost line method, we obtain an initial solution. Optimum methods for finding minimal transport cost require more time and fund, but offer the minimal transport cost (optimum). The authors of this article propose an application wherewith we obtain a solution for transport problems using initial methods: line and N-W corner. In this situation a motivation of this choise is required. Why N-W corner mehtod and not another (minimum column, minimum table)? The N-W corner method is about the

geographical position of the consumers and the producers (unlike the other methods). The result obtained by this method is biggest, therefore an economist does not approve it.

## 2.The Visual Basic application

The application realised in Visual Basic is based on the unreal example in which we consider as producers București, Ploiești, Arad, Pitești, and as beneficiaries (Metro, Kaufland, Carrefour și Sellgros) malls that need product quantity put on market by producers.

The financial economic mathematics gives us initial and optimised methods that help us determine the value of the transport cost supported by producers in the product way to beneficiaries.

This application, based on the minimum cost line method and N-W corner method, will visually realise a product „load” from producers to consumers to obtain a minimum cost.

In Visual Basic we put over a form on which we add visual objects as ComboBox, CommandButton, Label and TextBox. In the application, ComboBox objects will be used to select the producers and beneficiaries for which will be introduced producers available quantity, consumers necessary quantity and transport cost from each producer to consumer with the visual object CommandButton.

Another visual object: CommandButton („Calculul costului minim de transport pentru cantitățile de disponibil introdus”) enables the loading of products in the transport problem and transport spendings estimate (objects function).

The visual objects Label were used to introduce the name of the imaginary producers and consumers in the Form. TextBoxes were added to show available and necessary product quantity and transport costs from producers to consumers.

Figure 1 presents the Form with all visual objects under discussion

Figure 1 – The visual object introduced of the initial Form

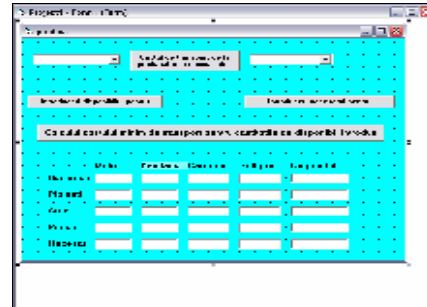


Figure 2 shows that by using the “Introduceți disponibilul pentru” button, a value equal to the available produced goods will be assigned to the ComboBox object.

Figure 2 – Selection the producer for add available funds

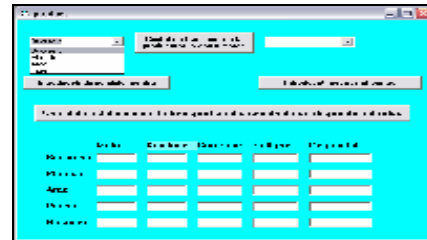
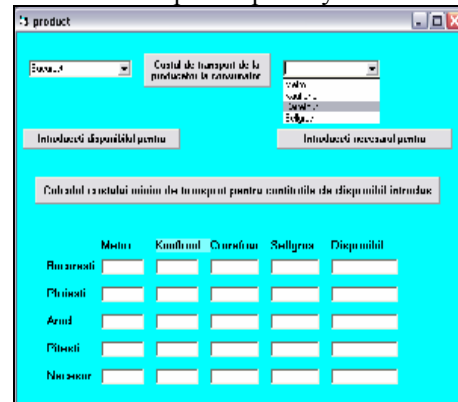


Figure 3 shows that when we select one consumer from a visual object ComboBox, we will be able to assign a value that represents the demanded quantity of goods – using the „Introduceți necesarul pentru” button.

Figure 3 – Selection the consumer for add required quantity



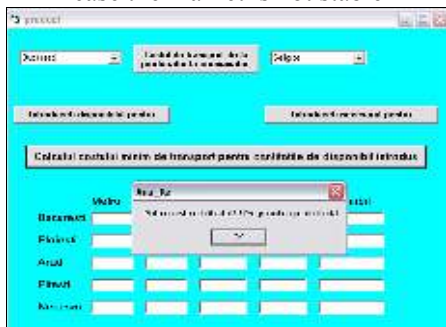
The CommandButton visual object „Costul de transport de la producător la consumator” will let you assign values of the transport cost from one selected producer (first ComboBox) to one selected consumer (second ComboBox) – figure 4.

Figure 4 – Introduction of transport cost from producer to consumer



This application works for both cases: when there is a stable or unstable market situation. When the sum of available quantity is not equal to the sum of required quantity, an error message will be displayed: „Piața nu este echilibrată!!! Programul nu poate fi rulat.”(figure 5). In this case, the user will have to introduce other transport costs, available and demanded quantity values.

Figure 5 – User’s error message in case the market is not stable



When the transport problem is balanced the sum of produced goods is equal to the sum of demanded goods, the user will receive a message „Piață echilibrată...Calculăm costul minim de transport”(figura 6). He will add transport costs, available and necessary quantity introduced in visual objects TextBox, by pressing the button “Calculul costului minim de transport pentru cantitățile de disponibil introdus”.

Figure 6– User’s message in case the market is stable

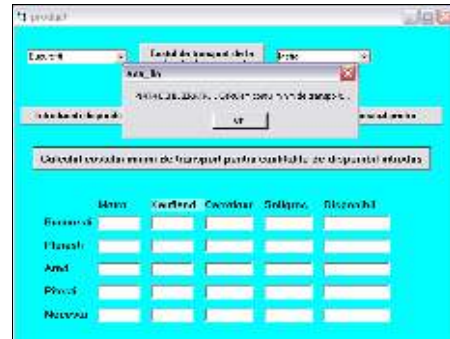
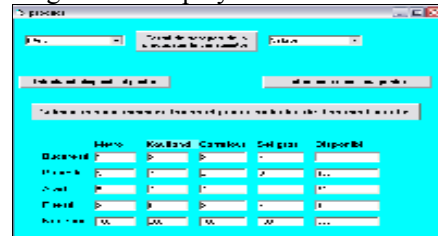


Figure 7 show the result of pressing the button “Calculul costului minim de transport pentru cantitățile de disponibil introdus”. The issue of this stage will be adding transport costs, available and demanded quantity.

Figure 7 – Displayed introduced data



Whereas the authors proposed to determinate a minimal transport cost for available goods quantity from producers to consumers, figure 8 and figure 9 show that introducing available, demanded product quantity and costs, a transport cost will be obtained. A message box „Valoarea costului de transport este” will appear and the obtained cost will be write here.

Figure 8 – The result– the transport cost value with line method



Figure 9 – The result – the transport cost value with N-W corner method



### 3. Conclusions

Finding a minimal transport cost for a transport problem is useful in economy for the profit increase. This paper suggests reader an imaginary transport problem for which the application achieved in Visual Basic determine a minimum transport cost. As we know, any application is achieved using an algorithm that has as principal characteristic – generality.

Corresponding this characteristic, the program (application) will handle the problem generally, not particularly, so the application proposed by authors can be applied by many economic agents what

have four production centres and four distribution centres.

The realised application can be useful for each economic agent who has branches in București, Ploiești, Arad and Pitești and transports products to centers such as Metro, Kaufland, Carrefour and Sellgros for a product transport spendings prevision.

### 4. References

- [1] Popescu G., Vilcu G., Iarca I., Mathematics applied in economy – Collection problems, Ed. University Petroleum-Gas, Ploiești, 2002
- [2] Neamtu M., Mathematics applied in economy, Ed. Mirton, Timișoara, 2004
- [3] Căruțașu V., Mathematics applied in management, Ed. ADALEX, 2006
- [4] Cenușă Ghe., Raischi C., Baz D., Toma M., Burlacu V., Sacuiu I., Serban R., Mircea I., Mathematics applied in economy, Ed. CISON, 2007
- [5] Visual Basic Tutorial, 10 octombrie 1998, <http://www.devdos.com/vb/> [accessed on march 20, 2009]
- [6] Visual Basic Tutorial, 05 august 2003, <http://www.java2s.com/Tutorial/VB/> [accessed on march 21, 2009].

## The neural model of the European Union (EU-27) annual growth rates

Elefterie Liana  
Tudoroiu Nicolae  
*Spiru Haret University of Constanta*  
[elefterieliana@yahoo.com](mailto:elefterieliana@yahoo.com)  
[tnicolae@excite.com](mailto:tnicolae@excite.com)

### Abstract

The EU statistics reveal over 19 million active enterprises within the EU-27's non-financial business economy (defined as industry construction, distributive trades and services, and therefore excluding financial and public services) in 2004. About one third (32.5%) were active in the distributive trades sector which were also relatively labor-intensive activities, accounting for almost 25 % of the EU-27's non-financial business economy workforce in 2004. In this work we develop a study of the impact of the annual growth rates for industry of the European Union countries on the global annual growth rate of the European Union-27 using neural models between 2004-2008. This research work investigates the possibility to apply neural network modeling for simulation and prediction of the EU-27 global index of production and domestic output price index behavior due to the impact of the same indices of different EU-27's countries. Therefore we will explore this modeling technique to build the neural model of this complex dynamic economy system. The results obtained by using neural models are more accuracy compared to those obtained by regression methods, and the performance of the neural networks is audacious.

**Key words:** neural modal, enterprises, non-financial business economy, index of production, domestic output price index;

**JEL Classification:** C61;O52;

### 1. Introduction

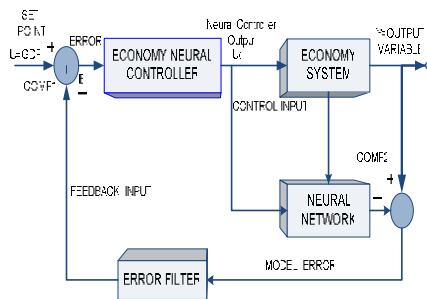
Macroeconomic growth simulation has great importance in economic developments and policies, but there have not been any effective methods of simulation. For this purpose could be used several architectures of neural network (NN) to construct the neural models simulating the complex dynamics of the overall economy system, in general, or particularly the relations of GDP (Growth Domestic Product), financial revenue, work force and price on industry structures of the economy.

In financial theory, the efficient market hypothesis (EMH), in its weak form, predicts that analysis of time series data alone will provide no excess return over a simple buy and hold strategy and the data contained in the time-series has no economic value unless the data leads to a transaction [9].

Noticeably, the economic processes of both the national and the global economies could be multivariable (Multi Input-Multi Output, MIMO) and nonlinear, with variable gain and variable time delays [11]. It is very well known that in industry to control such processes, self-adaptive, model-based artificial neural networks (ANN), is very complex task, using multi-variable control strategies. Self-teaching ANN algorithms are trained off-line on past history of the economic process (the measured data set of the last decades of operation of the process). In our research we will consider a realistic approach based on the fact that any economy is a multivariable dynamic economic process. The block scheme of the overall economy system is presented in Figure 1.



„Figure 1. The dynamic complex economy system-Block scheme”



The controlled variables (the set points) of this process could be the GDP and the leading economic indicators (LEIs) of the economy. Different nation's economies might distribute the resulting production differently among the population, but the manipulated and disturbance variables in all economic processes are basically the same. The only difference is that inside of the free societies, most of the variables are allowed to float freely, while in totalitarian societies some of the variables are arbitrarily constrained.

The goals of both economies (the set points in the block scheme shown in figure 1) are to keep their Leading economic indicators, LEIs, and their GDP reference variable at some desirable values or to keep raising these targets [2], [9], [17]. As shown in the block scheme presented in figure 1, the relationship between manipulated variables, for instance the interest rate, taxation, trade or energy policy and controlled variables (GDP or LEIs) are functions of the “gains” at the nodes in the “hidden” layers of this self-learning ANN model of the economic process.

To overcome the deficiencies of the linear economic processes modeling, in the recent economic research are adopted neural networks models to forecast business cycles. The decision to focus on neural networks arises directly from the features of these models. First, neural networks are data-driven, can "learn" from experience during the training process, and are well adapted to, underlying relationships. This property makes the neural networks an ideal modeling method whenever exists a

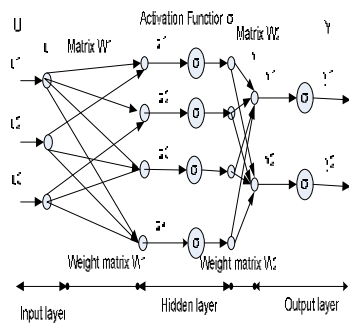
little prior knowledge about the appropriate functional representation of the input-output economic process relationship. Second, once the neural network architectures are suitably specified they are capable to approximate every functional representation to any given degree of accuracy. Finally, neural networks are nonlinear representations and predict, with high accuracy degree, the future value of the reference series, and consequently they are very useful to model a broad variety of macroeconomic time series.

## 2. Neural networks description

The Neural networks, called also Artificial Neural Networks (ANN), were introduced by McCulloch and Pitts in 1943, and complex dynamical systems by Forrester in the 1950s [17]. The ANN is capable of learning the relationships between inputs (manipulated and disturbance variables) and outputs of the economic process based on its past history.

Recent work in computer science has shown that these networks are more capable than digital computers. Once the neural model of the economic process is build, off-line trained, it can be continuously on-line updated, in real-time, by minimizing the difference between its predicted output value,  $Y$ , and its target value  $\hat{Y}$ . Their architectures are presented in Figure 2-3 [15] and represent computational models that consist of a number of simple processing units (neurons), placed in layers (input, hidden, output) that communicate by sending signals to each other over a large number of weighted connections. The simplified network diagram 3-4-2 shown in Figure 2 is a full-connected, three layers (input, output and one hidden) feed-forward, perceptron neural network. Fully connected means that the output from each input and hidden neuron is distributed to all of the neurons in the following layer and feed-forward means that the values only move from input to hidden to output layers; no values are fed back to earlier layers as a recurrent network does.

„Figure2. 3-4-2 neurons detailed multilayer perceptron architecture”



All neural networks have an input layer and an output layer, but the number of hidden layers may vary. When there is more than one hidden layer, the output from one hidden layer is fed into the next hidden layer and separate weights (matrix  $W$ ) are applied to the sum going into each layer. The processing units transport incoming information on their outgoing connections to other units. The signal information is simulated with specific

values stored in those weights  $w^{ij}$  that make these networks have the capacity to learn, memorize, and create relationships among experimental input-output data set. Each unit  $j$  can have one or more inputs, but only one output. An input to a unit is either the data from outside of the network, or the output of another unit, or its own output. The total input to unit  $j$  is simply the weighted sum of the separate outputs from the connected units plus a threshold or bias term  $(\theta_1, \theta_2, \dots, \theta_n)$ . Most units in neural network transform their net inputs by using a scalar-to-scalar function called an activation function  $\sigma$  (sigmoid function), given by:

$$\sigma = \frac{e^{\lambda x}}{1 + e^{\lambda x}} \quad (1)$$

where  $\lambda$  represents the learning rate of the neural network scheme [17]. Many natural processes and complex system learning curves display a history dependent progression from small values of the learning rate  $\lambda$  that accelerates and approaches a peak over time. For lack of

complex descriptions a sigmoid function is often used. A sigmoid curve is produced by a mathematical function having an "S" shape [15]. Recently, empirical economic models derived from neural networks have been shown to offer advantages in both accuracy and robustness over more traditional statistical approaches (regression methods).

### 3. Back propagation (BP) training scheme

The experimental input-output data set will be used to train feed-forward neural networks using an error back-propagation algorithm. We will focus our attention on matching model predictions with measurements for network learning and generalization. For this purpose we investigate the simulation with neural networks consisting of three layers (input, hidden, output) or more, configured in different architectures trained by the Levenberg-Marquardt back-propagation error algorithm [1], [10]. Even though a simple steepest descent gradient algorithm can be efficient, there are situations when moving the weights within a simple learning step along the negative gradient vector by a fixed proportion will yield a minor reduction of error. For flat error surfaces for instance, too many steps may be required to compensate for small gradient values. Furthermore, the error contours may not be circular and the gradient vector may not point toward the minimum. To avoid these situations one may we replace the gradient descent method by the Gauss-Newton optimization method, which uses the second derivative of the error function  $E$ , namely its Hessian matrix  $H(w) = \Delta E = \nabla(\nabla_w E)$ . To update the weights, a recursive Gauss-Newton optimization algorithm may be expressed in the following matrix form [10]

$$w^i = w^{i-1} - \gamma [H(w^{i-1})]^{-1} (\nabla_w E) \quad (2)$$

Because the Hessian matrix may be singular, it can be made invertible by using the Levenberg-Marquardt relaxation as follows:

$$H(w^i) = H(w^i) + \mu I_n$$



(3) where  $\mu$  is a relaxation parameter and  $I_n$  is an identity matrix. The Levenberg-Marquardt algorithm is preferred for a small number of weights because the computation speed of the inverse Hessian matrix decreases when the number of the weights increases. Otherwise, the steepest descent optimization algorithm is preferred.

The number of hidden neurons and layers are varied to provide optimal network performance. The development of an optimal neural network structure is complicated by the fact that back-propagation networks contain several adjustable parameters for which the optimal values are initially unknown. These include structural parameters (such as the number of hidden layer neurons, initial weights and biases) as well as learning parameters (such as the learning rate, momentum, and error goal). The learning rate determines the speed of convergence by regulating the step size. However, the network may settle far away from the global minimum of the error surface if the learning rate is too large. On the other hand, smaller rates can ensure stability of the network by diminishing the gradient of noise in the weights, but result in longer training times. For this reason the algorithm could be improved by introducing an adaptive learning scheme which decreases considerably the training time.

A smaller training tolerance usually increases learning accuracy, but can also result in less generalization capability as well as longer training time. Conversely, a larger tolerance enhances convergence speed at the expense of accuracy in learning. It is shown in the literature that a single hidden layer is sufficient for learning any function, but the number of hidden neurons can grow without a bound. This of course, may result in a network with a large number of connections which defeats the main purpose of having an accurate prediction. By increasing the number of hidden layers, each consisting of sigmoid nodes, the complexity of the network can increase more rapidly than the number of connections. The optimum network architecture should have a minimum number of connections and produces a low cross-validation error.

Network performance is measured by the root mean squared error [RMSE], which is given by [10], [15].

$$\sigma = \sqrt{\frac{1}{n-1} \sum_{i=1}^{i=n} (y_i - \hat{y}_i)^2} \quad (4)$$

where  $n$  is the size of the test set,  $y_i$  is the measured value of the output, and  $\hat{y}_i$  is the estimated response provided by the neural networks. All these neural network architectures have to be trained on the experimental data set to earn the mapping from inputs to outputs of the process model. However, sometimes a network with small number of hidden neurons could be sufficient to generate this mapping. To avoid over fitting it is recommended to limit the number of neurons to the fewest as possible, as long as the network converges to the desired error level, and cut off the training once that error was met, i.e., for example, such in figure 5.

One of the most problems that occur in many applications could be the over-fitting. The error on the training set is driven to a very small value, but when new data are presented to the network, the error is large. The network has memorized the training examples, but it has not learned to generalize to new situations. One method for improving network generalization is to use a network that is just large enough to provide an adequate fit. If we use a small enough network, it will not have enough power to over-fit the data. Since we do not know how large a network should be in our application, we will select regularization. This technique of regularization encourages smoother network mappings by adding a penalty to the error function to give.

#### 4. The neural model of the European Union annual growth rates

We will start to build several architectures of neural networks in different successive layers with each layer having fewer units than the previous layer. Every time a new layer will be build, a single unit, called the master unit, will be added. Then step-by-step additional units will be added. At every step the neural network will be trained and the forecasting performance will be estimated. The whole process will

be repeated until a larger network did not sufficiently contribute to the forecasting performance.

In the process of network design selection, we will test every neural network structure for different forecast horizons, all calculations will be performed by using MATLAB 7.5 (R2007b) software, Neural Network TOOLBOX. We will use the back-propagation algorithm that automatically supervise the testing and record the neural network performance.

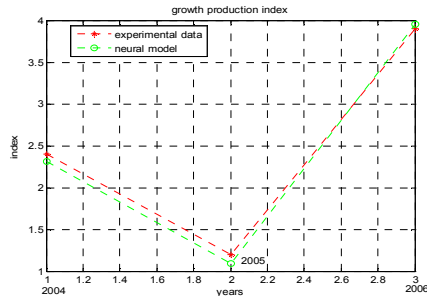
After extensive testing of possible structures of neural network designs we will select the best neural network architecture that performs very well. The layers of a multilayer network play different roles. Multiple-layer networks are quite powerful. For instance, a network of two or maximum three layers used in our research, where the first and second layer are sigmoid (tansig) but the third layer is pure linear (purelin), can be trained to approximate any function (with a finite number of discontinuities) arbitrarily well. A single layer neural network with linear activation function has the same properties as the linear regression model. The sensitivity analysis suggested that there are some nonlinear relationships between the reference variable and selected leading indicators. This explained why we were able to improve the forecast performance of the original model. We underlined one important contribution of neural networks--namely their elegant ability to approximate arbitrary nonlinear functions. This property is valuable in time series processing, especially in the forecasting field. However, it should be noted that nonlinear models are not without problems, both with respect to their requirement for a large database and careful evaluation, and with respect to limitations of learning or estimation algorithms. All the neural network architectures proposed in this section will be trained on the experimental data set to learn the mapping from inputs to outputs of the economic process model. To avoid over fitting we will limit the number of neurons to the fewest as possible as long as the network converges to the desired error level, and cut off the training once the error was met. Our proposed neural model

structure (26-10-6-1, 26 input neurons assigned to all 26 EU-countries, 10 and 6 hidden neurons and one output neuron assigned to the global index of the EU-27) for the EU-27 economy system integrated with the neural controller is a nonlinear static model integrated in a feedback closed system neural control strategy well described in [15]. The neural network objective is to represent a static model of the economic process which is assumed to be expressed as a nonlinear function  $\mathcal{G}$ :

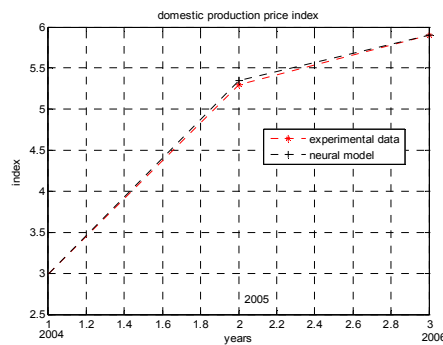
$$\hat{Y}(k) = g(U(k)) \quad (5)$$

Before training the network weights and biases off-line they are initialized using Nguyen-Widrow, initial conditions (small random values). From the preliminary simulation results in our research, the network parameters could be very well initialized, for example, to the following values: error goal = 0.025, learning rate = 0.02 and momentum = 0.95. The number of epochs to reach the error goal depends on the initial conditions for the weights and biases and the number of hidden neurons. The back-propagation algorithm attempts to minimize the error between the output of the network and the target or desired response in weight space, using the method of gradient descent in conjunction with Levenberg-Marquardt relaxation [10]. The simulation results are presented in Figures 3-4. In Figure 3 are represented the neural models of the EU-27 growth production index (a) and domestic production price index (b) based on the experimental input-output data set provided by EUROSTAT, during the years 2004-2006. In Figure 4 are represented the same neural models of the EU-27 that include also the results predicted for the 2007-2008 period. These simulation results reveal a very good capacity of learning input-output map of the experimental data set, and a very good capacity of generalization.

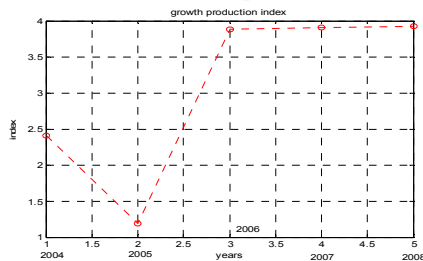
“Figure 3a. The neural model of the EU-27:Growth production index”



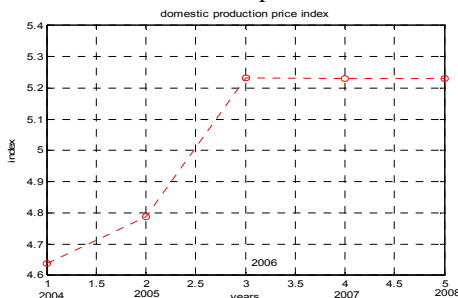
“Figure 3b. The neural model of the EU-27:Domestic production index”



“Figure 4a. The generalized neural model of the EU-27:Growth production index”



“Figure 4b. The generalized neural model of the EU-27: Domestic production index”



## 5. Conclusions

This research work is dedicated to investigate the possibility of applying neural network models for simulation and prediction of the dynamic performance of the complex economic processes such as alternative to the linear regression models. Therefore we explore the proposed neural network architecture to build the neural models of this complex dynamic economy system. It is our opinion that the lack of economic structure is the main weakness of neural networks in forecasting applications. Due to the black box nature of neural networks, users of forecasts may feel some discomfort if they are unable to give proper economic interpretation to the estimated relationships. Economic theory does not always yield a specific functional form that is to be used for empirical verification of the theory. In such cases, neural networks have a great advantage over traditional methods. A researcher can start with a large network and prune it to the most efficient form.

## 6. Bibliography

- [1]. Bishop, C.M., “Neural Networks for Pattern Recognition”, New York, NY: Oxford University Press, 1995.
- [2]. Fritsch, U., and Stephan, S., “Leading Indicators of German Business Cycles: An Assessment of Properties”, DIW Discussion Paper 207, 2000.
- [3]. Hymans, S., "On the Use of Leading Indicators to Predict Cyclical Turning Points", Brookings Papers on Economic Activity. 2. Pp. 339-284, 1973
- [4]. Khalid, M., Omatu, S., "A neural controller for a temperature control system", IEEE Contr. System. Mag., vol. 12, no. 3, 1990, pp. 58-64.
- [5]. Kim, B., May, G.S., “An optimal neural network process model for plasma etching”, IEEE Trans. Semiconduct. Manufact. vol. 7, no. 1, pp. 12-21, Feb. 1993.
- [6]. May, G.S., Huang, J., Spanos, C., "Statistical experimental design in plasma etch modeling", IEEE Trans. Semiconduct. Manufact. vol. 4, pp. 83-98, May 1991.
- [7]. Smith, T.H., Boning, D. S. , "A Self-Tuning EWMA Controller Utilizing Artificial Neural Network Function Approximation Techniques", IEEE Transactions on Components, Packaging, and Manufacturing Technology - Part C, Vol. 20, No. 2, April, 1997, pp. 121-132.

- [8]. Stock, J.H., and Watson, M.W., "New Indexes of Coincident and Leading Economic Indicators" In NBER Macroeconomics Annual, Blanchard, O., and Fischer, S. (eds)- MIT Press, Cambridge, MA, 1989.
- [9]. Timotej Jagric, "Forecasting with leading economic indicators-a neural network approach", Business Economics, 05 March, 2009, available on-line on the site: [http://findarticles.com/p/articles/mi\\_m1094/is\\_4\\_38/ai\\_111856311](http://findarticles.com/p/articles/mi_m1094/is_4_38/ai_111856311)
- [10]. Tudoroiu, N., Patel, R.V., Khorasani, K., "Neural Network based control strategies for improving plasma characteristics in reactive ion etching", Elsevier, Neurocomputing, Volume 69, Issues 7-9, March 2006, pp. 786-802, available on line at [www.sciencedirect.com](http://www.sciencedirect.com), or [www.elsevier.com/locate/neucom](http://www.elsevier.com/locate/neucom).
- [11]. Tudoroiu N., Khorasani K., Patel R. V., "MIMO RIE Neurocontrol Strategies", IEE Proceedings-Computerized Machines and Systems, New-York, Vol.147, Issue 2, March 2000, pp.143-147.
- [12]. Tudoroiu N., Zaheeruddin M., " SISO Neurocontrol Strategy Based On Inverse Neuromodel for Improving Air Discharge Temperature (DAT) Performance", The 27th Annual Congress of the American Romanian Academy of Arts and Sciences (ARA), Proceedings, Oradea, 2002, pp.918-922.
- [13]. Tudoroiu N., Zaheeruddin M., " SISO On-Line Training PI Neurocontrol Strategy for Improving Air Discharge Temperature (DAT) Performance", The 28th Annual Congress of the American Romanian Academy of Arts and Sciences (ARA), Proceedings, Tg-Jiu, 2003.
- [14]. Tudoroiu, N., Manuela Grigore, Jeflea, V., Roxana-Elena Tudoroiu, "The State Dynamics Estimation of the Nonlinear Processes using Neural Networks as an Alternative to the Kalman Filters Estimation Techniques", Analele Universitatii "Spiru Haret"- Seria Economie, ISSN 1582-8336, Vol III, Anul 8, nr.8, 2008, pp.223-234.
- [15]. Tudoroiu, N., Chiru C., and Manuela Grigore "Neural Networks Architectures for Modeling and Simulation of the Economy System Dynamics", Journal of Academic Research in Economy, JARE, Constanta, Romania, March 2009.
- [16]. Zaheer-uddin, M., and Tudoroiu, N., "Neuromodels for discharge air temperature system", Elsevier, Energy Conversion and Management, 2004, Vol.45, Issue 6, pp. 901-910.
- [17]. Zaheer-uddin, M., and Tudoroiu, N., "Neuro-PID tracking control of a discharge air temperature system", Elsevier, Energy Conversion and Management, Sept. 2004, Vol.45, Issues 15-16, pp. 2405-2415.

# Considerations Regarding The Methodology Of Analysis And Performance Evaluation For Modern Romanian Small And Medium Enterprises

Enuși Mariana  
*Academy of Economics Studies, Bucharest*  
*marinusa@hotmail.com*

## Abstract

The key-factor in profitability of the small and medium modern enterprises is the intellectual capital and non-corporal actives of those. The empirical formers studies confirm that the intellectual capital has a great impact to the performances of the small and medium modern enterprises.

The aim of this article is to exam the inter-relations and inter-actions between the components of the intellectual capital and the non-corporal actives in the process of evaluation the performances of the modern enterprises that is a competitive sustainable advantage. These are basic for help the decisions of the management o allocate resources and the decision of the investors regarding the correlation between value and price.

**Key words:** SME, intellectual capital

**JEL Classification:** D21, L25

## 1. Introduction

The globalization and acceleration the technological changes stress inside the economical medium the importance of the ongoing the activities making the differences between the modern and classical enterprises in allocation the resources and the decision of the investors about the correlation between the value of the modern enterprises and the price of the non-corporal actives (intangible actives).In this context, there are new opportunities (or threatens) for business.

They can observe the real growth of the incorporate knowledge in human capital and also in the intellectual capital of the modern enterprise and opening the new contradictions between the liberty of the

immaterial labor and its disciplinarian, between the creativity of the intellectual labor and control.

## 2. Intellectual capital

In 1990's there was developed the concept of the intellectual capital, when the managers realized that the two problems regarding the company management and the evaluation are only the two sides of one coin."-what you want to lead you must measure" and" what you want to measure you can lead". The intellectual capital represents the fusion between the two flows of thinking. (Roos et al., 1997).

In Romania, since 2000,they have stressed these two flows and the two problems regarding the management and both the evaluation determined some companies to evaluation the intellectual capital and non-corporal actives.

According to the Minister of Public Finance of Romania, no. 306 of 2002 for approval of simplified accounting regulations harmonized with European Directives, intangible assets include:

- formation expenses;
- development costs;
- concessions, patents, licenses, trademarks, rights and other similar values;
- goodwill;
- other intangible assets, and
- intangible assets in progress.

The structure of the intellectual capital is deeply rooted , was the first time that the economist John Keneth Galbraith in 1969, and Peter Drucker talked about "knowledgeable workers".

The intellectual capital is an intellectual material - knowledge, information, intellectual property, experience – these may be put to increase the welfare (Stewart,

1997) of modern enterprises.

### Intellectual capital and major components

Potential asset value	Asset value	
Human capital	Intellectual asset	
- Experience	• Programs	• Methodologies
- Know-How	• Invention	• Documents
- Abilities	• Data base	• Drawings
- Creativity	• Projects	
	<b>Intellectual Assets</b>	
	• Patents, Copyrights	
	• Trade Secret factory	

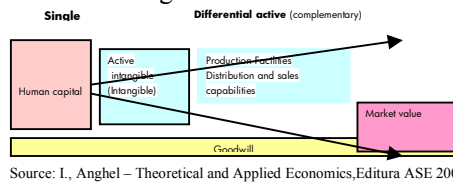
In the context of modern business is important to understand the entire company as a business value as the sum of all assets (tangible and intangible).

A classification of the assets of modern business, as follows:

- Differentiable Assets- this class of assets is often unique and includes assets such as production, processing and distribution, which are similar between companies, but still different in some respects from those of competitors

The following figure present market value of a company from liquidation value of the generic assets and market value of assets plus market value a generic intangible assets.

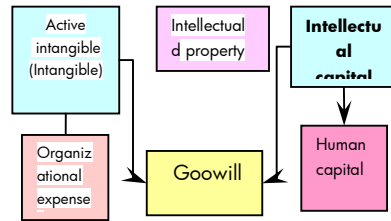
Figure no. 1 Market value of a SME's with intangible assets



Source: I., Anghel – Theoretical and Applied Economics, Editura ASE 2004

In the context of current economy, the management role is to establish modern enterprise value than generic asset value. The performance depends on today's modern enterprise knowledge and ability of human capital (potential value) in intangible assets of the organization (such as trademark, patents, licenses, goodwill, trade secrets, copyrights, intellectual property, etc.).

Figure no. 2 The components of a SME's with intangible assets



Source: Author's owner

### 3. Evaluation of intangible assets (intangible) under financially Reporting Standards (IFRS)

Through the performance evaluation methodology of the modern enterprise they answer questions such as:

- What is the real value market of the enterprise
- Is this value satisfactory or not?
- How did they get the results?
- Which are the wanted performances and also the results and what is the level of the performance?
- What have they do for get the wished performance?
- What is the intangible value indicated (not shown in the balance sheet)?

The general aim of the evaluation methodology consists in a continuous training and the most important think is to help the evaluators of he non corporal actives regarding in the ownership and use recognized assessment methods appropriate for determining market value or fair value of intangible assets separately, both required for carrying out transactions based on market value and requirements for financial reporting under International Financial Reporting Standards - (IFRSs).

The five recrecognized methods of evaluation of separated intangible assets entered into the three traditional evaluation approaches are:

- II.1. Transactional method
- II.2. Relief from Royalty Method
- II.3. Premium Profit, or Incremental Income Method
- II.4. Multi-period Excess Earnings Method
- II.5. Replacement Cost Method

The forecast period of financial indicators used in applying the five methods above, is shorter than the remaining economic life or equal with legal life. The economic life is defined as the period in which intangible

assets are expected to generate an economic benefit for their owners. Legal life is the period in which intangible assets are protected by law.

The six stages of implementation of these methods are:

- a) estimate the remaining economic life of the intangible asset ;
- b) forecast net turnover achieved by using the intangible asset;
- c) determining the appropriate royalty rate (the market);
- d) determining the discount rate specific intangible asset under evaluation;
- e) calculating the present value of net charge economy;
- f) calculating the depreciation tax benefit - but where is assessing the initial recognition of an intangible asset in the financial statements.

Classical sources of profit or cash flow are either extra an excess of selling price (premium price) reduction of expenditure items (variable or fixed-economies of scale) or a combination of the two sources above.

Comparing the flow of income or cash flow forecast can be made:

- be between the entity using intangible assets and other similar entities without an intangible asset. If a brand is product evaluation. Applying this procedure is subject to credibility than they can forecast revenue or cash flow that is not feasible to use similar entity. If there is sufficient information to make such a credible forecast, additional profit method should not be used, either between that of the entity, in two ways: with and without the use of that intangible asset. It is the evaluation of a patent and a non-compete agreement.

Always preferred result of the assessment, based on direct knowledge of the market, is where intangible assets are trade on a market, or are the current trading prices of similar intangible assets, either current trading prices of some similar intangible assets, in the second case of being necessary, some corrections to reflect differences between selected elements of comparison (respectively the differences between intangible assets and intangible assets valued comparable selected as appropriate).

The initial evaluation of identifiable intangible assets with finite economic life, so liquidated, following a business combination,

fair value of these will include the tax benefit resulting from the amortization of intangible assets.

Form for calculating the tax benefit (BF) is:

$$BF =$$

$$\text{Estimated value} \times \frac{n}{\{(n - F_{cap}) \times S\} - 1}$$

where:

Estimated value = total economy or discounted fee, or replacement cost of internal generation identified with the cost of an intangible asset similar or identical;

n = number of years for amortization of intangible assets;

F<sub>cap</sub> = capitalization factor and required update rate;

S = tax rate.

#### 4. Assessment of intellectual capital and intangible assets in a modern business. Case study at S.C. Arobs Transilvania Software

S.C. AROBS Transilvania Software has recently turned 11 years:

S.C. AROBS Transilvania Software partner becomes Microsoft Gold Certified Partner

On July 1, 2009, S.C. AROBS Transilvania Software (AROBS) has acquired the status of Microsoft Gold Certified Partner - the highest form of partnership between Microsoft and companies operating in IT & C Achieving.

Segment-sized GPS and PDA S.C. Transilvania AROBS 2010 estimate for growth this year lower than that recorded last year in 2009 to a figure approaching 5 million and estimated a forecast for market share between 20 and 25%.

An estimated 2 million revenues from outsourcing services company, approximately 20-30% of the total business of SC AROBS Transilvania.

The modern enterprise management, internally generated computer programs are also an advantage for the organization and ensure long term sustainability of the company are internally generated for the skills and knowledge that group of authors who contributed to making them part of the company's intangible assets.

Internally generated computer programs to describe their functionality to address the cost of historical costs for generating computer programs, if these expenses are not shown separately requested:

- a. number of man-hours required for recreation program;
- b. the categories of personnel needed;
- c. employee wages in section b., and
- d. share information to determine administrative costs or overheads;
- e. the registration fees.

But especially for the income approach:

1. income / savings to the historical software;
2. forecast revenue from licenses including values for the remaining life of the software;
3. direct expenditures related to income forecast point b.;
4. forecast expenditure (eg. maintenance costs).

Remaining economic life to meet the following requirements:

- i. which was originally expected economic life and that is the date of valuation;
- ii. when it was put into service program;
- iii. description of internal development that could prolong the economic life;
- iv. description of internal development to replace the computer program that could reduce its economic life, and
- v. description of external factors that may affect the economic life remaining.

-Euro-		
Function	Number persons	of "Babson"
Software engineer	1	100
Special Analyst	2	100
Technical editor	1	50
Supervisor	5	75
Administrative	1	50
Average rate		\$2,5

\*including direct wage costs and overheads

Created Module	Code lines	Labor productivity (Code lines/hour)	Number of hours to recreate the program
Module 1	6000	3.0	2.000
Module 2	1000	1.0	1.000
Module 3	8000	2.0	4.000
Module 4	2000	2.0	1.000
Module 5	2000	3.0	666

No.	Indicators	Value
1.	Total number of code lines	2.333
2.	Total number of persons	11.155
3.	Average rate (2009)	4.25
4.	Estimated cost (€)	9.1.155
5.	Execution on 2009	333.333
6.	Replacement cost (€)	1.17.101
7.	Net replacement cost (rounded off)	617.000

### 5. Evaluation of a method patent economy / fee exemption

For the value of a patent application involves:

- List of patents for which protection pay legal fees;
- List of patent applications;
- The case of patents, the economic effects achieved;
- R & D spending to generate historical patents.
- Identification of patents and products share the administrative costs or overheads;
- Identification of patents and related products are expected to have commercial life;
- a) estimates of income from patent over the remaining economic life;
- b) estimates of direct costs related revenue in a.
- Feedback about the possibility of extension of patent protection legally provided over the life;
- Details of possible transmission of economic rights through patent license agreements or assignment.

Under assessment is a patent for a new product, the company used SC AROBS Transylvania Software, owner of the patent, which is acquired by the company Mio.

To assess the balance sheet is a patent by the method of acquisition, that company's acquisition by the company Mio SC AROBS Transylvania Software.

Type the requested amount is fair value.

Date of assessment: January 10, 2009

Assumptions for assessment are:

- useful life of the patent was estimated to be 5 years
- sales for products manufactured using patent was as expected:
  - thousand.Euro-



Year	Amount
2009	4.400
2010	4.840
2011	5.227
2012	5.541
2013	5.818

- fee turnover rate, the field was set at 4%;
  - company profit tax rate is 16%;
  - economic discount rate (exemption) of net charge was set at 16%.
- Calculation of Tax Benefit due to the deductibility of depreciation, is:

Indicators	2009	2010	2011	2012	2013
Net turnover	11,00	18,70	22,27	23,1	23,8
EXPENSES	1,70	2,3	2,78	2,16	2,27
Profit	2,72	5,4	6,7	7,0	7,2
Net income	1,3	2,3	2,3	1,9	1,9
Net income	0,852	0,773	0,671	0,582	0,708
Depreciation	2,7	20,3	2,5	1,27	7,8
Intangible	556,4				
Net income					
Depreciation	0,13				
Tax	0,11				
Depreciation	2,57				
Intangible	65,1				
Tax	621,5				

For assessment was to highlight the difference between book value figures of the company acquired its real market value through intellectual capital and intangible assets owned by default

Tax benefit of depreciation is worth € 651,000 and the fair value of the patent was calculated to € 6,215,000.

The difference between the two values is the subject of our study, by default of intangible intellectual capital of SC Transylvania AROBS maintains financial goal for this year 2010 and aimed at business between 7 and 8 million €, an increase over the previous year in 2009 with 30% for 2011 and plans to achieve a figure of up to 10 million € .

## 6. Conclusions

In practice evaluation of intangible intellectual capital of the firm's default to normal traditional highlight of the five methods with rigorous approaches. Evaluation methods of intangible intellectual capital default of modern enterprises in Romania meet international standards.

The investigation conducted by the author with reference to intellectual capital market has allowed the establishment of fundamental issues related to the formation of intangible intellectual capital implication of modern enterprises

Among these are:

- a) the state has relegated many market institutions;
- b) the scarcity of specialists for the "production and marketing knowledge;
- c) reduced integrity of the national economy in the world economy;
- d) lack of incentives to professionals able to create and invent states tend to conceal innovations and know-how;
- e) the inventors migration abroad;
- f) lack of financing sources of business innovators, etc. . .

According to research conducted at the micro level analysis has shown that driving out local businesses need and opportunity rather than actual market cost of the product via appropriate intellectual and rational management of intangible assets, and in particular, intellectual property default.

But once the assessment bears a theoretical and practical, roll the balance sheet as at most companies, these intangible assets are not indicated.

Research results showed that in practice, local businesses face a number of problems associated with managing intellectual capital, intangible assets, including the highlight:

- a) lack of sources of funding for both development and for recording intangible assets;
- b) lack of knowledge needed in the recording of intangible assets;
- c) moral rapid aging of intangible assets;
- d) lack of incentives from the state enterprises for the creation of intangible assets;
- e) non-recovery of costs for creating and recording of intangible assets related to small volume production;

f) unenhancing the legal framework protecting intellectual property.

Suggestions:

1. Today, innovation is needed and setting up infrastructure. Achieving that goal is only possible as a result of carrying out state policy innovation active mass use of various levers and instruments.

Basic tasks that faced Romania in the formation of innovative system is derived first, the formation of normative-legal basis favorable to innovative activity, above all in matters of protection, disposition and use rights to the intellectual capital ( starting point should be to enact law on intellectual property), and secondly, building an infrastructure developed to support the intellectual activity and rapid transmission of the results of scientific research that has commercial potential, business sector for production and removal market innovations in the form of goods and services.

2. A major innovation in creating infrastructure has training infrastructure. In Romania it is necessary to form an effective system of financing of innovative activity, both at the expense of budget resources and extra budgetary funds account. State funding for innovative scope should be oriented in the following areas: capital injection (partially without being paid) for innovative projects that have a high commercial potential able to become the "locomotive" to increase innovation, innovations in financing off-budget funds, full state funding irreversible and innovative projects, which bears the national character, but of interest to private business.

3. It requires the protection of local

entrepreneurs by providing innovative risks and other risks related to intellectual property objects.

To address this problem, the state must ensure market transparency and stability of national security, contribute to implementation of international standards in insurance business and supervisory standards, to continuously improve insurance legislation, to create conditions for integration Romania's insurance market in insurance and reinsurance schemes.

## 7. References

- [1]. Anghel, I., – Theoretical and Applied Economics, Editura ASE, 2004;
- [2]. Brennan, N., Connell, B., - Intellectual Capital: current issues and policy implications, *Journal of Intellectual Capital*, 1(3), 2000;
- [3]. Bontis, N., - Intellectual Capital: an exploratory study that develops measures and models, *Management decisions*, no.36, 1998;
- [4]. Drucker, P., *Post capitalist society*, New York: Harper Business, 2003;
- [5] Lev, B., *New accounting for new economy*, available at [www.stern.nyu.edu/bev](http://www.stern.nyu.edu/bev), 2000;
- [6]. Lev, B., *Response to your questions concerning my testimony before your committee*, New York University, Leonard Stern School of Business, 2002;
- [7]. Petty, R., Guthrie, J., *Intellectual Capital literature review: Measurement reporting and management*, *Journal of Intellectual Capital*, Vol. 1 (2), 2000;
- [8]. Stan, S., - *Seminar de Pregătire Continuă - SPIC 08 Evaluarea Activelor Necorporale, IROVAL – Cercetări în Evaluare*, Colecția Biblioteca ANEVAR, 2008

## Justifications for Intervention in the Marketplace in Favor of Consumer Protection

Gheorghiu Gabriela  
Popovici Veronica  
Bundă Ramona Nicoleta  
„Ovidius” University of Constanta  
gabi\_eforiesud@yahoo.com  
verovnp@yahoo.com  
dinuramona@univ-ovidius.ro

### Abstract

Economic reality of everyday life places the consumer in an objectively unbalanced report in favor of the producer/trader, even if the first, with his needs, should be both the origin and the final point of production activity. In this context, the present paper contains an analysis of the reasons behind the intervention in the marketplace in favor of consumers. Each one with its advantages and its limitations, these reasons have allowed the development of comprehensive national systems for consumer protection.

**Key words:** consumer protection policy, competition policy, market failures, economic power, information, measures

**JEL Classification:** D18

### 1. Introduction

Consumer protection policy has an ancient genesis, dating back at least to Roman times with the adoption in Roman law of various implied warranties against latent defects in the sale of goods, and evolving in the latter part of the last century to encompass weights and measures legislation, regulations dealing with adulterated food, dangerous drugs, and various forms of "quackery" on the part of suppliers of goods and services. However, the current legislative and regulatory consumer protection framework developed by the world's states largely finds its genesis in the consumer and more general policy activism of the 1960s and 70s, during which period most of the major national consumer protection statutes were first enacted or extensively elaborated.

The traditional justification of consumer protection is founded on the notion of

restraining the monopoly power of huge companies and the potential that they possess to influence consumers via advertising that limits consumers' ability to verify what is in their own best interest. This theory refers not to the individual consumer in a concrete situation, but stresses a general economically weaker position of the consumer *vis-à-vis* the suppliers. Consumers are seen as less knowledgeable and as economically inferior to producers and traders. So a large deviation between the ideal of consumer sovereignty and reality is presumed. Producers are seen to possess "sovereignty," corporations are powerful and able to bring their goods onto the market and they can manipulate the consumers to buy them. Disadvantageous transactions are thought to result from the exploitation of a seller's bargaining advantages *vis-à-vis* the individual consumer. There is a widespread chance of exploitation as a consequence of the discrepancy between the economic power of the producer/dealer and that of the consumer.[1]

The power imbalance on the market ("countervailing power") leads to demand for market reconciliation, compensation or balancing. According to this conception the state must support the consumers as weaker market participants during the counterweight formation.

### 2. Competition Policy as a Valuable Instrument for Consumer Protection

In well-functioning markets, supported by general contract law, competitive pressure means that only those firms which give consumers what they want can prosper. There is little role for any intervention to protect the consumers when all product attributes and prices are easily observed and evaluated at

the time of sale, when search cost are not significant, when consumers sample offers from multiple suppliers, and when most consumers are capable of making reasonably good decisions concerning the product in question.

But many, perhaps most, products do not satisfy these restrictive requirements and some consumers might not always obtain a good deal, even when substantial competition is present. In such cases additional policies to aid consumers have a role to play.

In fact, what prevents markets from delivering good outcomes to consumers? Familiar reasons include, as we mentioned earlier, abuse of dominance and collusion between suppliers, and these fall broadly within the domain of *competition policy*. However, there are several other reasons why competition need not work well, especially because of imperfect information about product attributes or market prices, consumer high cost of obtaining market information, supplier significant costs of advertising, or consumers possessing imperfect information about their own needs. These features fall broadly under the heading of *consumer protection activities*. [2]

These activities can be divided into two categories: (a) *consumer protection policy*, properly speaking, which is designed to modify the status quo in terms of the information available to consumers; and (b) *consumer promotion*, geared toward education and the creation of institutions and associations for consumer protection advocacy.

Consumer protection and promotion policies are generally introduced by the government, either through public consumer protection agencies, through different measures designed to reduce the transaction cost of litigation, or through the creation of alternative mechanisms for dispute resolution. But, there are also private-sector initiatives such as the creation of customer services centers by corporations and consumer affairs columns in the media that can be designed to protect consumers' interests. [3]

Competition policy and consumer protection policy share the common purpose to facilitate the exercise of *consumer sovereignty* defined as a state in which consumers can freely take decisions based on their individual interests and in which markets will respond to the collective effect of those decisions. But competition policy is mainly intended to ensure that a range of options is available to consumers through market competition, while consumer protection

seeks to protect the ability of consumers to freely choose among such options without their critical faculties being hampered by such violations as deception or omission of material information. Together these policies function to protect a free economy. [4]

However, while the objectives of both policies are essentially the same, competition policy is more a proactive policy that attempts to promote consumer interest in the marketplace, whereas consumer protection policy puts forward mainly a reactive agenda to protect the interests of consumers and provide access to redress for abuses. [5]

Both competition policy and consumer protection policy are theoretically justified on the basis of the possible occurrence of "market failures", such as abuse of economic power, asymmetrical information transaction costs, externalities, entry barriers and natural monopolies. In this context, the market failures can be divided into two categories: (a) those *external to consumer relations*, comprised of restrictions to the range of consumer choices which can be corrected within the sphere of competition policy; and (b) those *internal to consumer relations*, comprised of restrictions to the consumer's ability to choose freely from among the options available which can be corrected within the sphere of consumer protection. [6]

Thus, market imperfections such as imperfect information and irrecoverable entry costs, or anticompetitive conduct such as price or reputation predation, price fixing, horizontal restrictions, mergers and vertical restrictions, fall within the exclusive remit of competition policy.

On the other hand, the sphere of consumer protection covers cases involving complaints relating to product features, warranties and contractual clauses associated with market failures whose impact harms four types of consumer: those whose freedom of choice is subject to some form of coercion; "vulnerable" groups (such as children); victims of misleading or incomplete information; and consumers who have to deal with information that may be difficult to understand. There are also certain "hybrid" cases that involve constraints on both consumer choice and the effectiveness of choosing among the existing options. This is the case, for example, with conduct that results in higher search costs, tied sales or

resale price fixing.

Being justified on the same basis, the competition policy and consumer protection share the common purpose of guaranteeing the consumer sovereignty in the marketplace, and, in practice, both functions converge. Moreover, they stimulate each other reciprocally, so that the level of competition in a market may affect the level of consumer protection required. If a competitive market is seen as delivering choices in terms of prices and quality, regulatory intervention on behalf of consumers may need to be strategically targeted so that there is little, if any, negative impact on the competitive process. It is important that consumer protection not hinder competition by, for example, imposing excessive compliance costs on businesses, which are likely to be ultimately passed on to consumers.

### 3. Main Reasons for Consumer Protection Policy

Therefore, as a distinct aspect of social protection that a democratic society must promote, *consumer protection policy involves, in practice, a set of measures belonging to public or private initiative and adopted in order to ensure and improve, on a continuing basis, the interests of consumers in the marketplace.*

The development at national level of a coherent consumer protection policy is justified from *various reasons*.

- Under *efficiency reasons*, all people should get what they want, so even the individual interests of consumers should be satisfied. In this respect, it is assumed the rationality of human behavior, which is why government intervention in favor of consumers is justified for reasons of developing their ability to satisfy their individual interests, seeking to achieve the overall economic efficiency by correcting, in particular, the market failures that jeopardize consumer sovereignty in the marketplace, such as, for example, prohibiting misleading advertising.

This efficiency considerations, as rationales for consumer protection, may be challenged for several reasons. Thus, first, their adoption requires proper identification of costs and benefits involved, action that it is not always very easy, for the decision made to be the most efficient in practice. Second, measures taken for efficiency reasons not necessarily take account

of specific complex economic, social and legal factors which influence the relationship between the consumer and the producer/trader and make the exercise of power in those relations. Also, the rationality behavior assumption, underlying these reasons, ignores how consumers mostly make decisions and effectively conduct themselves in the market.[7]

- Taking measures to protect consumers can be justified also for *paternalistic reasons*, which are based, most often, on the premise of challenging the rationality assumption of certain categories of consumer behavior - such as minors, the elderly, the sick people and low income households, considering that, for some reason, they are unable to pursue their own interests, so as to justify intervention for their protection. For example, measures targeting minors may include: setting strict rules that their consumption products must meet; banning the sale of alcoholic or tobacco products; banning advertising that can exploit the psychological vulnerability of children etc.

But even this paternalistic attitude towards some consumers may be challenged especially in liberal societies that emphasize individual freedom and autonomy, such as when people are in a terminal stage of disease causing death and up which is assessed that decision should be allowed to have access or not to some experimental drugs with an increased risk to human health.[8,9]

- Because the measures taken to protect consumers from efficiency reasons have often been criticized that they mostly ignore such issues as equal or fair distribution of resources in society, it has been supported the promotion of measures based on considerations regarding *distributive justice*. Adherents of this point of view argue that one source of concern and, indeed, of failure in the transactions between consumer and producer/dealer is the unequal distribution of bargaining power between the two parties, situation which motivates the adoption of measures to protect the weaker party against the abuse of the strongest partner.

And how, almost every time, it is considered that the difference related to size and available resources are detrimental to the consumer, it is required the appropriate

intervention in his favor to restore the same footing as its partner, by promoting measures as: correct definition of the terms of sale contracts; prohibiting the use of unfair terms; providing legal mechanisms available to consumers to offset any damage etc.

These measures adopted from distributive justice reasons may also be challenged on the grounds that, in general, consumer location in a weaker position compared with its transaction partner is especially true for companies that are in a monopolistic or dominant position, who have the power to manipulate consumers in their own profit, issues that fall under competition policy and should be regulated specifically by it.

As another source of inequality in bargaining power are the informational asymmetries, so that the producer/dealer may exploit the available information to the detriment of consumers, it is also considered that a transactional balance can be accomplished through fair distribution of information between partners.[10]

- The advantages, and especially the limits of the reasons categories analyzed above led to the adoption of consumer protection measures from an *eclectic mix of reasons based on certain information principles*. [11, 12]

Thus, it is considered that to be truly useful for consumer decisions, information must meet several criteria: the consumer has access to a sufficient volume of information to take the best decision; the information content is right; the information is easy to understand, allowing those who use it to process towards relevant comparisons between consumption alternatives available to them; the information comes from a reliable source, otherwise being ignored by the consumer.

When one or more of these criteria are not met, it is necessary to adopt measures aimed at protecting consumers in order to reduce the cost of obtaining and processing information or to improve consumer assessment of the information value by making him aware of hidden risks involved in certain activities, or both.[13] In response, the specific measures that can be taken include: the obligation of producers to disclose certain information about their products through labeling or advertising; the introduction of certain provisions in sale contracts to benefit the consumers; establishing standards that products or services sold in the

market must meet, regulating liability for defective products.

#### 4. Conclusions

*Government intervention in the marketplace for consumer protection reasons should be taken only to the extent that solutions based on market mechanisms is not working properly.* Such situations may occur when: reduced repetition of transactions or their absence does not allow consumers to receive performance incentives created by repeated transactions that can be achieved from some satisfied customers; the costs of entry and exit from the industry are very reduced, allowing the manifestation of a large number of operators with transient existence, not always the most reliable; reduced value transactions discourage consumer to seek compensation, after its completion, for any damage incurred through legal action etc.

#### 5. References

- [1] Haupt, S., "An Economic Analysis of Consumer Protection in Contract Law", *German Law Journal*, Vol. 4, no. 11, 2003, pp. 1137-1138
- [2] Armstrong, M., "Interactions between Competition and Consumer Policy", *Competition Policy International*, Vol. 4, No. 1, Spring 2008, p. 98-100;
- [3] Engel, E., "Beyond the Basics of Consumer Protection" in *Regulatory Policies and Reform: A Comparative Perspective* (Claudio R. Frischtak ed., 1995), p. 131;
- [4] Averitt, N.W., Lande, R.H., "Consumer Sovereignty: A Theory of Antitrust and Consumer Protection Law", *Antitrust Law Journal*, No. 65, 1997, pp. 713-714;
- [5] United Nations Conference on Trade and Development, *Consumer Protection, Competition, Competitiveness and Development*, Expert Meeting on Consumer Interests, Competitiveness, Competition and Development, Geneva, 17-19 October 2001, p. 6;
- [6] de Oliveira, G., Goldbaum, S., "Relations between Regulation, Competition Policy and Consumer Protection in Telecommunications, Electricity and Water Supply", *Brooklin Journal of International Law*, Vol. XXVII, No. 1, 2001, p. 68;
- [7] Korobkin, R.B., Ulen, T.S., "Law and Behavioural Science: Removing the Rationality Assumption from the Law and Economics", *California Law Review*, no. 88, 2000, pp. 1051-1144;

- [8] Sunstein, C., „Legal Interference with Private Preferences”, *University Chicago Law Review*, Vol. 53, 1986, p. 1129;
- [9] Burrows, P., „Analyzing Legal Paternalism”, *International Review of Law and Economics*, Vol. 15, 1995, pp. 489-508;
- [10] Schwartz, A., „Legal Implications of Imperfect Information in Consumer Markets”, *Journal of Institutional and Theoretical Economics*, no. 151, 1995, pp. 31-48;
- [11] Duggan, A. J., „Some Reflections on Consumer Protection and the Law Reform Process”, *Monash University Law Review*, Vol. 17, no. 2, 1991, pp. 252-284;
- [12] Hadfield, G. K., Howse, R., Trebilcock, M. J., „Information-Based Principles for Rethinking Consumer Protection Policy”, *Journal of Consumer Policy*, Vol. 21, nr. 2, 1998, pp. 131-169;
- [13] Rudd, J., „The Consumer Information Overload Controversy and Public Policy”, *Review of Policy Research*, Vol. 2, Issue 3, 2005, pp. 465-473.

## Considerations Regarding the Importance of the Service Sector in the National Economy. A Romanian Case Study

Herman Emilia

“Petru Maior” University of Tg. Mures

*emilia\_herman@yahoo.com*

Pop-Florea Mioara

Technical University of Cluj-Napoca

*mioarapf@yahoo.com*

### Abstract

The economic literature and practices show that an efficient service sector, with a high level of quality, is a decisive factor of the sustainable economic development and competitiveness of modern economies. In this paper we would like to highlight, through a statistical-economic analysis, the importance of the service sector in the process of economic growth and job creation, compared with other sectors of Romanian economy in the period 1990-2008. For Romania, the existence of a constant concern for efficiency and services quality is imperative both at the national and regional level in order to accede to the status of a country with a developed economy, a knowledge-based economy.

**Key words:** service sector, services quality

**JEL Classification:** L80, P44

### 1. Introduction

Developing an economy based on knowledge and innovation (smart growth), promoting a more efficient, greener and more competitive economy (sustainable growth) and fostering a high-employment economy delivering social and territorial cohesion (inclusive growth) represent the three mutually reinforcing priorities stipulated in “Europe 2020 Strategy” [1] so that Europe should emerge from the stronger economic and financial crisis. Therefore, through this strategy, the major role that the service sector should have at the national economy level and implicitly on the UE economy is acknowledged at a European level.

The growing share of services in global output, employment and international

transactions has brought to the forefront the issue of the role played by services in the national economy.

As far as the concept of “service sector” and the role of the structural changes in economic growth are concerned, the contributions of authors like Fisher A.G (*The Clash of Progress and Security*, 1935), Clark, C.A. (*The Conditions of Economic Progress*, 1940), Chenery H.B. (*Comparative Advantage and Development Policy*, 1960), Fuchs, V. (*Economic Growth and the Rise of Service Employment*, 1980) need to be pointed out. These studies have noted and documented the positive association between growth and share of services in the industrial-distribution of the labour force based on Petty’s Law which states that in the course of economic growth there will be a shift of population from agriculture to manufactures and from manufactures to services.

There are a lot of studies that have theoretically argued and empirically estimated the link between performance of service (or tertiary) sector and economic development. For example, B. Eichengreen, P. Gupta (2009) considers that one of the most striking regularities of the growth process is the massive reallocation of labour from agriculture into industry and services [2]. One of the stylized facts of economic development is that the share of services in GDP and employment rises as per capita incomes increase [2]-[5].

In our paper we aim to identify the connection between service sector and employment, on the one hand and service sector and economic growth, on the other hand, based on the statistical data in Romania, between 1990 and 2008. Moreover, we intend to show the connection between economic growth and employment, in the tertiary sector context.



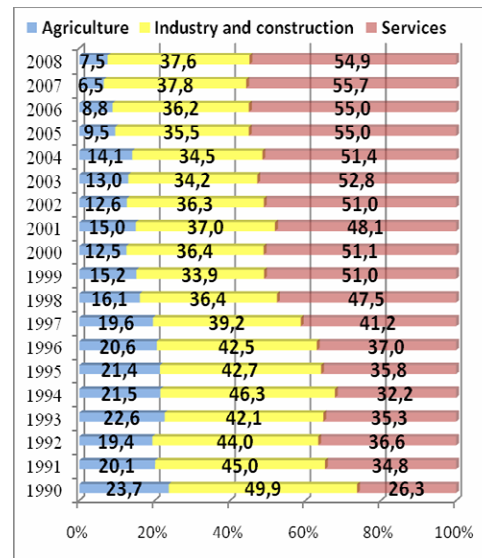
## 2. The role of the service sector in the economic growth process

In the economic theory it is stipulated that economic growth precedes service sector growth. But along with the growth of service sector, growth in manufacturing sector also takes place and the two-way spillover effect induces growth in the economy. Therefore, there is a causal relationship between economic growth and growth in the service sector.

Transition economies, including the Romanian economy, have inherited a deformed economic structure, where the forced development of the hard industry affected the increase in the service sector and convenience goods sector. After 1989, the commerce and prices liberalization have opened the way to a resource reallocation and a *change of the economic activity's structure on sectors, branches and domains, according to the market's needs*. In order to present these changes we have to start with the gross value added (GVA) evolution, but mainly with the evolution of the changes in the structure of the GVA, on categories of resources.

In the first transition year – 1990, out of the GVA total 50% was achieved in industry and constructions, 23.7% in agriculture and the rest in services.

Figure 1. Share of GVA by Sector (%), 1990-2008, in Romania”

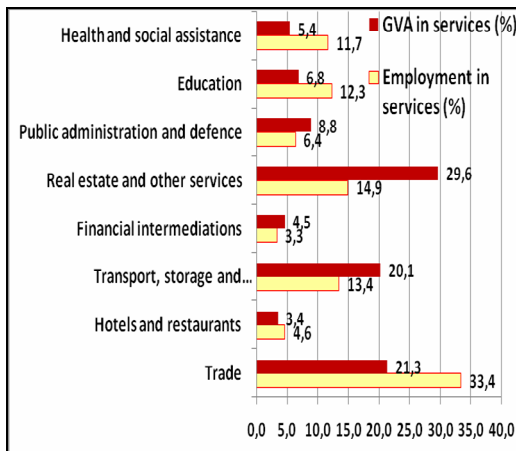


(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, National Institute of Statistics (NIS), 2009)

This situation changed during the transition period and in 2008 out of the GVA total only 37.6% was achieved in industry and constructions, 7.5% in agriculture (including hunting, forestry, fishing and fish breeding) and the rest in services and assimilated activities (54.9%), according to the data in figure 1.

As far as the contributions of the tertiary sector to the formation of GVA are concerned, these are very different.

„Figure 2. The GVA structure and Employment structure, in the tertiary sector, in 2008, in Romania (%)”

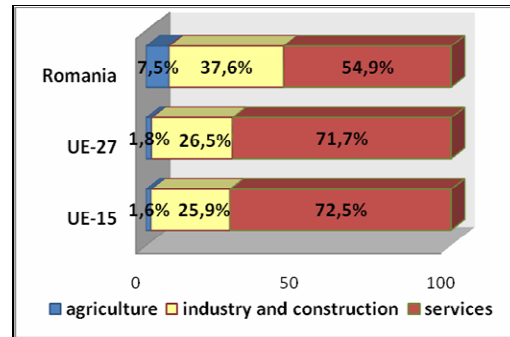


(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, NIS, 2009)

Within the service sector the highest contribution to the achievement of gross value added, in 2008, pertains to the activity of *real estate transactions, renting and service activities mainly rendered to enterprises*, 39.6% respectively, followed by the *trade activity* (22.3%) and the *transport, storage and communications activity* (21.3%), according to fig. 2.

Although the service sector developed, between 1990 and 2008, in comparison with the countries of the EU we are still behind. In order to support this statement we present the following data in the table figure no.3 In the EU countries- 27, according to the information provided by Eurostat, out of the GVA achieved in 2008, only 1.8% was achieved in agriculture, 26.5% in industry and constructions and in services 71.7%. In Romania, in the same year, out of the total GVA nationally achieved, 7.5% was achieved in agriculture, 37.6% in industry and constructions and 54.9% in services.

„Figure 3. Share of GVA by sector in 2008, Romania and EU (%)”

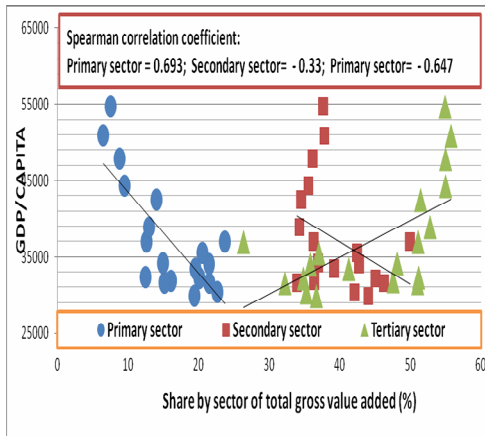


(Source: [http://epp.eurostat.ec.europa.eu/portal/page/portal/national\\_accounts/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables))

The change of the economy’s structure allowed the following situation, beginning with the year 2000 until now, the sustained economic growth process in Romania has led to the doubling of the GDP per capita (calculated on the basis the Purchasing Power Parities), from 4900 in 2000 to 11800, in 2008 [8] reducing the gap compared with the EU 27. Nevertheless the level of GDP per capita achieved in Romania in 2008, represents only 45.8 % from the EU 27’s average.

In Romania, between 1990 and 2008, based on the Spearman correlation coefficient of 0,693 (fig.4), a direct correlation between the share of services in GVA and GDP per capita was identified, fact that highlights the decisive role of the service sector in the process of economic growth.

„Figure 4. Correlation between share of GVA by sector (%) and GDP/capita, 1990-2008”



Note: GDP/capita is calculated and expressed in constant prices (1990)  
(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, NIS, 2009)

On the other hand, it can be noticed that also between the contribution of the primary sector to GVA and GDP/capita as well as between the contribution of the secondary sector (industry and construction) to GVA and GDP/capita there is an inverse relationship.

The statistical data prove, in this way, that in Romania the service sector has a higher contribution, as compared to the other sectors, to the economic growth. The economic and the social role is acknowledged in this sector, paying special attention to the tertiary sector within the sustainable development strategies of the Romanian economy.

### 3. Employment and service sector in Romanian economy

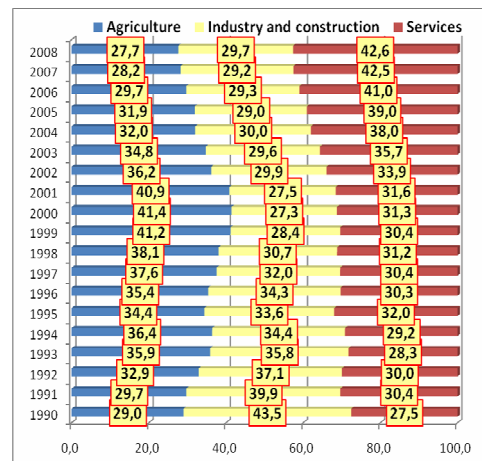
The gradual focusing process of the employed population in services is usually considered a positive historical process of social and economic progress.

The structure on sectors of employment differs in space and time. Within the *pre-industrial* companies most of the people worked in the primary sector. Together with the *industrial revolution* and by moving from the natural economy to the barter one, the favourable environment was created so that employment would be oriented toward the secondary sector to the

detriment of the primary one. The second stage of labour force reallocation took place by moving this toward the service sector, conditioned by the existence, on the market, of the demand for various services and the access of an increasingly category of economic agents to the services provided by this sector.

The service sector in Romania proves to be the only sector where an increase of the employed population is registered. Between 1990 and 2008, 742 thousand jobs were created in the tertiary sector (the employed population in this sector increased from 2,985 thousand in 1990 to 3,727 thousand in 2008), the ratio of the employed population in services, out of the total number of employed population, recording an increase of 15 percentage points (from 27.5% in 1990 to 42.6% in 2008, according to the data in the figure below).

„Figure 5. Employment structure, by activity sectors (%), 1990-2008”



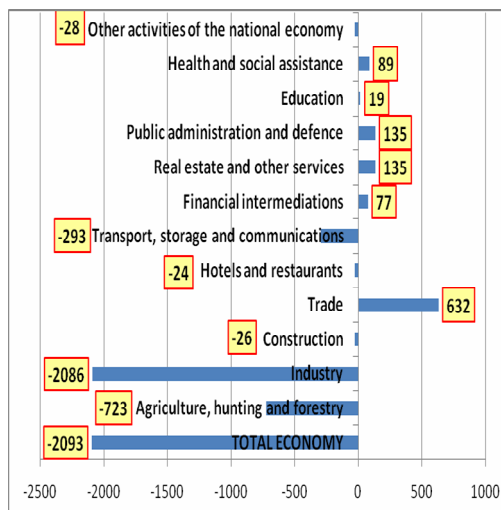
(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, NIS, 2009)

Due to the fact that within the service sector different changes of the jobs took place, according to the economic activity, it has to be mentioned that the highest job increases were recorded in the activity of *trade* (+633 thousand), followed by *public administration and defence* (+135 thousand), *real estate and other services* (+135 thousand), etc. (fig.6) accounting for 1,087 thousand jobs. On the other hand the employed population in the following activities was reduced: *transport, storage and communications* (-286 thousand),

*hotels and restaurants* (-30 thousand) and *other activities of the national economy* (-3 thousand) with 345,000 people (see figure 6.)

The apparent prevailing employment in the tertiary sector in Romania is not the result of job transfer from the first two sectors to the service sector, but it represents the effect of diminishing industrial activity, with all its implications, fact that resulted in reducing the global income and consequently, as has been stated above, in lowering the number of jobs even in the service sector. This sector has not proved the role of job generator and absorber of people laid-off from industry.

„Figure 6. The evolution of employment, by activity of national economy 1990-2008 (thou persons)”



(Source: Own calculations based on data contained in the Statistical Yearbook of Romania, NIS, 2009)

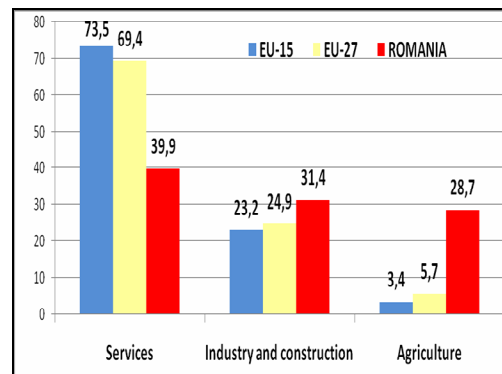
We mention that although 742 thousand jobs were created in 1990-2008 in the tertiary sector, these were not enough to take over the labour force laid-off from the primary sector (723 thousand people) and the secondary sector (2112 thousand people), creating by 2836 thousand less jobs in 2008 compared to 1990 [according to fig. 6]. Agriculture was the „outlet” for laid-off people, a refuge zone. The economic reality proved that subsistence agriculture is inefficient and effects are quite dangerous both in the short term and in the long term.

In 2008, out of the 3,727 jobs created in services, 31.4% are in the trade activity, 14% in the real estate and other services 12.6% in transport, storage and communications. In the *hotels and restaurants* activity and the *financial intermediations* activity fewer jobs were created, according to the data in the figure 2.

In order to outline the place where Romania is, in relation to the EU, concerning the structure on sectors of employed population, the differences between Romania and EU-27, EU-15 respectively are shown in line with data included in fig. no.7.

Reviewing data in the below figure it is noticed that concerning the structure of employed population on sectors of activity, Romania has a particular situation within the EU’s Member States, with an extremely powerful economic and social impact, characterized by much disequilibrium, first of all due to the extremely high proportion of employed population in agriculture and its maintaining during a relatively long period (1990-2008), to the detriment of services. Beside Romania, the countries in EU-15 have lower shares that are much below the Romanian level.

„Figure 7. Employment structure, by activity sectors (%), in Romania, EU-27 and EU-15, 2008”



(Source: Employment in Europe, 2009, for Romania -Statistical Yearbook of Romania, NIS, 2009)

It should be mentioned that the low level of employed population in agriculture reached by EU-15 and EU-27, is the result of a long historic process of transferring employed people in agriculture, firstly to the secondary sector, particularly to the processing industry, and then to both secondary and tertiary sectors.

To reduce the gaps in the field of employment it is necessary to emphasize the rise of the employment rate in the tertiary sector because at present, a prevailing employment in the tertiary sector is the most important factor of changing the structure of employment [6].

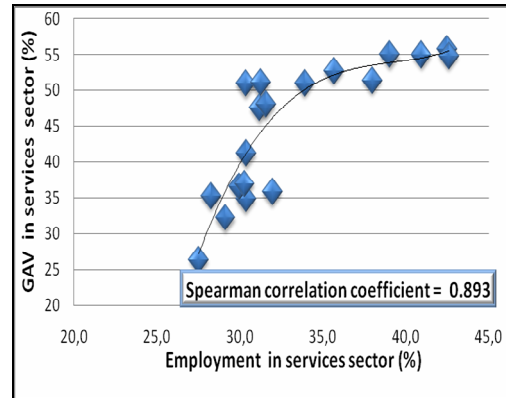
In Romania, the change of employment structure much as difficult and costly seems to be, is more than necessary. It must be done in order to shift from poverty to economic welfare.

#### 4. Correlation between employment and economic growth in the service sector

The transition from the centralized economy to the market economy has generated significant modifications both in the economic structure and also regarding the sectors composition of the employed population [3]. In most countries of the Central Europe, the decline of the employed population from industry and agriculture was accompanied by significant increases recorded by service sector, a valid statement both from the GDP proportion of the tertiary sector perspective and as regarding its specific share among the employed population.

In Romania, the correlation between the employment structure and the contribution of the employed population to the creation of the Gross Value Added allows us to state the following: The rise of the proportion of the employed population in services out of the total employed population with 15 percentage points (from 27.54% to 42.6%) has determined between 1990 and 2008 a rise of the contribution of this sector with 30.2 percentage points (from 26.3% to 54.9%).

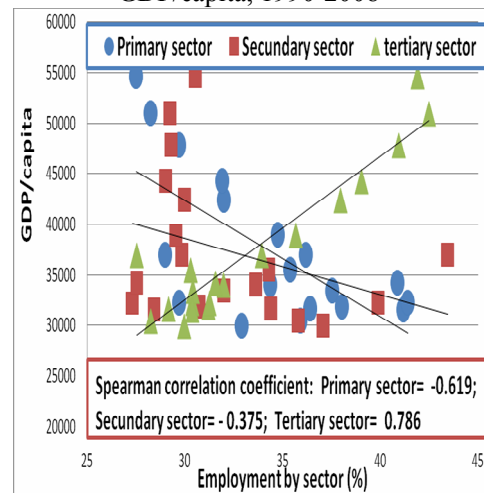
„Figure 8. Direct correlation between employment in services (%) and GVA in services (%), 1990-2008, in Romania”



In the economic theory it is stated that most of the countries with a small share of agriculture (primary sector) in the employment structure usually have a high level of GDP per capita and vice versa.

Between these two indicators there can be determined a statistically significant correlation because there can be recorded a direct, strong relation between the proportion of the employed population in services and the contribution to GVA, fact pointed out by a 0.893 Pearson's correlation coefficient.

„Figure 9. Correlation between the employment share by sector (%) and GDP/capita, 1990-2008”



From the calculations made, in order to establish the intensity of the correlation between GDP/capita and employed population share in the three sectors, between 1990 and 2008, it results that

between the employed population share in the primary sector and the level of GDP/capita a significant inverse correlation can be established (the correlation Spearman coefficient is  $-0.619$ ). Also, between employment in secondary sector and the level of GDP/capita the relationship is indirect, but low. In the tertiary sector a strong, direct relationship is identified (the correlation Spearman coefficient is  $-0.789$ ), thing that reflects that in Romania, the growth in the employed population in the tertiary sector has positively influenced the GDP/capita growth.

The service sector producing services (“intangible” goods) tends to require relatively less natural capital and more human capital than producing agricultural or industrial goods. As a result demand has grown for more educated workers, prompting countries to invest more in education-an overall benefit to their people. Another benefit of the growing service sector is that by using fewer natural resources than agriculture or industry, it puts less pressure on the local, regional, and global environment, the conditions for *sustainable development* being assured.

## 5. Conclusions

Services represent one of the most dynamic areas of the modern economy, the research of the services quality from an economic as well as social point of view is mandatory. The normalization development in the sector of service activities can be a considerable trump both of competition and growth of consumers’ life quality.

The economic reality of Romania reveals the direct relation between the

proportion of the employed population in services and the contribution to gross value added, proving, through statistical data, that in Romania, the service sector has a higher contribution to the economic growth compared to the other sectors.

For this reason we consider that this sector should be acknowledged the economic and social role, giving higher importance to the tertiary sector, under the quantitative, qualitative and structural aspect, a special attention within the sustainable development strategies of the Romanian economy.

## 6. References

- [1] European Commission , “E u r o p e 2 0 2 0 , A European strategy for smart, sustainable and inclusive growth”, Brussels, 3.3.2010, COM(2010)
- [2] B. Eichengreen, P. Gupta “The two waves of service sector growth”, NBER Working Paper no. 14968, 2009
- [3] F. Eschenbach, B. Hoekman “Services Policy Reform and Economic Growth in Transition Economies, 1990-2004”, C.E.P.R. Discussion Papers, no. 5625, 2006
- [4] J. F. Francois and Kenneth Reinert, “The role of Services in the Structure of Production and Trade: Stylized facts from a Cross-Country Analysis” , *Asia-Pacific Economic Review*, no.2, 1996, pp. 35-43
- [5] Giarini O., Liedtke P. M. “The Employment Dilemma and the Future of Future of Work”, Ed. All Beck, 2001
- [6] E. Herman, L. Conțiu, “The Romanian labour market in the entrepreneurial economy context”, *Economy& Business, Journals International Scientific Publications*, vol.2 part.I, Bulgaria, 2008, pp. 790-808
- [7] Statistical Yearbook of Romania, NSI, 2009

## Evolution of Fiscal Pressure in Romania Compared to other European Union Member States

Iacob Mihaela Ioana  
Boglea Vanina Adoriana  
*Universitatea „Aurel Vlaicu” of Arad*  
*mihaiacob1976@yahoo.com*  
*vanina.boglea@yahoo.com*

### Abstract

This article analysis the concept of fiscal pressure and fiscal optimum. A comparative study of the fiscal pressure between Romania and the other EU member states has also been made. The academic literature analyzes the specific problem of the fiscal pressure from all points of view and the problem which pressed upon the theoreticians and also the practitioners of the last decades remains the fiscal optimum. The difficulty in resolving the problem consists in opposite interests: on one hand, the government is willing to acquire the highest level due to the ascendant tendency of public expenses; on the other hand, the tax payers long for a much reduced level in order to dispose of more financial funds.

**Key words:** fiscal pressure

**JEL Classification:** H25, R11

### 1. Understanding the fiscal pressure

Although at the tax payer's level the tax seems a necessary evil, by virtue of honesty and good citizenship, he agrees to pay it as long as this tax won't affect his normal behavior in economy and society. That is why it is considered that the purpose of the fiscal system consists in realizing some financial objectives (financing the budgetary institutions), economical objectives (stabilizing the economical cycles) and social objectives (acting upon the system of distributing welfare) and for qualification we use the concept of fiscal pressure.

An efficient tax policy is the one capable to offset the following two trends: on one hand, the state wishes to have a high level of taxes, as it needs to finance the growing

public expenditures, whereas, on the other hand, the tax payers wants as low a tax level as possible, which trend is caused by the degree of bearability of a high fiscal pressure.

Fiscal pressure is generally given by all the obligatory tax bites which are calculated by reporting the total sum of obligatory tax bites (taxes, social insurance contributions) in a given period, usually one year, to the size of gross domestic product achieved during the same period by a national economy.

Besides the fiscal pressure technically determined, at a macroeconomic level, there is also a psychological fiscal pressure that measures the tax threshold of tolerance of each taxpayer and that, most often, takes the form of individual fiscal pressure determined as a ratio between the total extent of mandatory levies paid by a taxpayer and his total income before tax.

The specific problem of the fiscal pressure generated a series of attempts of the American theoreticians, and not only, to rethink the problem of the fiscal optimum.

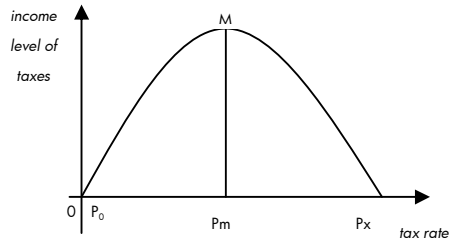
Thus, in 1974, Arthur Laffer transposed graphically (Laffer Curve) an idea expressed in 1776 by Adam Smith, according to which too high tax rates destroy the basis on which taxation acts.

Arthur Laffer believes that there is a threshold of maximum fiscal pressure to which any increase generates a reduction in the tax capacity, because a too high fiscal pressure will discourage the taxpayer to invest, save, produce and work.

Laffer Curve illustrated in the form of a graph relationship between tax rate and income level of taxes.



Graph 1: Laffer Curve



According to Laffer Curve, the amount of obligatory tax bites is a increasing function of the fiscal pressure rate, but only until a certain maximal board, marked by M point, which corresponds to the maximal level of the curve, then it becomes an decreasing function of this rate, going until the cancellation if the rate would reach the theoretical level of 100%.

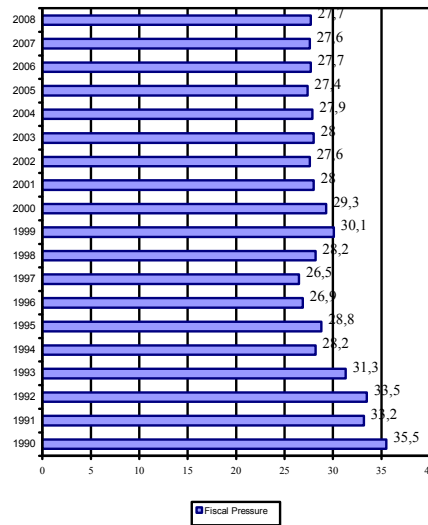
The relationship was the theoretical argument for showing the opportunity of the reduction of the marginal taxing rates which had arrived at very high levels during the application of the keynesist economic policies and of the development of the state's welfare. An important diminution of the direct taxes and an attenuation of their progress are to be wanted also because the people with larger incomes are those who invest and save more. The reduction of taxation must come along with the public consumptions diminution, in order to liberate the necessary resources for restarting the production.

## 2. Analysis of the Romanian fiscal pressure

As for Romania is regarded, the fiscal political measures that are promoted by the fiscal authorities, other factors come into sight, such as the quality of administrating the fiscal debts of the state and the level of compliance with the tax, all these have influenced the volume and structure of compulsory drawings, as well as the fiscal pressure they put.

Graph number 2 shows the dynamic of the fiscal pressure in Romania between 1990 and 2008.

Graph 2: Evolution of fiscal pressure in Romania 1990-2008



The analysis of the statistic data from Romania shows the fact that the pressure of the compulsory taxes/drawings, calculated through taking into consideration all the taxes and social contributions collected by the public budgets, have been reduced from 35,5% in 1990 to 27,7% in 2008. Much of the interval we have analyzed, the pressure of compulsory taxes/drawings has been oscillating around the value of 27%, registering a small increase in 2008, compared to the level registered in the previous year.

Our country, with a fiscal system under 30% is situated in the category of the countries with an average fiscal obligation, in which, although the pressure of compulsory taxes is not an exaggerated one, and in some situations even unbearable, especially in the conditions in which the gross domestic product on an inhabitant is relatively small. The practical experience has shown that, an approximately equal level of pressure of the taxes, this is easier to bear in a country where the gross domestic product is higher than in a country in which the GDP is lower.

This big discrepancy between the moderate fiscal system in Romania and the tax payer's perception upon the almost unbearable level is explained through the fact that the level of the fiscal tolerance doesn't depend on the absolute level of the fiscal obligations, but as well as on the size of its tolerance.



For accrediting the idea that in Romania there's a high fiscal system, a great part has been played, along time, by the existence of a large number of compulsory taxes, charged both to legal and natural persons as well as the legal instability which has characterized the Romanian fiscal system. In our country, there wasn't a strategy of the fiscal evolution; the fiscal system has functioned under the form of a mechanism with deranged movements, without having the capacity to orientate the economic development towards performance.

### 3. Comparison to the member states of the European Union

Compared to other European countries, members of the European Union, we can observe that the level of this indicator in Romania puts our country on the 1<sup>st</sup> place among the European countries. On the first places, together with Romania, we can find Slovakia, with a similar weight-under 30%-as well as other two Baltic states: Lithuania and Latvia. The highest share of taxation in GDP has been recorded in Denmark, Sweden, Belgium, France, Italy and Finland.

We can appreciate that, outlying countries (except the northern countries) tend to practice a lower fiscal system Great Britain and Ireland, Spain and Portugal, Cyprus and Malta, The Baltic States and Poland, Slovakia and the newest member states Romania and Bulgaria, have a lower fiscal system, while the "continental countries" (France, Benelux, Germany, Austria, Hungary, The Czech Republic and Slovenia) either overpass the European mean or are close to this.

This wide variety of tax ratios in the Union is not new. Even before the 2004 enlargement, the EU included a number of member states with tax ratios close to the 50% mark, such as the Scandinavian countries, but also several low tax member states, such as Ireland, Greece, Spain and Portugal.

There are substantial differences not only between the UE15 and the new member states but also amongst the latter. One may distinguish two groups of countries: a smaller one composed of three countries (Cyprus, Hungary and Slovenia) with tax levels exceeding the EU-27 average (37.5%) and

the remaining new member states with lower tax ratios: from the Czech Republic (36.9%, less than one percentage point below the average) to Romania (27.7%, with 9 percentage points below the average).

We have to take into account that the comparison of the pressure of compulsory taxes in Romania, with the levels registered in other states, is not very conclusive, because the fiscal systems have different structures and the levels of economic development are different.

Making a comparison between the pressure of compulsory taxes in the European member states and appreciating the level of pressure in the European Union, in general, confront many difficulties determined by the influence of a variety of general and specific factors for each country such as [1]:

- differences in accounting periods and methods;
- voluntary social security contributions, which are fairly large for some countries (including Germany), are included as tax revenues in the national accounts but not in the revenue statistics; so are the employer social security contributions for government employees;
- imputed government contributions are not included in the revenue statistics;
- inheritance and gift taxes are not considered as taxes in the national accounts while they are included in the revenue statistics;
- for EU countries, VAT and customs revenues are shown net of the amounts transferred to the European Commission in the national accounts while the revenue statistics show gross data.

In underlying the restrictions determined by the use of the pressure indicator of compulsory taxes, we can also add the opinion according to which "this indicator is somehow limited as a comparison measure between countries along time. Among the factors that can influence the level and tendency we can enumerate: the extension of some counties through expenses for social and economical security, rather than through direct governmental expenses, even if social transfers are or not subject of taxation"[2].

The deficiencies of this indicator are also presented in the work "The Fiscal System and Prices in the Market Economy"[3] where it is appreciated that "the differences between countries, most of them established in time,

have to be interpreted carefully, because they can reflect either differences of institutional type regarding the social protection systems, being able to be explained through the weight of the social dues in the total of compulsory taxes, or as a certain policy regarding the budget deficit." It is also shown that "the level and structure of compulsory fiscal taxes depend on the number of factors out of which some have an evolution that doesn't depend on the state's will: it's the case of the demographic structure of the country, especially the weight of the older persons."

The pressure of the compulsory drawings must be analyzed in a larger frame, not through limitation at the appreciation of the level of pressure but through its linking with the influences of some factors such as:

- the purchasing power of the net profit-the level at which the remained profit after being taxed ensures the needs of sustenance, of spending the spare time as well as of saving the housekeeping;
- the compensations the budget flows financed through taxes induce;
- the level of the tax benefits and the payers to which they refer;
- the existence of a fiscal moron of proportions;
- the evolution of the gross domestic product and of the fiscal incomes.

#### 4. Conclusions

The level of this indicator in Romania puts our country on the 1<sup>st</sup> place among the member states that have reduced fiscal pressure. On the 1<sup>st</sup> places along with Romania, there are several other countries

with a similar weight-under 30%-Slovakia as well as other two Baltic states: Lithuania and Latvia. The highest share of taxation in GDP has been recorded in Denmark, Sweden, Belgium, France, Italy and Finland.

The downward trend of the level of taxation manifested in Romania can be considered as an effect of the general trend of fiscal loosening, resulting in reducing the rate of corporation tax, starting from the 1<sup>st</sup> of January 2000 from 38% to 25% and then to 16% starting with the 1<sup>st</sup> of January 2005, the general tax rate reduction of VAT from 22% to 19% followed by the introduction of the reduced rate of 9% and 5%.

This large discrepancy between moderate taxation in Romania and the level of perception of the tax payers upon the hardly bearable level is explained through the fact that, the level of supportability of taxation depends not only on the absolute level of tax obligations, but also on the size of its bearing base (GDP)

#### 5. References

- [1] Alexandru Felicia "Fiscalitate și prețuri în economia de piață" Ed. Economică, București, 2002;
- [2] Joumard, Isabelle "Tax system in the European Union countries" OECD, Economics Department Working Paper no.301;
- [3]. Eurostat, *Taxation Trend in the EU*, 2009;
- [4] National Institute of Statistics, Romania;
- [5] Ministry of Economy and Finance, Romania;
- [6] Vanina Adoriana Boglea "Evoluții ale sistemului fiscal românesc în procesul aderării și integrării europene" Ed. Casa Cărții de Știință, Cluj-Napoca, 2010.

# Moldova Republic's Gross Domestic Product Prevision Using Artificial Neural Network Techniques

Ilie Constantin

Ilie Margareta

„Ovidius” University of Constanta,  
ilie.ctin@yahoo.com

## Abstract

Considering the present economical status, it is necessary to efficiently manage the Gross Domestic Product (GDP) especially for developing countries. Thus, it will be advantageous to have some knowledge about future trends or specific values of the GDP in accordingly to the dynamics of certain economics indices such as Investment in fixed capital, Imports from other countries etc. The present paper contains the basic research to determine the possibility of using artificial intelligence for the prevision of future GDP. In order to determine the GDP of Moldova Republic the following data were considered: Imports from other countries, Investment in fixed capital, Retail trade and Industrial production. A feed forward artificial neural network (ANN), with 10 hidden neurons, was trained and tested. After 590 iterations a maximum training absolute error of 0.008983 was obtained. Also the absolute validation error was 0.012664 and the network error was 0.000248. The final testing errors belongs to the [0.00; 2.47] interval of absolute values and to the [0.00; 0.23] interval of relative values. The results offer the bases for the future researches.

**Key words:** Gross Domestic Product, artificial intelligence, prevision, Imports, Retail trade;

**JEL Classification:** C82

## 1. Introduction

The Artificial Neural Networks are used in several domains such as the card fraud detection, the prevention of stock exchange, the effects of decision making etc. Their capabilities emerge from their possibilities to simulate nonlinear systems and processes and give tendencies and previsions in fields (like economics) where, currently, the variables are more nonlinear and unpredictable.

Predicting the GDP can be very useful for decision making in order to initiate and develop decision in order to influence the regulation of GDP.

The survey of input and output data correspond to the monthly 1995-2009 timetable. For the processing and construction of the feedforward ANN the Alyuda NeuroIntelligence was used [1].

## 2. Experimental research

The research was developed regarding to the phases of artificial neural network use:

- Data analysis;
- Preprocessing data;
- Neural Network design;
- Neural Network training;
- Training testing - Final query.

The testing and final query will be presented in the Results and Discussions section.

### *Data Analysis*

The data analysis is very important because it prepares the grounds for the entire following procedures and any error in the data values will be perpetuate in all the next phases and will affect the results (“garbage

in, garbage out”). The values analyzed are presented in table 1.

From the basic data set, that contains 7 numeric columns, 3 of those columns were disabled: Agricultural production, Cargo, Consumer price indices, as the result of the influence that those data had over the output. The remaining 4 numeric columns: Industrial production, Investment in fixed capital, Imports from other countries and Retail trade (In% to previous year) were accepted as input data.

The entire data set consisted from 28 series from which 3 were used for the testing process. The remaining 25 data series were organized as follows: 22 records to Training set (88%), 2 records to Validation set (8%) and 1 record to Test set (4%).

Table 1: Data values analyzed [4]. (Example)

Producției industriale	Investiții în capital fix	Importurile din alte țări	Comerț cu amănuntul	PIB-ul
96.00	84.00	268.00	112.0	98.60
85.00	110.00	176.00	88.00	93.50
88.00	78.00	114.00	73.00	96.60
116.0	107.00	274.00	118.0	106.6

### Preprocessing data

In order to get an efficient and easier training, in several occasions, methods or techniques of data values preprocessing are used. This is applicable in our case and the method was: Scaling Numeric Columns. The result is in table 2.

Numeric columns are automatically scaled during data preprocessing. By default numeric values are scaled using the following formula [1]:

$$SF = \frac{SR_{max} - SR_{min}}{X_{max} - X_{min}} \quad (1)$$

$$X_p = SR_{min} + (X - X_{min}) \cdot SF \quad (2)$$

where:

$X$  - actual value of a numeric column

$X_{min}$  - minimum actual value of the column

$X_{max}$  - maximum actual value of the column

$SR_{min}$  - lower scaling range limit

$SR_{max}$  - upper scaling range limit

$SF$  - scaling factor

$X_p$  - preprocessed value

Table 2: Data values preprocessed.  
(Example)

Producției industriale	Investiții în capital fix	Importurile din alte țări	Comerț cu amănuntul	PIB-ul
-0.29	-0.73	0.92	0.27	98.60
-1.00	0.42	-0.22	-0.50	93.50
-0.80	-1.00	-1.00	-1.00	96.60
1.00	0.28	1.00	0.47	106.60
-0.29	-0.73	0.92	0.27	98.60

Preprocessing report:

Input columns scaling range: [-1..1];

Output column(s) scaling range: [11.84..17.96].

### Neural network design

Considering the values, the numbers and the type that defines the data, the feedforward artificial neural network was chosen to be used. The number of hidden neurons and layers was obtained through the search of several architectures and due to the past experience. So the final architecture used is presented in figure 1.

The architecture search report was:

- Architecture was selected manually  
The architecture selected for training is [4-7-1]- had the best fitness;
- Fitness criteria: Inverse Training error;
- Hidden layers activation function: Hyperbolic tangent;

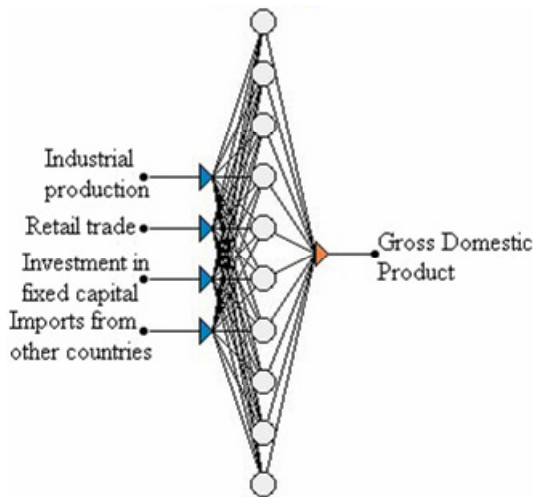


Figure 1: ANN architecture [4-10-1].

- Output data: Gross Domestic Product (GDP) [ln% to previous year];
- Output error: Sum-of-squares;
- Error function: Sum-of-squares;
- Activation function for the output layer: Linear.

The usual training algorithm for the feedforward neural network is back propagation algorithm, in this case the Levenberg-Marquardt algorithm.

Levenberg-Marquardt is an advanced non-linear optimization algorithm. It is the fastest algorithm available for multi-layer perceptrons. However, it has the following restrictions:

- It can only be used on networks with a single output unit.
- It can only be used with small networks (a few hundred weights) because its memory requirements are proportional to the square of the number of weights in the network.
- It is only defined for the sum squared error function and therefore it is only appropriate for regression problems.

The results of the training session can be visualized in figure 2 as the network error.

### Neural Network training

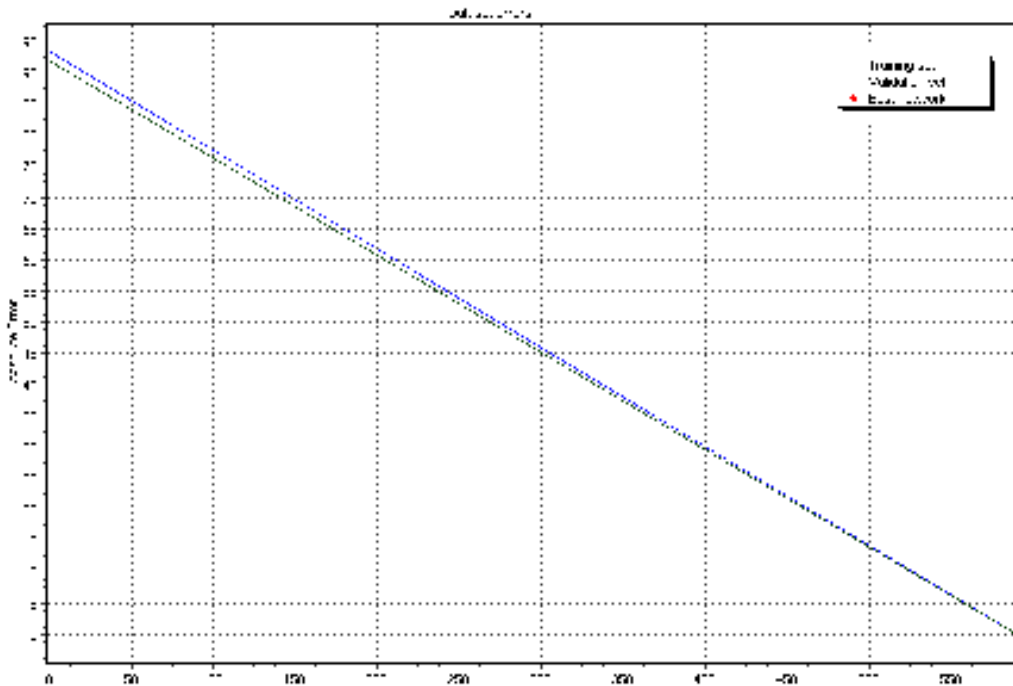


Figure 2. Network errors. Error improvement vs. iteration number.

The training conditions were:

- Quick propagation coefficient: 0.5;
- Learning rate: 0.1;
- Number of iterations: 590;
- Stop training conditions: Desired error achieved value: max AE=0.0001, track on training set.

Where: *Quick propagation coefficient* - Quick propagation coefficient is additional training parameter for Quick propagation algorithm. This parameter is used to control magnitude of weights increase in some cases.

*Learning rate* - A control parameter used by several learning algorithms, which affects the changing of weights. The bigger learning rates cause bigger weight changes during each iteration.

*AE - Absolute error.* An error value that indicates the "quality" of a neural network training. Calculated by subtracting the current output values with the target output values of the neural network. The smaller the network error is, the better the network had been trained.

*Iterations* - A single complete presentation of the training set to the neural network during the training process. After 590 iterations a maximum training absolute error of 0.008983 was obtained. Also the absolute validation error was 0.012664 and the network error was 0.000248.

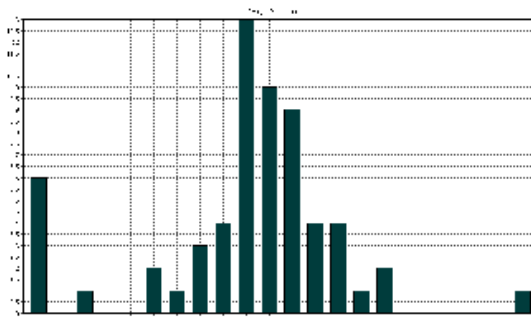


Figure 3. Network' weights after training session.

In figure 3 it is shown the weight distribution for the neural network used, after the training phase.

### 3. Results and Discussions

In order to see that the training was successful and the ANN was ready to prevision the sales values from the input data: Industrial production, Investment in fixed capital, Imports from other countries and Retail trade (In% to previous year), it was necessary to take a final testing. This the final query that uses data unrevealed to the ANN until then. If the ANN offers results values very closed to the real data, then the training was successful and it can be use in the future prevision. In order to validate the research results an interval of difference between the real and simulated data was imposed: [-3; 3] absolute value and [-5; 5] % relative values. The comparison between the real data and data simulated by the ANN is presented in table 3.

Table 3: Gross Domestic Product (GDP) [In% to previous year].

Real data	Simulated data	Absolute value difference	Relative value difference [%]
102.10	102.10	0.00	0.00
107.20	104.73	2.47	2.30
93.50	93.42	0.08	0.09
	MIN	0.00	0.00
	MAX	2.47	2.30

As can be seen in table 3, the results of the testing not only that comply with the imposed condition but the error are smaller than those expected.

#### 4. Conclusions

Having in mind the results presented above we can say that this first phase of the research was a success.

The next phases imply adding new input data that influences the Gross Domestic Product and also the effects that those data have over the major economic dynamics. Also, future research must be modified for the use by the small and medium business, in order to modify the acquisition, stock and flow management for the products and/or raw materials.

#### 5. References

- [1] <http://www.alyuda.com/neural-networks-software.htm>.
- [2] C. Ilie, C. Neagu, Bucuresti, Doctoral thesis, (2010).
- [3] L. Barbes, C. NEAGU, L. V. Melnic, C. Ilie, M. VELICU, *The use of Artificial Neural Network (ANN) for Prevision of Some Airborne Pollutants Concentration in Urban Areas*, Revista de Chimie, Bucuresti, 2009.
- [4] <http://www.cisstat.com/>
- [5] C. Neagu. C. Ioniță, “*Rețele Neuronale. Teorie și aplicații în modelarea proceselor și sistemelor de producție*”, București, 2004.

# The Software Effect on the Quality of the Financial Activity of the Companies

Ioanăș Corina

*Academy of Economic Studies, Bucharest*

*corina\_ioanas@yahoo.com*

Dinescu Emilian

*“Lucian Blaga” University Sibiu*

*dinescuemilian@gmail.com*

Țăpligă Pușa Tania

*Romanian Academy Bucharest*

*pusa.tapliga@yahoo.com*

## Abstract

Organizations now have the opportunity to fulfill most of their information system requirements through software packages, rather than building bespoke solutions. The advantages of this approach, particularly the perceived cost and time savings, appear self-evident. However, there are disadvantages, which must be carefully understood and evaluated before selecting and purchasing a software package. The organization must also be aware that it is probably entering a long-term commercial relationship with a supplier. It may be costly and difficult to end such a relationship, as converting data from one product to another may be prohibitively expensive. Hence the risks of the software package approach must be identified and appropriate risk avoidance and mitigation actions developed.

**Key words:** software packages, time savings, risk, financial activity

**JEL Classification:** Q33

## 1. Introduction

The need for an accountant to have specific competencies in information systems is one of the modern world's demands, which doesn't operate anymore without IT. These days an employee in the financial field must be able to: explain how to effectively use information systems and information systems resources in an organization; identify and apply methods of organizing and accounting

for information systems delivery and information systems projects; explain the principles of initiating, planning and controlling information systems projects; participate in the definition and specification of user and system requirements; describe how an appropriate solution might be defined to fulfill the specified user requirements; participate in the implementation, monitoring and maintenance of an information systems solution; participate in the quality assurance of an information systems project; identify how computer software can assist effective information systems management, development and quality assurance.

There is a strong tradition of bespoke systems development in information systems delivery, where 'in-house' analysts and programmers develop systems to meet the specific requirements of an application. In the formative years of computing there was little alternative to this approach because generalized software packages did not exist and the fragmentation of the hardware market reduced the viability of such an approach.

For many years the marketplace was:

- supported by the notion that systems developers had to be part of the company (like production staff, catering staff and cleaners) and located in an identifiable IT department;
- dominated by mainframe and minicomputer manufacturers delivering expensive and non-standardized technology. The hardware spend (both for purchase and



maintenance) dominated the IT department's budget;

- restricted to a limited set of software packages, usually framed to follow legislative requirements (such as integrated accounts) and only available on a restricted number of hardware platforms.

## **2. Benefits of the software implementation in the financial activity of the firms**

*Quality benefits.* A further perceived advantage of the software package solution is hinted at in the previous point – the absence of unit and systems testing. The software package is a proven product that has undergone systems testing (in development) and user acceptance testing (by the users who have already bought and used the package). Hence the product should be relatively error-free, as well as fulfilling most of the functional requirements of the application. The implementation should not be affected by the programming errors and misconceptions that can bedevil bespoke systems development.

*Time savings.* The bespoke systems development needs to be tightly specified, designed, programmed and tested. This part of the lifecycle is very time-consuming and during this period requirements may change, so complicating the process even further. The software package is a product that already exists. It can be purchased and implemented almost immediately. There is no requirement for design, programming, unit and systems testing.

*Cost savings.* The most quoted advantage of the software package approach is reduced cost. The purchase of a software package is perceived as significantly cheaper than developing a bespoke alternative. In a bespoke system the cost of systems development is borne completely by the organization commissioning the system. In a software package solution, the cost of the systems development is spread across all the potential purchasers of the system. For example, a building company estimating, accounting and job control system that currently costs \$4,000 to purchase, actually cost \$500,000 to develop. This cheapness is

usually an important factor in deciding to pursue the software package approach.

*Available documentation and training.* In the software package approach the documentation can be inspected and evaluated before purchasing the product. The documents (such as user manuals and HELP systems) are usually of high quality because they represent an important part of the selling process. In contrast, the documentation supporting a bespoke systems development is not available until very late in the lifecycle and is often sub-contracted to users who do not have the time to do the job properly.

A similar principle applies to training. Prospective purchasers can attend a course prior to buying the product and so further evaluate the suitability of the package. Similarly, economies of scale allow the software vendors to produce and provide high quality training courses, supported by professional trainers, at a relatively cheap price.

*Organized maintenance and enhancement.* Software products are usually supported by a formal maintenance agreement. Although this agreement costs money, it usually provides:

- unlimited access to a help desk, where experts can sort out user problems;
- upgrades to the software that correct known faults and also include new functionality defined and agreed with the user community.

The cost of this support and enhancement is again spread across a number of users and so can be offered relatively cheaply to each individual customer. The cost of providing such services would be extremely expensive if they were borne completely by an organization commissioning a bespoke development. The upgrade issue is particularly significant to organizations purchasing accounts and payroll packages. The functionality of such systems is affected by legislative changes made by government. These changes are frequent and unpredictable. It is comforting for the customer to know that all amendments are covered by the agreed software contract.

### 3. The negative effects of IT in the activity of the firms

*Financial stability of the supplier.* Internal Information Systems (IS) departments do not go out of business. However, external software suppliers are subject to the vagaries of management and the markets. There is a risk that they may go out of business, or experience financial problems that affect the quality of their support and development services. It is possible to reduce these risks (through ESCROW agreements) but the disruption likely to accompany the enactment of such an agreement should not be underestimated.

*The changing nature of requirements.* There is plenty of evidence to show that requirements change during the lifetime of a system. These changes are due to a number of factors:

1. Users change. New managers arrive who have a different perception of requirements and the business process. They demand new output reports to support their particular management information requirements.
2. The business changes. The business may decide that it wants to operate in a different way. This may be led by new product and marketing initiatives or may simply be a reaction to changes in the business environment that force the company to re-think its organization, products and services.
3. Changes due to:
  - actual experience: using the software may lead to a realization that functional requirements were not quite correct.
  - emergent hardware and software technologies: bespoke systems can usually be amended to reflect these changes. However, software packages may or may not. The problem is still one of control. It is not possible for the software supplier to predict or to cope with changes in a particular business implementation. Some of the changes may not be incorporated into a future release but, at the outset, there is no guarantee of this.

*Competitive edge.* Many organizations claim that they use (or wish to use) IT and IS as a competitive edge in the market place. They develop bespoke systems

to give them that edge. In the software package approach, the software solution (or product) is open to all competitors and potential competitors. It is difficult to see how such a solution can provide a competitive edge, as all potential competitors have access to that solution.

*Ownership.* In the bespoke systems development approach, the ownership of the software usually resides with the purchaser – the customer, not the supplier. This is particularly clear if the development is undertaken ‘in-house’, because the ownership of the code clearly resides with the organization, not the IT department or individual programmers. Even if an external software house produces the code, the contract usually specifies that the source code belongs to the commissioning agent (the customer) and not the supplier.

In the software package approach, the ownership of the software usually remains with the supplier. Customers are licensed to use the product, but they never own it. This ownership issue has a number of implications:

The supplier decides the future development of the package. Hence, future functionality is not in the control of the customer – although of course they can lobby for certain features to be included in future releases.

The software supplier can make decisions about the ownership and support of the product. For example:

- The software supplier may decide to withdraw support from earlier versions of the package. Hence customers may be forced into unnecessary (and potentially expensive) upgrades. This may involve hardware upgrades.
- The software supplier may decide to sell their product to a third party. Individual customers may be unnerved or inconvenienced by such a move. For example, a few years ago a popular package was sold to a large industry player with a reputation for aggressive customer relation. Many customers of the package were worried by this move (despite assurances from the new owner) because they were more comfortable with the ‘laid-back’ approach of the former owner. Some began to make plans to move their systems to a rival product.

The key issue here is that the software purchaser has little control over the future direction and ownership of the product they are buying. This is not the case with a bespoke development.

We are increasingly comfortable with all things internet. We love to Google, we book our holidays online, buy our groceries, apply for jobs, administer bank accounts, file tax returns, and e-mail has become the primary form of business communication for many. From here, the move to equally widespread online bookkeeping is not exactly a giant leap - and software suppliers seem to realize this.

Accountants who want to exploit the benefits of online accounting are literally spoilt for choice. But it is worth wading through the various possibilities in search of something that will suit your business, whether you are employed by a small enterprise or run your own accounting firm because, in both scenarios, the online approach to accounting and bookkeeping can offer advantages over the more traditional approach.

When a bookkeeping application is provided online using the 'software as a service' model, you do not need to install and maintain the software on a PC, network multiple PCs together to enable them to share data, upgrade to the latest and greatest hardware or remember to backup your data. Anyone can gain tap into bookkeeping software and the company's financial data using a browser, as long as they have permission to do so, plus a PC, a telephone and an account with an internet service provider.

With an online bookkeeping system business users can work on their accounts any time it suits them, from anywhere with internet access, and their accountant can do likewise, making clients easier to manage and support.

By reporting financial information through the standard, investors, regulators, analysts and companies can benefit from increased transparency and usability of the information, and faster access. The way information is formatted today, in paper and electronic-paper form, it would take five or six hours to get information on the five

largest semiconductors companies and put it into an analytical application of any kind.

#### **4. Conclusion**

The recognition that IT may be best organized as a procurement, rather than development, department. There has been a trend towards outsourcing as companies have downsized to concentrate on their core business. Consequently, the number of developers left to produce the in-house solutions has reduced significantly. IT is not the only function to be affected in this way. Cleaning and catering, once provided by local employed labor, has now been outsourced by many companies.

The reduced cost and standardization of hardware has meant that fewer organizations are tied into a manufacturer's strategy. Software is available across a limited set of dominant platforms and the cost of moving from one platform to another has considerably reduced. Software (or more accurately the people who develop it) is now the most expensive part of systems development. As a result, the cost of software production is closely monitored.

Finally, the passage of time has led to more software products being made available. This has strengthened particular market sectors (for example, there are many integrated accounts packages available in the market) as well as broadening the scope of package solutions. There are packages for golf club administration, patient records, marketing, family tree construction, etc.

As a result, many organizations have focused more on fulfilling their requirements through the purchase of an appropriate software package. The perception is that this is a cheaper, faster and more reliable approach to systems development. Hence the task is to find a package that fulfils user requirements or to differentiate between competing packages that all appear to do the job. This article looks at some of the perceived advantages and disadvantages of the software package approach to information systems delivery.

## 5. References

- [1] Adams, C., Roberts, B. (1993): You Are What You Measure. Manufacturing Europe, Sterling Publications Ltd, 504-507.
- [2] Anthony, R./Reece, K. (1983): Accounting, Seventh Edition, Irwin, Illinois.
- [3] Feleagă, L. Feleagă, N., (2005): Financial Accounting, an european and international approach, volumes I and II, Infomega Publishing House.
- [4] Popescu Veronica, Popescu Gheorghe, Popescu Cristina Raluca, *The Effects of Informatics Revolution on Organizing the Modern Management, Accounting, Control and Financial Audit* Metalurgia International VOL XIV, Editura Științifică F.M.R., Special Issue NO. 12/2009, pp. 156-164.
- [5] Popescu N. Gheorghe, Popescu Veronica, Popescu Cristina Raluca, *Abordarea "cibernetică" a sistemului de control al calității în firmele de audit*, Revista "Audit Financiar" nr. 6/2008, editată de Camera Auditorilor Financiari din România (CAFR), pp. 35-39.
- [6] Popescu Gheorghe, Popescu Veronica, Popescu Cristina Raluca, *Rolul auditorului de sisteme informaționale în achiziționarea programelor informatice utilizate în activitatea financiară și contabilă*, Revistă: Audit financiar, Camera Auditorilor Financiari din România (CAFR), nr. 12/2005, pp. 16-20.
- [7] Ristea, M., (coordinator) (2009): - Companies Accounting, University Publishing House, Bucharest.
- [8] [www.accaglobal.com](http://www.accaglobal.com)
- [9] [www.fasb.org](http://www.fasb.org)
- [10] [www.iasb.org](http://www.iasb.org)
- [11] [www.pewglobal.com](http://www.pewglobal.com)

## Tourism in Romania

Ioneci Mihaela

„Constantin Brâncoveanu” University of Pitesti  
ioneci\_mihaela@yahoo.com

### Abstract

Currently, when surpassing the economic crisis is being prefigured, tourism has an important role in economy. This role must draw the governors' attention on tourism in order to create a favourable environment for development. The development of tourism in the immediate period following the economic crisis leads to the creation of new jobs, to the reduction of poverty and to the increase of the gross domestic product. Nevertheless the strategies for tourism development adopted at global level must be adapted to each country or region.

**Key words:** tourism, the economic crisis, Romania's economy

**JEL Classification:** E00, E20

### 1. Introduction

Romania's economy was based in the recent years on gross added value obtained in the following sectors of activity: trade; hotels and restaurants; transport and telecommunications; automobiles repair and household goods (23.2%); industry (22.8%); financial activities; real estate; renting and business services (12.6%); agriculture; forestry and fishery (6.4%); constructions (5.1%).[4]

Among the services offered by our country, a special place is occupied by tourism. Tourism has been considered even since 1989 the area in which Romania could be competitive, being subject to the development and improvement of the conditions offered to the potential tourists. In time, tourism began to grow, attracting tourists both from the country and from abroad.

### 2. Content

To produce an analysis of this sector, the tourists arrived in the tourist reception structures in the last four years are shown in table number 1.

Table no. 1 Arrivals in the tourist reception structures

(thousands persons)

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Romanians	4836	5421	5659	4865
Foreigners	1380	1551	1466	1276
<b>Total</b>	<b>6216</b>	<b>6972</b>	<b>7125</b>	<b>6141</b>

Source: Monthly Statistical Bulletin December 2009, 2008, 2007, 2006

The evolution of the number of persons registered in the tourist reception structures increased in the first three years analyzed, but the figure dropped sharply last year, being lower than the valued recorded in 2006. The evolution of the number of persons registered in the tourist reception structures increased in the first three years analyzed, but the figure dropped sharply last year, being lower than the valued recorded in 2006.[1]

The year 2007 recorded a total of 6,972 thousand tourist arrivals in the tourist reception structures, with 756 thousand tourists more than in the previous year, representing an increase of 12.2%. In 2008 the peak of tourist arrivals was recorded for the period examined, reaching the figure of 7,125 thousand people, increasing as compared to 2007 by 153 thousand people, representing an increase of 2.2%. In 2009 the tourists registered in the tourist reception structures were of 6,141 thousand people, decreasing as compared to 2008 by 984

thousand people, which in relative figures means 13.8%.

The number of tourists registered in the tourist reception structures as averaged for the four years shown in Table number 1 is of 6,6135 thousand people.

These tourists mostly consist of Romanian tourists, the foreign tourists representing about one quarter of the Romanian tourists. The Romanian tourists have recorded the same evolution as the total number of tourists, rising in the first three years and falling in 2009. The number of the foreign tourists has increased during the first two years, 2007 recording the highest number of 1,551 thousand people. The reduction of the number of foreign tourists in Romania started a year before the general trend; that is to say from 2008 this number decreased by 85 thousand as compared to the previous year.

The evolution in percentage of the number of Romanian and foreign tourists is presented in table number 2.

Table no. 2 The structure of the tourists in Romania

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Romanians	77,8	77,8	79,4	79,2
Foreigners	22,2	22,2	20,6	20,8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Calculations made using the data from table number 1

The relative sizes of structure do not show considerable changes between the years analyzed, the percentages being relatively close. In 2006 and 2007 the corresponding percentages to the Romanian and foreign tourists are identical, even if in absolute sizes there are differences. It should be noted that in the first two years, the share of foreign tourists is higher than the other two years, being consistent with the recorded absolute values. Over the past two years the share of the Romanian tourists increased at the expense of the foreign tourists by approximately 2%.

The net usage index, the arrivals of the foreign visitors in Romania and the

departures of the Romanian visitors abroad are indicators that record the same trend of reduction as in 2009. It should be noted that a number of the Romanian tourists prefer as final destination other countries to the detriment of Romania.

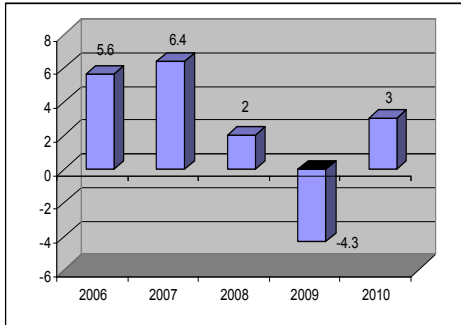
Table no. 3 Specific indicators of tourism in Romania

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net usage index (%)	33,6	36	35	28,4
Arrivals of foreign visitors in Romania (thousand persons)	6037	7722	8862	7575
Departures of Romanian visitors abroad (thousand persons)	8905	10979	13072	11722

Source: [www.insse.ro](http://www.insse.ro)

The fact that tourism, both the national and the international one is dependent on what happens in the world economy has been fully demonstrated by the economic crisis, by reducing the number of tourists in the recent years, 2009 representing a real decline in this sector. It should be noted that in 2009, except Africa, all the other regions recorded negative results compared with 2008: Europe (- 6%), Asia and the Pacific (- 2%), America (- 5%), Middle East (- 6%) and Africa (+ 5%).[3]

Chart no. 1 The evolution of international tourism



Source: <http://www.unwto.org> (2010 - prevision)

The evolution of tourism in our country is not unique, fitting in the global situation. The worldwide decline began in 2008, representing 4.4% compared with the results from 2007. In 2009 the global tourism was severely affected, the results recorded being negative.

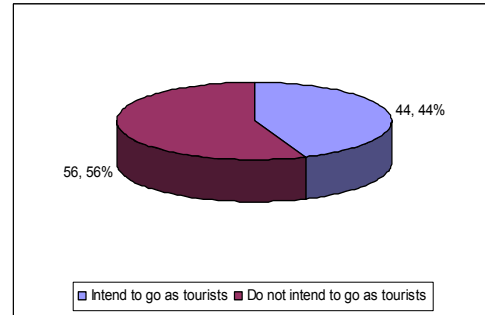
An explanation of these results is given by the Secretary General of the World Tourism Organization, Taleb Rifa, who declared that 2009 was a difficult year for tourism, because of the economic crisis, but also because of the uncertainty related to the flu A(H1N1) pandemic.[6]

The forecasts for 2010 are more than optimistic, anticipating a revival of the world tourism. Globally, tourism recovery measures address the following issues: integrating tourism in the infrastructure and recovery programs; examination of the fees and dreams hampering tourism growth; better promotion of tourism also by using major events; creating new jobs, especially in Small and Medium Enterprises; considering tourism as a development and trade aid.

Concerning the domestic tourism, the trend for 2010 is presented with the help of the research report “Tourist services consumption in Romania” conducted by INSOMAR in November 2009.[2]

INSOMAR conducted a survey using a sample of 2,504 persons, representative for Romania’s population aged 18 years and over that age. The sample also includes individuals from all the counties and the 6 districts of Bucharest, namely 55 urban areas and 43 rural areas. The survey generated results with a maximum permissible error of 2%, the probability being of 95%.

Chart no. 2 The share of the people who intend to go as tourists in a place other than the one where they live



Source: Research Report “Tourism services consumption in Romania”, INSOMAR, November 2009

The results obtained using the survey showed that 44% of our population considers to spend a tourist holiday tour in 2010, while 56% do not intend to spend a holiday tour. Of those wishing to spend a holiday tour in 2010, 22.2% want a stay of maximum 5 days, 35.1% between 6 and 10 days, 24.5% over 10 days and 18.2% do not know exactly the time they will spend as holiday tour.

Females are those who hold the largest share both among those who intend to go as tourists and among those who do not have this intention. According to age, those between 18-34 years old and 35-49 years old record percents of 31.7% and 34.1%, and for the other age groups the shares are of 23% and 11.2%.

Table no. 4 The structure of potential tourists in 2010

	Age groups				Sex	
	18-34	35-49	50-64	65 și peste	M	F
Intend to go as tourists	31,7	34,1	23	11,2	48,6	51,4
Do not intend to	12,6	24,1	31,1	32,2	46,8	53,2

go as tourist s						
-----------------------	--	--	--	--	--	--

Source: Research Report “Tourism services consumption in Romania”, INSOMAR, November 2009

Depending on the level of education among those who intend to go as tourists, the largest share of 44.3% has completed high school or post-secondary school. Surprisingly, the lowest percentage is recorded by the people who have higher education, only 25.4%. Among those who do not want to spend a holiday in 2010 those with higher education represent 6.7%. The people who will spend a holiday tour in 2010 come from urban areas in a percent of 68.2%, while those who do not intend this are arranged roughly equally between the urban and the rural areas. [5]

### 3. Conclusions

The year 2010 for the tourism in Romania is not envisaged to be within the optimistic trend found worldwide. The reduction of the number of tourists in the last year finds its explanation in the economic crisis that has affected our country since 2009, its effects being felt in Romania later than in the U.S. In 2009, in general, the keeping of the prices from 2008 were announced, but this strategy did not represent a strong enough momentum to attract tourists. Feeling the effects of the economic crisis in Europe and implicitly in our country has led people to be more careful with leisure expenses.

### 4. References

- [1] Monthly Statistical Bulletin December 2009, 2008, 2007, 2006
- [2] Research Report “Tourism services consumption in Romania”, INSOMAR, November 2009
- [3] UNWTO World Tourism Barometer
- [4] [www.insse.ro](http://www.insse.ro)
- [5] <http://www.mie.ro>
- [6] <http://www.unwto.org>



## Cultural Strategizing: Shadows of IT Governance

Iorga Oana  
Soș Cristina  
“Al Cuza” University of Iasi  
*iorgal\_a@yahoo.com*  
*crstinasoos@yahoo.com*

### Abstract

In the emergence of information economy and the global discourse of the new era of Knowledge Based Society, not only organizational culture debates, but also the information technology topic find their ways to the management concerns and initiatives.

Thus, the general level being management and corporate governance, the specificity (locally applied action of global discourses) is preoccupation for performance, which wears the cloths of “cultural decoding” and “IT governance” – the last being also a strategic management view, which can not be included in technical studies.

We prospect tow of the means of Agency theory: Multinationals (thorough organizational culture) and Higher education programmes (through Strategic management programmes). The challenge is fostered by the process of adaptation to performance measures for Romania: a premise for success.

**Key words:** globalization, knowledge based society, IT Governance.

**JEL Classification:** D 83

### 1. Introduction

Information and information technology (IT) are the least understood of the key assets on many enterprises, but looking ahead, the influence of IT on enterprise performance will continue to grow. IT supports standardized process components, shared knowledge, instantaneous communication, and electronic linkages – the foundations for new business strategies.

While there is a variety of a discourses present globally, only some of those ideas

will result in local activity. Romanian high education system should, thus, percuss, through both practice adoption and university programmes, to these new IT-related subjects, as a premise to survive and succeed in a global competitive knowledge based environment. It’s genuinely accepted that the way in which people “implicitly define the content of strategy” makes the real difference between them.

Teaching and researching on IT governance stresses out the importance of harmonization of the “Enterprise Strategy & Organization” with “IT Organization & Desirable Behaviors”.

Thus, the topic of STRATEGY is among the ones of most importance. Considering the fact that there are by now some general areas of agreement about the nature of strategy, it still requires a number of different definitions before we can elaborate and build upon it. Especially since it can be seen as a: *plan, pattern, position, perspective, or a ploy*, in an environment demanding faster responses and increasing agility, management teams must ensure that *IT is an enabler of*, not an obstacle to, *organizational change*.

### 2. Lenses from organizational theory

One of the causes of the so well known “*informatic paradox*” (performance from IT investment doesn’t pay off) could retrieve its explanation in Mintzberg observation: “pervasive strategic failure in many large corporations may well be attributed to the army of business schools graduates who have been sent out with an incomplete tool kit” [1].

A more critical perspective (for the academic side, this time) is offered by the same authors through their recommendation, coming form a critical review of 10 schools of management: (schools should) “open up the range of

perspectives by providing a more varied set of ideas for (such) students as well as practicing managers”- towards a synthesis, a corroboration of particular aspects into a *holistic vision on the topic*, more than a re-compound of the whole by its parts, but critically considering each of them .

Thus, the theoretical foundation of our discourse (a field review, not a literature review) is getting closer to the concept of „*strategy-as-practice*”, which rapidly and recently developed into a robust field of research. The key challenges underlying the strategy-as-practice agenda may be examined empirically using an overarching conceptual framework of praxis, practices and practitioners.

The field of “strategy-as-practice” does not require ‘new’ theories per se, but to draw upon a range of existing theories to explore the strategy problems defined within our conceptual framework, to develop novel methods and research designs for their study (Balogun et al., 2003), and to advance explanations of how strategy is accomplished using these different levels and units of analysis [2].

### 3. Conceptual delimitation

“It is in the way actors connect with such processes that it becomes possible to better assess and understand institutional *stability and change that often stretches over considerable periods of time* (Mutch,2006)

OECD articulated two complementary sides of governance:

- Behavioral side of corporate governance: “Corporate governance encompasses the relationships and ensuing patterns of behavior between different agents in a limited liability corporation; the way managers and shareholders but also employees, creditors, key customers, and communities interact with each other to form the strategy of the company.”

- Normative side of corporate governance: “Corporate governance also refers to the set of rules that frame these relationships and private behaviors, thus shaping corporate strategy formation, the company law, securities regulation, listing requirements, also be private, self-regulation.”

The more we experience the new information economy’s materialization in practice, the more critical become one of the levels and unit of analysis: that in relation to the information technology. In fact, IT governance is frequently defined as a component of the corporate governance.

IT (and information systems refers to many categories of resources (people, software, hardware, time, relationships, financial) and the governance of them can not be study or conceptualized outside the organizational environment and theoretical discourse

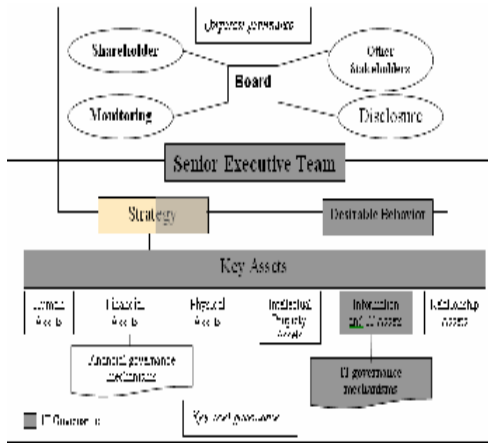
- “The behavioral side of IT governance defines the formal and informal relationships and assigns decision rights to specific individuals or groups of individuals.
- The normative side defines mechanisms formalizing the relationships and providing rules and operating procedures to ensure that objectives are met.”

Fortuitously or not, the previous text seems to match the culture and quality rhetoric “that *strong cultures can be consciously designed and manipulated ... not only formulating value systems, but also instilling those values in their employees*”.

IT governance is seen as “specifying the decision rights and accountability framework to encourage desirable behavior in the use of IT” [3], thus, the answered question of “What does an analysis of strategists and their doings explain?” is valuable in the context of IT domain researchers and practitioners interests in terms of: “What content characteristics of formal IT strategy predict the extent of plan implementation?”

An important practical contribution can be derived from here. In practice, the CIO (Chief Information Officer) is often responsible for the IT strategy process, as well as the IT strategy topics and the IT strategy plan (Gottschalk, et al., 1995).

Fig. 1 Graphical representation of IT Governance’s position in a company [3]



Source: Weill, P., Ross, J. –IT Governance [3]

An IT department and CIO team have to deal with practice-oriented approaches in distinguishing between an information, information systems and information technology strategy, as “strategy, according to this view, is ***not something that an organization has but something its members do***<sup>1</sup>.”

- An Information strategy details the information needs of the organisation and processes necessary to collect, produce, store and disseminate information.
- An Information systems strategy consists of a specification of the information systems needed to support organisational activity in the areas of collection, storage, dissemination and use of information.
- An Information technology strategy consists of a specification of the hardware, software, data, communication facilities and IT knowledge and skills needed by the organisation to support its information systems

In Jarzabkowski’s article, ‘practice’ refers both to the situated doings of the individual human beings (micro) and to the different socially defined practices (macro) that the individuals are drawing upon in these doings”, “what doing strategy involves and, most importantly, how that doing shapes strategy” [2].

<sup>1</sup> An initial special issue on micro-strategizing (Johnson et al., 2003) took up this challenge, ***emphasizing the myriad micro-actions through which human actors shape activity in ways that are consequential for strategic outcomes***

“When CIO sits down to produce the formal, broadly understood, IT strategy, this research provides clear priority on what to include in the plan document to increase the likelihood of its implementation; description of (a) responsibility for implementation (on time, within budget, intended benefits, step-wise implementation of large projects, high priority projects and short-term benefits from initial projects), (b) of user involvement during the implementation (user training, understanding, participation, operation, development and support)”.

Remember the behavioral aspect in the definition of IT governance and we will be enabled to see that without a cohesive IT governance design, enterprises must rely on their CIOs to ameliorate problems through tactical solutions, rather than position IT as a strategic asset. This statement of Peter Weill and Jeanne W. Ross maps on the perspective of Jarzabkowski et. al.: “in order to understand human agency in the construction and enactment of strategy it is necessary to re-focus research on the actions and interactions of the strategy practitioner”[2].

Being a subset of corporate governance [4] and the only predictor for the valued added by using IT in the business, the Information Systems Science research has also approached IT governance from organization theoretical perspective: IT governance structures, IT governance processes. Several ***IT governance methods*** have been developed or been relabeled as IT governance methods. These methods such as CobiT and ITIL have been developed by IT professionals and experts within a certain issues, whereas academic researchers have been in lesser roles.

Thus, we are sure not to be mistaken when we argue that, from a “strategizing in practice” solution and challenge, pursuing and adopting IT Governance within a company offers already-elaborated and tested, “best practices” oriented and reliable tools and instruments to IT strategizing for successful **performance**.

#### 4. Further remarks

Reflecting on the transformations that are brought into debate when talking about the “information era”, “knowledge based society” as opposed to “industrial society” (and so on), one of the possible hypothesis that pay off to be tested is the fact that in some countries the institutional level is already influenced (and changed by the use of IT in socio-economical life) in such a manner that can and does influence other national business systems (and social) through international flows and processes that are taken place in the IT domain.

While institutional entrepreneurship literature has been able to cast light on the various roles active agents play in the emergence of new field, it still falls short on explaining how institutional entrepreneurs act at the intersection of local institutional and global-macro discourses in the field emergence. The term „institutional entrepreneurship is not restricted to the administrative structures that get to have economic initiatives, but in exchange, it focus on individual and organizational level activity (skills, activities, positions) through which involved actors are able to initiate and maintain the processes of **collectively take part in framing emerging fields**, preceding any governmental level legitimacy. Nina Granqvist’s research studies identifies that „scientific and other epistemic communities and various globally operating organizations mediate global trends to localities” [5]

#### 5. Multinationals

Agency theory, as opposed to classical view, for which a firm is a unified profit-maximizing identity and the operations of a market are costless for a it), sees Firm as an agency relationship on a set (nexus) of contracts, with divergences between principal and agents.

There are many forms of entities that can take the role of “actors” when it comes to locally dissemination of global ideas, especially on the management topics (strategy, culture, IT), but two of them we refer more in this paper, mainly as institutional entrepreneurship instances:

multinational companies (MMC) and higher educations systems. MNC can be seen as:

–‘transmission mechanism’: how processes and practices get transferred from one institutional context to the other and what the impact of this is.

– as in the ‘bridge’ metaphor, MMC relates to how new connections are made and new complementarities developed.

MNCs became a source of diversity inside institutional contexts. They engage in new ways with institutions, local firms and local actors, in some cases reshaping them, in others reinforcing them and in others undermining them. Their existence is not simply absorbable into these different settings; they constitute a new form of organizational reality.

Placing these ideas in the Romanian context, we conducted research activities and elaborated two study cases on the management and cultural diversity topic:

~ “C Retail” company which has a 5 year activity in Cluj on the market of food and non-food retail products and

~ “T En-gros” company which has a 14 year activity on the market of fruit and vegetable wholesalers (en-gros)

They are both multinational companies that perform economic activity in Romania.

The conclusions drawn on the cultural decoding incentives that were performed upon, remain under the sign of performance and elements of cultural specificity.

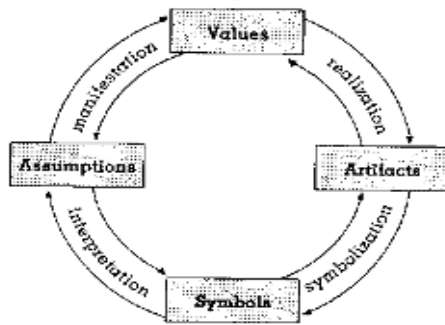
With this study we tried to present several **models used to measure performance** (one of which is visualized in Fig. no. 2), the familiarization with the dynamics of a multicultural team and the particularities of multinational teams, some of the difficulties specific to the on site research work and along with them, some of the methods used to gather, analyze and interpret data.

Our success resides in providing proves of organizational culture that are well correlated to elements of team performance. As we know, they are not always easy to observe and isolate from other economic and technical dimensions or cultural clichés.

Through this study we intended, firstly, to bring in the Romanian cultural context

the research regarding the impact of culture on performance, both at the organizational level, and at the team level. Secondly, another objective that we reached was to decode the manager's perception on this so much controversy dimensions that company's performance stands for along with the performance assessment practices.

Fig. no. 2 Schein's cultural model  
**The Cultural Dynamics Model**



Source: Hatch, M., J., - "The Dynamics of Organizational Culture", *The Academy of Management Review*, No. 4., 1993, p. 660

The results of the comparison we enacted between the 2 study cases facilitated the identification of a certain number of characteristics specific to each factor used from the theory to compose our research framework (eg. Organizational structure and its impact, the culture generated by the leadership style, strategic management, the performance management system (PMS), the impact of strategy an of the (PMS), the teams features, the team and the manager's perception on performance, team development and formative process, performance assessment system, rewards and recognition, the impact of the teams).

Each one of them has a certain impact on performance. However, measuring the intensity of this correlation was not among the aims of our study, so that it remains to be treated in further research

Organizational culture, as expression of "practice-side" in the business area, mediates the movement across boundaries of different ideas and topics related to management domain.

## 6. Higher education programmes

"Because the national business systems approach has developed a deep understanding of organizations in their

national contexts, it is well placed to consider how increasing international flows and processes are impacting on this"[6]

Higher education institutions should, thus, consider, in their own strategy - when designing their programmes for the education on Management and Business Information Systems – that they are, undoubtedly, the site where the inherent tensions in the processes of reception, translation and transmission of emergent discourses, such as that of Organization Culture and IT governance, are experienced.

In regard to the "tensions" (positive or not), we would like to signalize the existence, mostly in UK and USA, of Critical Management Studies as the academic project that challenges the idea that management is a disinterested technical process by applying analytical perspectives from critical and postmodern theorists to management as social and economic practice [7].

We, as researchers, all are acquainted to the academic desiderate for the results of scientific research of "better way to understand the phenomenon and through the ability to forecast, to make life better".

As the debate in our present article exposes, there are no reasons to see both Organization Culture and IT Governance as scientific subjects: its concern (related how people work and how management should be done) goes far ahead from a simple "best seller" of a "good practice" and an efficient "strategy framework". Getting closer to the IT domain is realized through "grounded theory" coming from other research fields (which have their own practice-theoretical "issues", problems, concerns). This is a special way of dynamics.

However, Barley and Kunda observe that "in the past, studies of work provided an empirical foundation for theories" and discuss the "reintegration of work studies into organizational theory, indicating what the conceptual payoffs might be [8].

On the other hand, in real society and in that of scholars, the research field of information technology is too broadly seen as a cumulus of "instruments or tools" in the first place.

Means for the incentives to work with them and manage IT do *come from* the

practice, and from what happens in the reality when people use IT (computers, software, policies, standards and so on) – mainly, as a “Caesar’s right”: tribute to “user involvement” phase of the information system lifecycle, but also as reflecting and studying on the interaction of humans with IT.

Acknowledging how CMS academics in the US and the UK have used education as an entry strategy into wider critical debates about the nature and purpose of management, the article explores the subject on a more specific and narrower niche, that of Strategic Management of IT.

Since higher education institutions occupy an interesting role in relation to management practice and theory, we argue that the faculty and scholars are simultaneously recipients and translators of mainstream (IT) management ideas and producers of critical research on it.

We can not have a complete view on neither learning about research, nor learning for research if we ignore one of the two approaches: theoretical or practical.

## 7. Conclusions

In this article we have prospected on the two topics that answer the challenges localities (such as Romania) usually face in the context of globalization and knowledge based society: cultural decoding and IT. Our proposal benefits from grounded theory approach on organizational theory issues, but combined them to more practice-emerging concepts: organizational culture (assessing the performance of multicultural teams) and IT governance (assessing the performance of IT investments and the desirable behavior in relation to IT).

In the adaptation process, an important role is played by uncertainty, coming mostly from the question of resources (all types), but also as a result of the fact that while there is a variety of discourses present globally, only some of those ideas will result in local activity. The power to explain this phenomenon is provided by the Agency theory particularized on the institutional entrepreneurs (both individuals and organizations) who act at the

intersection of local institutional and global-macro discourses in the field emergence, initiating and maintaining the processes of *collectively take part in framing emerging fields*.

In this context, Romania, represented by organizations and higher education system should, thus, percuss: adopting new concepts like IT Governance will suppose a cultural decode, apart from the “best practices” and “imported frameworks” due to the fact that, in spite of being a board responsibility and a means to measure the performance of IT use, it implies collaboration (and not only control), communication between stakeholders and team work. Thus, at this top strategic level, the human factor is more evident than in other IT management issues, being, as in the case of corporate governance and cultural management, one of the independent variables that influence and determine the dependant variable (the success of company’s investments and actions).

Going back to academic world, the other point we aim to touch in our essay is related to the idea that any university programme should be able to cope with both theoretical foundations and impulses from practice in an “engaged scholarship” manner and fulfill the aim of „scientific and other epistemic communities and various globally operating organizations that mediate global trends to localities” .

## 8. References

- [1] Mintzberg, H., Ahlstrand, B., Lampel, J., - “Strategy Safari: A Guided Tour Through the Wilds of Strategic Management”, The Free Press, New York 1998, Chapter 1
- [2] Jarzabkowski, P., Balogun, J., Seidl, D.- “Strategizing: The Challenges of a Practice Perspective”. Human Relations 60/1, 2007, p.5
- [3] Weill, P., Ross, J. – “IT Governance: How Top Performers Manage IT Decision Rights for Superior Results”, Harvard Business School Press, Boston, 2004
- [4] Gray, H. “Is there a relationship between IT Governance and Corporate Governance?”, 2004
- [5] Granqvist, N., - „Nanotechnology and nanolabeling. Essays on the emergence of new technological fields”, Helsinki School of Economics, 2007
- [6] Morgan, G. –“National business systems research: Progress and prospects” Scandinavian

Journal of Management, no. 23, 2007, p. 127  
[7] Perriton, L., -“Really useful knowledge?  
Critical Management Education in the UK and  
the US”, Scandinavian Journal of Management,

no. 23, 2007, p. 66–83  
[8] Barley, S. Kunda, G. – “Bringing Work  
Back In”, Organization Science, Vol. 12, No. 1,  
JSTOR, Informs, 2001, p. 76

## Data Preprocessing in Web Usage Mining

Istrate Mihai

„Constantin Brâncoveanu” University of Pitesti  
mihaifrance@yahoo.com

### Abstract

Data collected from Web in the first stage of data mining are usually diverse and voluminous. These data must be assembled into a consistent, integrated and comprehensive view, in order to be used for pattern discovery. Like in most applications of data mining, data preprocessing involves removing and filtering redundant and irrelevant data, predicting and filling in missing values, removing noise, transforming and encoding data, as well as resolving any inconsistencies. The task of data transformation and encoding is particularly important for the success of data mining.

**Key words:** data preprocessing, data filtering, user identification, users session identification.

**JEL Classification:** L 86

### 1. Introduction

In Web usage mining, data preprocessing includes the identification of users and user sessions, which are to be used as the basic building blocks for pattern discovery. The accurate identification of users and user sessions is particularly important for Web personalization, because the models of individual users are based on user behavior encoded in user sessions and associated correctly with the corresponding users.

The data preprocessing step is to some extent domain-dependent, e.g. the content and the structure if a Web site affect the decision about which data are relevant. It is also strongly dependent on the type and the quality of the data and thus, it constitutes a hard engineering task in the Web usage mining process. Moreover, there is a compromise between insufficient preprocessing, which will make the pattern discovery task more difficult and affect its results, and excessive preprocessing that may result in removing data with useful, but implicit, knowledge [1], [2].

### 2. Data filtering

The first step in data preprocessing is to clean the raw Web data. During this step the available data are examined and irrelevant or redundant items are removed from the dataset. This problem mainly concerns log data collected by Web servers and proxies, which can be particularly noisy, as they record all user interactions. Due to these reasons, we concentrate here on the treatment of Web log data. Data generated by client-side agents are clean as they are explicitly collected by the system, without the intervention of the user. On the other hand, user supplied data (e.g. registration data) need to be verified, corrected and normalized, in order to assist in the discovery of useful patterns.

Significant redundancy in log files is caused by the specification of the HTTP protocol, which requires a separate access request to the server for each file, image, video, etc. that is embedded in a Web page. Usually entries in log files that refer to image, sound, video files, CGI scripts and image map files are considered redundant. These files are downloaded without a user explicitly requesting them and thus, they are not part of the user's actual browsing activity. Therefore, these entries are usually removed from the log files [3]. However, as mentioned above, the data preprocessing task is domain-dependent and removing those files may, sometimes, cause the loss of valuable information. This is the case, for example, when a site consists mainly of multimedia content.

In addition, log entries corresponding to requests that have not been satisfied, e.g. requests that received HTTP error responses, are filtered out of the log file, though they may correspond to information that is needed by users. In addition, records created by spiders or crawlers, i.e., programs that download complete Web sites in order to update the index of a search engine are also removed, since they are not considered usage data.



Crawlers and spiders can often be recognized through the User Agent field of the server logs, since most crawlers will identify themselves using this field. Another technique is to look at the pattern of track of a particular visitor. If the visitor is retrieving pages in an exhaustive pattern of following every hyperlink on every page within a site, then it is a crawler. Tan and Kumar propose a method for identifying spider sessions based on a variety of features that are extracted from access logs such as percentage of media files requested, percentage of requests made by HTTP methods, as well as features that are showing the breadth-first searching behavior of the spider [4]. Data referring to other Web sites, over which the site administrator has no control, are also considered irrelevant and are usually removed.

### 3. User identification

The identification of individual users who access a Web site is one of the most important issues for the success of a personalized Web site. Many of the existing commercial personalization systems require the users to identify themselves, by logging in before using the system. However, this process introduces a burden to the user that is not acceptable for many Web sites, e.g. the average e-commerce site. For this reason, a number of studies have proposed various approaches to automate the process of user identification. The most important of these are presented here.

The simplest approach is to assign a different user to each different IP identified in the log file. Several of the Web usage mining tools adopt this approach, despite its high degree of inaccuracy, due to the use of proxy servers. Cookies are also useful for identifying the visitors of a Web site by storing an ID, which is generated by the Web server for each user visiting the Web site, but since they are considered a security and privacy threat, users may disable or delete them. Furthermore, if a user connects to the Internet using different machines, then that user cannot be identified correctly.

Due to these problems, other heuristic techniques have been proposed. One of these techniques is the use of special Internet services, such as the *inetd* and *fingerd* services [5], which provide the user name and other

information about the client accessing the Web server. One problem with this method is that these services may also be disabled for security reasons. In addition, if the users operate behind proxy servers it is impossible to identify them with the use of the *inetd* and *fingerd* services, since the proxy server corresponds to one host IP address for many users.

Two more heuristic methods to overcome user identification problems are presented in [3]. The first method performs an analysis of the Web server log file in Extended Log Format, looking for different Web browsers, or different operating systems, in terms of type and version, even when the IP remains the same. This information suggests the existence of different users. The second method presented in the same work combines the topology of a site together with access log referrer entries. If a request for a page originates from the same IP address as other already visited pages, and no direct hyperlink exists between these pages, then it is suspected that a new user is accessing the Web site. These two methods are also not without problems. Apart from their cost in terms of computational effort, there are also many cases where the heuristics fail, e.g. when a user opens different browsers or more than one browser window visiting different pages from the same site that are not directly hyperlinked. A further problem with the second heuristic is that it does not help in identifying the user fully, i.e., relating different visits of the same user to the site, at different times.

Schwarzkop employs a different technique for user identification [6]. A unique ID, generated by the Web server for each user, is included in the URL of the Web pages delivered to the users. Instead of storing this ID in a cookie file, the user is asked to create a bookmark for one of these pages, which includes this ID as part of its URL. The ID is used to identify the user, whenever the user returns to the site, via this bookmarked page, and is stored in the log file replacing the IP address of the user. This is a very simple technique, avoiding several problems that cookies have, such as the blocking of cookies by the user. However, this technique is also problematic. The main problem is that the identification process is only semiautomatic as the user must bookmark

a page and use that page to access the site, otherwise the user's ID will not be used. Furthermore, the situation of a user accessing the Web site from different machines, also affects this technique.

#### 4. Users session identification

The identification of user sessions has also received significant attention in Web usage mining projects, as sessions encode the navigational behavior of the users and they are thus important for pattern discovery. A user session is a delimited set of pages visited by the same user within the duration of one particular visit to a Web site

Various heuristic methods have been used to identify user sessions. Spiliopoulou divides these methods into time-based and context-based [7]. Examples of time-based heuristics are the use of an upper limit to the time spent on a page, or an upper limit to the total duration of a session. Access to specific types of page, or the completion of a conceptual unit of work can be considered context-based methods.

Time-based methods have been used in most of the specific literature. According to these approaches, a set of pages visited by a specific user is considered as a single user session if the pages are requested at a time interval not larger than a specified time period. This period, also known as page viewing time [8], varies from 25.5 min to 24 h, whilst 30 min is used as the default [3]. However, this heuristic is not very reliable since the exact actions of a user are not known and may vary considerably, e.g. a user may be reading the same page for a long time, or may have left the office for a while and return to reading the page, etc. In addition, the value of this timeout depends largely on the content of the site being examined.

An important problem with the common time-based methods is the use of the cache, which may lead the system to the conclusion that a session has ended, while the user is still retrieving pages from the cache. This problem can be alleviated by the introduction of special HTTP headers. Shahabi propose an alternative method of measuring the viewing time for a page, using Java agents, that send back to the server the client's system time each time a new

Web page is loaded or unloaded at the client's browser [8]. However, external factors, such as network track and the type of browser, used by the visitor, introduce important obstacles to this method. Furthermore, the use of Java agents or JavaScript may be disabled by the user.

Yan identify user sessions by modifying the NCSA httpd server, in order to include session identifiers in the Web pages [9]. The first time a Web page is requested from a specific host-IP address, an identifier is embedded in this page corresponding to the start of a user session. This identifier is kept in subsequent requests coming from the same host, and a timeout mechanism is used to separate different session identifiers. However, caching mechanisms, affect the accuracy of this approach, since pages that are retrieved from caches are not included in the sessions.

User sessions are sometimes processed further to provide more useful entities. One such example is the concept of a transaction, a term derived from data mining and used mainly in market basket analysis. A transaction is a subset of related pages that occur within a user session. In order to identify transactions, Cooley made the assumption that transactions have a strong relation to the browsing behavior of a specific user, and can thus be identified using contextual information [3]. Based on this assumption, the pages of a site are divided into three types: navigational or auxiliary pages, containing primarily hyperlinks to other Web pages and used only for browsing, content pages, containing the actual information of interest to the user and hybrid pages, combining both types of information. Although, there are pages on the Web, which belong clearly in one of the three categories, such as index or home pages, this context-based classification is not very strict and depends on the users' perspective. A navigational page for one user may be a content page for another.

In [3] transactions are classified to content-only transactions, corresponding to the content pages that a user has chosen to view within a Web site and auxiliary-content transactions, corresponding to the paths to a content page. Two methods for identifying transactions of these two types are described: the reference length, and the maximal

forward reference. The reference length method examines the time period that a user spends visiting a Web page. If this period is greater than a certain threshold, the page is assumed to contain useful information, i.e. it is a content page, and is added to a content-only transaction. Otherwise the page is considered navigational, and is added to an auxiliary-content transaction. Auxiliary-content transactions are 'closed' with the questionable assumption that the last page a user visits is always a content page. Any interruption to the browsing sequence caused by external factors may erroneously lead to the identification of a content page. Another problem with this method is that the definition of the appropriate threshold is strongly dependent on the content of the site.

The maximal forward reference method has been proposed by Chen [10]. According to this approach, a transaction is defined as the set of pages visited by a user from the first page, as recorded in the log file, up to the page where the first back-ward reference has occurred. A backward reference is a page that is already included in the recorded transaction. The next transaction starts with the next forward reference, i.e. a new page that is not included in the recorded transaction. Using the classification of pages into content and navigational ones, maximal forward references are content pages, while the pages leading to the maximal forward references are navigational (auxiliary) pages. This method has an advantage over the reference length method since it is independent of the site content. However, it also suffers from an important problem, which is the caching of Web pages that prevents backward references to be recorded in log files. Cache-busting can solve this problem, with the cost explained above[11].

Finally, Ardissono and Torasso[12] also employ contextual information to identify a sequence of actions, in a user's browsing sequence, that are related to a certain item, defined as the Current Focus of Attention. The actions that are performed without changing the 'browsing' focus, constitute the local

history, which is used to analyze the user's behavior.

## 5. References

- [1] Mulvenna, M.D., Buchner, A. G., Norwood, M. T. and Grant, C.: 1997, The 'Soft-Push': mining internet data for marketing intelligence, In: Working Conference: Electronic Commerce in the Framework of Mediterranean Countries Development, Ioannina, Greece, pp. 333-349.
- [2] Mulvenna, M. D. and Buchner, A. G.: 1997, Data mining and electronic commerce, Overcoming Barriers to Electronic Commerce, (OBEC '97), Malaga, Spain, 1-7.
- [3] Cooley, R., Tan, P. N. and Srivastava, J.: 1999b, WebSIFT: The Web Site Information Filter System, In Proceedings of the Web Usage Analysis and User Profiling Workshop (WEBKDD'99).
- [4] Tan, P. N. and Kumar, V.: 2002, Discovery of Web Robot Sessions Based on their Navigational Patterns, Data Mining and Knowledge Discovery, 6(1), 9-35.
- [5] Pitkow, J.: 1997, In search of reliable usage data on the WWW, In: Proceedings of the 6th Int. World Wide Web Conference, Santa Clara, CA, 451-463
- [6] Schwarzkopf, E.: 2001, An adaptive web site for the UM2001 conference, In: Proceedings of the UM2001 Workshop on Machine Learning for User Modeling, pp. 77-86.
- [7] Spiliopoulou, M.: 1999, Tutorial: Data Mining for the Web. PKDD'99. Prague, Czech Republic.
- [8] Shahabi, C., Zarkesh, A. M., Abidi, J. and Shah, V.: 1997, Knowledge discovery from user's Webpage navigation, In Proceedings of the 7th IEEE International Workshop on Research Issues in Data Engineering (RIDE), pp. 20 - 29.
- [9] Yan, T. W., Jacobsen, M., Garcia-Molina, H. and Dayal, U.: 1996, From User Access Patterns to Dynamic Hypertext Linking, WWW5/Computer Networks 28(7-11), pp. 1007-1014.
- [10] Chen, M. S., Park, J. S. and Yu, P. S.: 1996, Data Mining for Path Traversal Patterns in a Web Environment, In: Proceedings of the 16th International Conference on Distributed Computing Systems, pp. 385-392.
- [11] Pierrakos, D., Paliouras, G., Papatheodorou, C., Spyropoulos, D., Web Usage Mining as a Tool for Personalization: A Survey, 2003 Kluwer Academic Publishers
- [12] Ardissono, L. and Torasso, P.: 2000, Dynamic User Modeling in a Web Store Shell, In: Proceedings of the 14th Conference ECAI, Berlin, Germany, pp. 621-625.

## Data Collection in Web Usage Mining

Istrate Mihai

„Constantin Brâncoveanu” University of Pitesti  
mihaifrance@yahoo.com

### Abstract

The first step in the Web usage mining process consists of collecting the relevant Web data, which will be analyzed to provide useful information about the users' behavior. There are two main sources of data for Web usage mining, corresponding to the two software systems interacting during a Web session: data on the Web server side and data on the client side. In addition, when intermediaries are introduced in the client-server communication, they can also become sources for usage data, like proxy servers and packet sniffers. We will consider each of these sources in the following paper. Also we are trying to associate the data collection methods with the requirements imposed by different classes of personalization functions.

**Key words:** Web usage mining process, client-server communication, cookies, external data, and intermediary data.

**JEL Classification:** A12, C88, Y80

### 1. Server side data

#### 1.1. Server log files

Server side data are collected at the Web server of a site. They consist mainly of various types of logs generated by the Web server. These logs record the Web pages accessed by the visitors of the site. Web servers have the ability to log all requests. There are two Web server log formats.

Most of the Web servers support as a default option the Common Log File Format, which includes information about the IP address of the client making the request, the hostname and user name, if available, the time stamp of the request, the file name that is requested, and the file size.

The Extended Log Format (W3C), which is supported by Web servers such as Apache and Netscape, and the similar W3SVC format, supported by Microsoft Internet Information Server, include additional information such as the address of the referring URL to this page, the Web page that brought the visitor to the site, the name and version of the browser used by the visitor and the operating system of the host machine.

Web usage mining tools use Web server log files as the main data source for discovering usage patterns. However, log files cannot always be considered a reliable source of information about the usage of a site. The problem of data reliability becomes particularly serious for Web personalization, where it is important to identify individual users, in order to discover their interests. There are primarily two sources of data unreliability: Web caching and IP address misinterpretation.

The Web cache is a mechanism for reducing latency and track on the Web. A Web cache keeps track of Web pages that are requested and saves a copy of these pages for a certain period of time. Thus, if there is a request for the same Web page, the cached copy is used instead of making a new request to the Web server. Web caches can be configured either at the users' local browsers, or at intermediate proxy servers. The obstacle that is introduced is the same for both types of cache. If the requested Web page is cached, the client's request does not reach the corresponding Web server holding the page. As a result, the server is not aware of the action and the page access is not recorded into the log files. One solution that has been proposed is cache-busting, i.e., the use of special HTTP headers defined either in Web servers or Web pages, in order to control the way that those pages are handled by caches. These headers are known as Cache-

Control response headers and include directives to define which objects should be cached, how long they should be cached for, etc. However this approach works against the main motivation for using caches, i.e., the reduction of Web latency.

The second problem, IP misinterpretation in the log files, appears for two main reasons.

The first reason, also known as the „AOL effect”, is the use of intermediate proxy servers, which assign the same IP to all users. As a result, all requests from various host machines that pass through the proxy server are recorded in the Web server log as requests from a single IP address. This can cause misinterpretation of the usage data. The same problem occurs when the same host is used by many users (e.g. members of a family). The opposite problem occurs when one user is assigned many different IP addresses, e.g. due to the dynamic IP allocation that is used for dial-up users by ISPs. A variety of heuristics have been employed in order to alleviate the problem of IP misinterpretation.

Finally, information recorded at the Web servers' log files may cause a privacy threat to Internet users [1], [11], [12]. Especially the referrer field is considered private information and according to the Request for Comments (RFC) on Hypertext Transfer Protocol - HTTP/1.1 2616, the user should have the option to transmit or not the referrer field through the Web browser. Unfortunately, most browsers do not conform currently with this recommendation.

## 1.2. Cookies

In addition to the use of log files, another technique that is often used in the collection of data is the dispensation and tracking of cookies. Cookies are short strings dispensed by the Web server and held by the client's browser for future use. They are mainly used to track browser visits and pages viewed. Through the use of cookies, the Web server can store its own information about the visitor in a cookie log at the client's machine. Usually this information is a unique ID that is created by the Web server, so the next time the user visits the site, this information can be sent

back to the Web server, which in turn can use it to identify the user. Cookies can also store other kind of information such as pages visited, products purchased, etc., although the maximum size of a cookie cannot be larger than 4Kbytes, and thus it can hold only a small amount of such information.

The use of cookies is also not without difficulties. One problem is that many different cookies may be assigned to a single user, if the user connects from different machines, or multiple users may be using the same machine and hence the same cookies. In addition, the users may choose to disable the browser option for accepting cookies, due to privacy and security concerns. This is specified in HTTP State Management Mechanism which is an attempt of the Internet Engineering Task Force to set some cookie standards. This attempt is formalized in the Request for Comments (RFC) 2965 [2], [11], [12]. Even when they accept cookies, the users can selectively delete some of them. Cookies are also limited in number. Only 20 cookies are allowed per domain, and no more than 300 cookies are allowed in the client machine. If the number of cookies exceeds these values, the least recently used will be discarded.

## 1.3. Explicit User Input

Various user data supplied directly by the user, when accessing the site, can also be useful for personalization. User data can be collected through registration forms and can provide important personal and demographic information, as well as explicit user preferences.

This is the case for some applications (e.g. online banking) where fairly detailed user data are available. However, this method increases the load on the user and it is generally considered a serious disincentive for visiting the site.

Furthermore, we cannot always rely on user-supplied information, since it is often incomplete and inaccurate. Users tend to provide as little as possible personal information for reasons concerning their privacy.

Another type of user data collected at the server side is the query data to a Web

server that are generated on e-commerce sites, portals and digital libraries [3]. These data are provided to a local search engine, when the user is trying to identify specific information within the site. However, free-text data are particularly rich and there is no formal standard for describing them. As a result, it is difficult to make use of these data.

#### **1.4. External Data**

Finally, user data providing demographic information [3] can be acquired from third party suppliers who maintain user databases for various reasons. However, privacy concerns have led to the introduction of legal obstacles in the distribution of these data. For instance, the European Union's Directive (EU Directive) on Personal Data, which took effect on October 23, 1998, restricts the transfer of personal data to a non-EU country.

#### **2. Client side data**

Client side data are collected from the host that is accessing the Web site. One of the most common techniques for acquiring client side data is to dispatch a remote agent, implemented in Java or JavaScript [4],[5]. These agents are embedded in Web pages, for example as Java applets, and are used to collect information directly from the client, such as the time that the user is accessing and leaving the Web site, a list of sites visited before and after the current site, i.e., the user's navigation history, etc. Client side data are more consistent than server side data, since they overcome caching and IP misinterpretation problems. However, the use of client side data acquisition methods is also problematic. One problem is that the various agents collecting information affect the client's system performance, introducing additional overhead when a user tries to access a Web site. Furthermore, these methods require the cooperation of users, who may not allow an agent running on their side. Web users often activate security mechanisms for restricting the operation of Java and JavaScript programs from their browsers,

in order to avoid running hazardous software. The result is the ineffective operation of agents collecting client side data.

An older technique used to collect data at the client side was through a modified version of the Mosaic browser [6], [7]. This modification allowed the browser to record the Web pages that were visited by a user and send that, together with other information, such as time of access, and time of response, back to the server. Browser modification is not a trivial task for modern browsers, even when their source code is available, like Netscape Navigator. Furthermore, modified browsers that record the behavior of users are considered a threat to the user's privacy and thus it is difficult for users to accept their use.

### **3. Intermediary data**

#### **3.1. Proxy Servers**

A proxy server is a software system that is usually employed by an enterprise connected to the Internet and acts as an intermediary between an internal host and the Internet so that the enterprise can ensure security, administrative control and caching services.

Despite the problems that they cause, which were mentioned above, proxy servers can also be a valuable source of usage data.

Proxy servers also use access logs, with similar format to the logs of Web servers, in order to record Web page requests and responses from the server. The advantage of using these logs is that they allow the collection of information about users operating behind the proxy server, since they record requests from multiple hosts to multiple Web servers [9], [13], [14]. On the other hand, the problems of caching and IP address misinterpretation that were mentioned above, are also applicable to proxy server data.

#### **3.2. Packet Sniffers**

A packet sniffer is a piece of software, or sometimes even a hardware device, that

monitors network traffic, i.e., TCP/IP packets directed to a Web server, and extracts data from them. One advantage of packet sniffing over analyzing raw log files is that the data can be collected and analyzed in real time. Another important advantage is the collection of network level information that is not present in the log files. This information includes detailed timestamps of the request that has taken place, like the issue time of the request, and the response time, as well as whether or not the user has cancelled the request, by pressing the Web browser's stop button. The complete Web page that has been requested can also be included in the sniffed data [8], [10].

Although, the use of packet sniffers also has important disadvantages compared to log files. Since the data are collected in real time and are not logged, they may be lost forever if something goes wrong either with the packet sniffer or with the data transmission. For example, the connection may be lost, the packet sniffer may lose packets, or the packets may arrive in a disordered state, and hence it will not be possible to process them correctly in real time. In addition, especially for e-commerce sites, TCP/IP packets are increasingly transmitted in encrypted format, reducing the ability of packet sniffers to extract useful information. Finally, since packet sniffing tools operate directly on the data transmitted over the Internet, they are considered a serious threat to the users' privacy, especially when used by intermediaries like Internet Service Providers.

#### 4. References

- [1] Broder, A. 2000, Data Mining, The Internet and Privacy. WEBKDD'99, LNAI 1836, 56 – 73.
- [2] Buchner, A. G. and Mulvenna, M. D. 1999, Discovering Internet marketing intelligence through online analytical Web usage mining, SIGMOD Record, 27(4), 54 – 61.
- [3] Kristol, D. and Montulli, L. 2000, RFC 2965 – HTTP State Management Mechanism.
- [4] Shahabi, C., Zarkesh, A. M., Abidi, J. and Shah, V.: 1997, Knowledge discovery from user's Webpage navigation, In Proceedings of the 7th IEEE International Workshop on Research Issues in Data Engineering (RIDE), p p. 20 – 29.
- [5] Shahabi, C., Banaei-Kashani, F. and Faruque, J.: 2001, A Reliable, Efficient, and Scalable System for Web Usage Data Acquisition, In WebKDD'01 Workshop in conjunction with the ACM SIGKDD 2001, San Francisco, CA.
- [6] Cunha, C. A., Bestavros, A. and Crovella, M. E.: 1995, Characteristics of WWW Client-based Traces. Technical Report TR-95^010. Boston University, Department of Computer Science.
- [7] Tauscher, L. and Greenberg, S.: 1997, How People Revisit Web Pages: Empirical Findings and Implications for the Design of History Systems, International Journal of Human Computer Studies, Special issue on World Wide Web Usability, 47(1), 97 – 138.
- [8] Feldmann, A.: 1998, Continuous online extraction of HTTP traces from packet traces, Proceedings W3C Web Characterization Group Workshop.
- [9] Srivastava, J., Cooley, R., Deshpande, M. and Tan, P. T. 2000, Web Usage Mining: Discovery and Applications of Usage Patterns from Web Data. SIGKDD Explorations, 1(2), 12 – 23.
- [10] Pierrakos, D., Paliouras, G., Papatheodorou, C., Spyropoulos, D., Web Usage Mining as a Tool for Personalization: A Survey, 2003 Kluwer Academic Publishers
- [11] Mulvenna, M. D., Buchner, A. G., Norwood, M. T. and Grant, C.: 1997, The 'Soft-Push': mining internet data for marketing intelligence, In: Working Conference: Electronic Commerce in the Framework of Mediterranean Countries Development, Ioannina, Greece, pp. 333-349.
- [12] Mulvenna, M. D. and Buchner, A. G.: 1997, Data mining and electronic commerce, Overcoming Barriers to Electronic Commerce, (OBEC '97), Malaga, Spain, 1-7.
- [13] Cooley, R., Tan, P. N. and Srivastava, J.: 1999b, WebSIFT: The Web Site Information Filter System, In: Proceedings of the Web Usage Analysis and User Profiling Workshop (WEBKDD'99).
- [14] Cooley, R., Tan, P. N. and Srivastava, J.: 1999c, Discovering of interesting usage patterns from Web data. TR 99 ^022. University of Minnesota

## Financial Calculations in Access 2007 (SQL)

Jeflea Victor  
Cosma Emil  
"Ovidius" University of Constanța  
jefleavf@yahoo.com  
ecosma@univ-ovidius.ro

### Abstract

Many *DBMS* producers have expanded the support for *SQL* by adding instructions to that particular language. The role of these extensions is to provide additional functionalities and simplified methods to perform certain operations. Although they are often very useful, these extensions have the tendency to be specific to a particular *DBMS* and are rarely supported by many producers. The standard *SQL* is controlled by the *ANSI* standardization committee, which is thus known as *ANSI SQL*. All important databases management systems, even those who use their own extensions, support *ANSI SQL*. In most cases, the *SQL*, which is submitted as an annex to the *Microsoft Access DBMS*, is *ANSI SQL* and applies to any database management system.

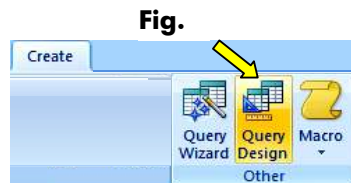
**Key words:** Acces, reports

**JEL Classification:** H2

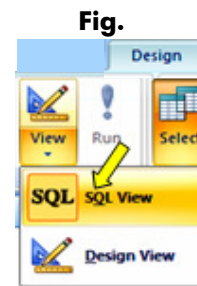
### 1. Creating and running a *SQL* script

In the *Microsoft Access* editing environment, in order to introduce text to a *SQL* statement, which is a **Query object**, it is necessary to follow the following steps:

✦ In the *Create* tab click (with the mouse) on the *Query Design* button **Fig. 1:**




✦ Close the *Show Table* window that appears and in the *Design* tab select the *SQL View* button **Fig. 2:**



✦ The instruction text should be edited in the *SQL* view on the *Select* word area (the most common instruction used in *SQL*) – **Fig. 3:**



✦ Running is made by pressing  by **Run** button.



➔ It is advisable to use the **right mouse button** to display some contextual menus, relative to the objects concerned (*Table* or *Query*). In the left side of the screen (*Navigation Pane*) one can see the list with names of objects, these could be displayed (*View*). Tables may be presented in *Design View* or *Datasheet View*. To view current *SQL*



scripts the current view is *SQL View*.

➔ Views may be closed (right-click on view and *Close*), while the objectives in the *Navigation Pane* can be removed from the database (right-click on object and *Delete*).

## 2. The syntax of SQL statements

*SQL* statements are composed of simple terms in English. These terms are called keywords, each *SQL* statement being composed of one or more keywords. A keyword is a reserved word which is part of the *SQL* and is used exclusively to describe the instructions (for instance, one can never name a table or a column using a keyword).

Each instruction begins with a *name*, followed by other words called *clauses* and user words. The name of the instructions and the clauses are keywords (reserved). **Spaces utilization.** All spaces included in an *SQL* statement will be ignored while processing that particular instruction. *SQL* statements can be specified in a single line or may be divided on several lines. Splitting statements on multiple lines make them easier to read and troubleshoot.

**Statements completion.** *SQL* statements can be concluded by a semicolon (;). Most DBMS programs do not require the mandatory utilization of this character.

**Capitalized/lowercased letters.** It is important to note that *SQL* statements do not distinguish between capital letters (uppercase) and lower-cases (small letters). By convention, for a better explanation of edited statements, upper case letters are used for all *SQL* keywords and lower-case letters to name columns and tables.

## 3. Data types

Types of data are basically rules that define data which can be stored in a column and the effective way to store them.

Data type specification is made for several reasons:

➔ Allows limiting the type of data that can be stored in a column. For example, a column of a numeric data type will accept only numeric values.

➔ Data types allow a more efficient internal storage. Numerical values and those

of date/time type can be stored in a more condensed format than text strings.

Numeric data types store numbers. There are accepted more types of numeric data, each with a different field of numbers that can be stored. Obviously, the bigger the field, the more increases the required storage space.

Most DBMS type programs accept a particular numeric data type to store *monetary values*. Usually called **MONEY** or **CURRENCY**, these types of data are essentially **DECIMAL** types with well-defined intervals, which are recommended for storing monetary type values.

## 4. Fields with calculated value

Besides already the existing fields in tables, one may create new fields, called *fields with calculated value (aliases)*. These fields do not actually exist in data tables. In this case, the **Select** instruction has the following syntax:

```
SELECT
AS expr calculated field [,]
[AS expr calculated field,]
...
FROM name
[WHERE condition]
```

<b>expr</b>	Relation calculation.
<b>calculated field</b>	Name of the calculated field.
<b>name</b>	Name of the table from which calculations are extracted.
<b>WHERE</b>	Horizontal selection.
<b>condition</b>	Condition according to which horizontal selection is made.

## 5. Calculation Functions

Functions used in *SQL* statements are grouped into two categories:

- **Aggregate Functions**, specific to *SQL* (e.g. **COUNT**, **MIN**, **MAX**, **SUM**, **AVG**)
- Functions for data handling specific to Access (**VBA functions**)

In the second category falls **FORMAT** function to specify the way numbers are

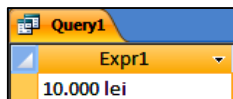
specified:

**FORMAT(expression, strFormat)**

<b>expression</b>	May be a variable, a constant or an expression derived from them.
<b>strFormat</b>	Display format defined as a string. Each character # indicates a number, and 0 specifies if there appear zeros for completion, at the beginning or at the end.

↓ **Example**

**SELECT FORMAT**  
(10000, "###,### lei") AS Expr1



Example ↑

## 6. Financial functions

Financial functions perform normal calculations for business, such as determining a loan payment, future value or current net value of an investment and bond or coupon values.

Common **arguments** for financial functions include:

- ✓ *Future value (fv)* - the amount of investment or loan after all payments are made.
- ✓ *Number of periods (nper)* - total number of payments or periods of an investment.
- ✓ *Present value (pv)* - the value of an investment or loan at the beginning of the investment. For example, the current value of a loan is the basic capital that is borrowed.
- ✓ *Rate (rate)* - the interest rate or discount rate for a loan or investment.
- ✓ *Type (type)* - the period in which payments are made during the period

of payment, such as at the beginning of the month or at the end of it (0 or 1, implicit 0).

The most important financial functions are:

**FV(rate, nper, pmt, pv, type)**

Calculates future value of an investment based on periodic and constant payments and a constant interest rate.

**PV(rate, nper, pmt, fv, type)**

Returns the present value of an investment. Present value stands for the amount that represents in the present a range of future payments. For example, for a loan, the amount borrowed is the present value for creditors.

**NPER(rate, pmt, pv, fv, type)**

Provides the number of periods for an investment based on constant periodic payments and a constant interest rate.

**PMT(rate, nper, pv, fv, type)**

Calculates payment for a loan based on constant payments and a constant interest rate.

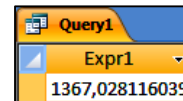
**IPMT(rate, per, nper, pv, fv, type)**

Determines the payment of interest rate on a given period for an investment based on constant periodic payments and a constant interest rate.

↓ **Example**

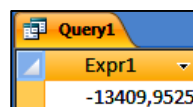
a) For 13 monthly deposits, to 100 monetary units with 10% annual interest, the balance achieved can be calculated as follows:

**SELECT FV(10 / 100 / 12,**  
**13, -100) AS Expr1**



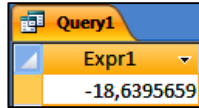
b) Calculation of bank deposit for monthly return of 150 monetary units (9.5% annual interest, 12 years):

**SELECT PV(9.5 / 100 / 12,**  
**13 \* 12, 150) AS Expr1**



c) Number of months needed to achieve a balance of 2,000 monetary units (monthly deposit of 100, 9.5% annual percentage rate):

```
SELECT NPER(9.5 / 100 / 12, -  
100, -2000) AS Expr1
```



(rounding is required,  $18,63... \approx 19$ )

d) For a bank loan of 13,000 branches, in 12 years, 9.5% annual percentage rate, monthly payments are:

```
SELECT PMT(9.5 / 100 / 12, 12  
* 12, 13000) as Expr1
```

e) Interest rate owed in the second year, for a loan of 13,000 monetary units, for 12 years, (9.5% annual percentage rate):

```
SELECT IPMT(9.5 / 100, 2,  
12, 13000) as Expr1
```

## 7. References

- [1] Emil Cosma, *Visual BASIC VBA 2007 Studio 2005*, MatrixRom Publisher, Bucharest, 2007.
- [2] Emil Cosma, *Office 2007 – VBA, Excel, Access*, ExPonto Publisher, Constanța, 2008.
- [3] Paul McFedries, *VBA, Guide for Beginners*, Teora Publisher, Bucharest, 2006.
- [4] Ben Forta, *SQL in Lessons of 10 Minutes*, Teora Publisher, Bucharest, 2008.

# Globalisation and Data Security in Electronic Commerce

Lazăr Cristina Mihaela  
Spătariu Elena Cerasela  
“Ovidius” University, of Constantza  
cgrozea@yahoo.com  
ebarbu2001@yahoo.com  
Lazăr Claudiu  
Prosecution Department Bucharest

## Abstract

Number of theories and opinions regarding globalisation is overwhelming. Economically approaching this matter it may be said that globalisation is the opposite of protectionism and economic nationalism manifesting a good relationship with the free market and neo liberalism having common characteristics with internalisation. A new dimension of globalisation is represented by development of the electronic commerce in the latest time becoming a leader factor of businesses success in the 21st century. Infrastructure of the electronic commerce- the internet- offers instantaneously an open communication environment for all participants. This new dimension offers to the companies the opportunity of improving their processes but there is still one problem to be settled-that of data security -this involving efforts aimed to support all actors of this market in order to diminish the risks. Within this context of globalisation there are pertinent the tendencies of common ,public and private preoccupations too for the security of the global cybernetic space .In order to achieve the potential of the electronic commerce all over the world it is necessary a global equilibrated informational infrastructure .Electronic commerce carrying on involves approach and settlement of a multitude of technical and juridical problems regarding monitoring and crypt of the informational flows , transfrontalier financial transactions ,global fraud

**Key words:** globalization , commerce, data security, information

**JEL Classification:** P25 C88

## 1. Introduction

A characteristic of new economies is the globalization phenomena this one affecting the whole world. Globalization brings additional competition that has as result a better quality of the goods and services and therefore a better quality of life. Increase of life quality is completed by another dimension of the globalization consisting in the access that everyone has to the information existent in the internet network irrespective of the geographical location. As internet has not been conceived as a business environment ,proliferation of electronic trade has as effect intensification of the security and protection actions regarding the transactions carried out by the means of this environment .

## 2. Globalization general concepts

Globalisation is one of our days large circulation terms . The complex process of globalization was launched at the end of the ‘80’s and may have an economic, political, electronic, cultural and even a social meaningful approach. It may be stated that we are the witnesses of a global civilisation with common interests and values and common efforts serving a common cause of the humanity occurring the idea that the world will become a kind of a global village(McLuhan)

Anthony Giddens points out the social and economic elements defining globalization as “messengers of social and economic relationships development that expand in the whole world.A key aspect of the

globalisation study is the apparition of a global system this meaning that to a some extent we have to consider the world as forming only one social order .”

The most synthetic expression of the globalization process is given by “Strategy of National Security of The United Nations : a new “era” that defines this “as a process of acceleration of the economic , technological ,cultural and political together with the democratic government , market economy ,observance of human rights ,economic dynamism and revolution of communications “.

Roland Robertson appreciates that “globalization concept is referring to world decrease and world awareness degree as a whole”.

Globalization also includes some complex processes with a variable dynamic reaching different fields of a society ;it may be a phenomena ,an ideology ,a strategy or all these altogether. Globalisation may describe increase of commerce and investments as a result of barriers fall and interdependence between states . Within the economic context it is found the reference to the effects of the commerce in general and liberalization of commerce or free exchange in particular .

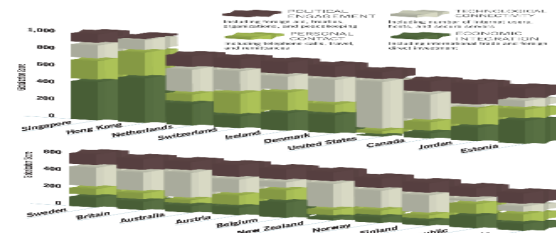
Supporters of globalisation do not deny competition sharpening as long as economies become more and more connected but they argument that this one is positive as businesses efficiency is achieved within a background that creates equal chances for more and more inhabitants of the planet .On the other hand we are aware of the anti globalisation measures that become obvious in some countries on the occasion of the high level meetings or other international forums .

### 3. Globalization index

Globalisation established domination of market economy . Besides GDP(Gross Domestic Product) index that is mentioned in all kinds of governmental announcements ,index of globalisation internationally gains more and more ground .Every year A.T.Kearney Company publishes in the famous magazine Foreign Policy the top of

world states on the basis of the globalisation index. Globalisation index is calculated for 62 countries that achieve 96% of the world GDP. The globalisation index synthesizes economic development level, level of interpersonal contacts ,technological connection level , level of commitment and political integration of the country in different international bodies and organisations. The report regarding the globalisation index reveals that the most intense globalization is that in the countries in which people live more and have a better health .

Most of the analysis regarding the globalisation process focus on the necessity of the diminishment of the economic development gap between the states of the world.



Bodies like The World Bank, The International Monetary Fund , World Trade Organisation supported by the interests of some large companies that own the control in different markets administrate the circulation of the strategic economic resources and, therefore, development of more countries of the world .

Globalisation plays an important role in the economic changes of our country pointing out the manner in which our government tries to attract foreign investments that should generate an economic increase

Globalization and its connections with the e-commerce

Globalisation is tightly connected with the world trade . Trade occupies an important role in promoting and maintaining an equilibrated community life being well known that almost everywhere same types of goods are produced . This makes that the more the globalisation process is consolidated the more it is outlined the necessity of specialisation of the production

profiles of the states. Globalisation leads to increase of the commercial activity in a larger extent in comparison with the increase of the output this generating in a country the presence of more products that come from other countries.

Within software field, globalisation is the technical term that combines internalisation and localisation processes. The negative effects upon the multinational companies by the usage of some sophisticated financial methods in order to reach the limits of local standards and laws aim to control the balance between labour and services of some regions unequally developed .

A new modality of commercial transactions performance and a new way of economic activity carrying out due to the rapid and strong development of the information and telecommunication technologies is represented by the electronic trade. The electronic trade offers the possibility of configuring products or services and having immediately their real prices comparatively with the prices of more offerors assuring thus a higher carrying out speed of the commercial transactions and allows the simplification of the procedures used in transactions leading to the increase of competitiveness of the company and implicitly of the country, determines the increase of transactions value by stimulating the buyers .

Electronic commerce is an integrated concept that reunifies a large variety of services in this field of businesses using electronic means .The problem that occurs from the first click for internet connection is that of data security menace .The present development of the electronic businesses will revolution business conduct and commerce too the latter one globalising more and more .

Within this context attacks to security are preponderantly manifesting by the following ways :

- Communications interception. Such a kind of attack may lead to theft of some important information belonging to the customers such as number of the credit card, account number or other important data that may bring prejudices to customers ;

- Stolen passwords . Such thefts may move the tack of the attacks from the trials of breaking the protocol to those of trying to obtain these information clearly ;

- Modified data . This manifestation may lead to the modification of the content of some transactions ;

- Registration . Such an attack can modify the identity of the person allowing her to present as another person ;

- Repudiation . Due to this type of attack it is possible to appear the refusal of recognising some transactions done by network .

In order to diminish the security risks in the utilisation and administration of the systems that participate in the achievement of the transactions by electronic trade the best strategy is the aggregate one. This involves the aggregate evaluation of IT infrastructure and classification of exposures to the risks of security .For every identified risk there has to be issued plans of measures either to diminish the exposure to those risks or to decrease the impact of the produced risk .

#### Data security and counteract measures

Internet has been created as an open environment but not necessarily a safe one ,the TCP/IP protocol missing basic security services .

We have to admit that at least till now we can not state that there are perfect security solutions. In order to assure the success of the business within an organisation it is necessary to allow the permanent access of the employees ,customers and business partners to the electronic resources either the access is achieved by internet(the most frequent method) or not . These accessions automatically create risks and the success of a business is determined by the balance between the existent and assumed risk and profit of the organisation .Presently world expenses for the technologies for data security exceed 13 billions of dollars .

The space of the millions of computers interconnected by a global informatics infrastructure is called Cyberspace. Security of this space represents a major priority of the specialists and users ,too. The analysts of this concept noticed an apparent

contradiction between communications needs and connectivity on one hand and necessity of data confidentiality and authenticity to the computers and networks on the other hand .Cryptography is the science of secret writings. A cipher is defined as the transformation of a clear message or text in a ciphered message or cryptogram. The process of transformation of a clear text in a ciphered one and inverse transformation of the cryptogram in a clear text is named deciphering or decrypt. Both ciphering and decrypt are controlled by one or more cryptographic keys .

There are more methods and algorithms for ensuring data security. The cryptographic asymmetrical methods use crypt with public keys utilising distinct keys for messages ciphering and deciphering .Communication may be achieved when correspondents know the public key of the other one .There are more cryptographic methods with public keys : RSA ,Diffie-Hellman,the cryptographic method based on mathematical operations on the elliptical curves ,methods based on crypt probabilistic algorithms . These methods bring a security increase due to elimination of transmitting the private key to that with which communication is done but crypt speed is lower in comparison with the method with secret keys and is vulnerable to personalisation.

An important moment of modern cryptography evolution is that when Whitfield Diffie and Martin Hellman researchers at Stanford University of California settled the basis of a different principle from that of asymmetrical ciphering : instead of using one secret key there are used two different keys ,one for ciphering and another one for description .The first key-the private one- is kept in secret and it is known only by its owner and the public key may be publicly known .

Cryptographic methods use crypt with secret keys known as transmitter and receiver. The transmitter chooses a ciphering algorithm and a key that are communicated to the receiver in a safe way. A classic cryptographic system has five components :messages with clear text,messages with ciphered text ,the keys, ciphering and deciphering transformations. The main


cryptographic symmetrical methods are: LUCIFER cipher, Data Encryption Standard cipher Japanese Data Encryption Algorithm cipher ,multilevel ciphers, proposed Encryption Standard cipher, Kerberos scheme.


More and more organisations want to offer WEB pages and FTP servers for the public access from Internet. The companies that carry out activities of electronic trade by internet have to control the access from her own network towards internet and vice versa. The most frequently used solution for providing security to such a network is the so named firewall this signifying a system that imposes a control policy of the access between two networks. A firewall is a system placed between two networks that have the following properties:


- the whole traffic from interior towards exterior has to pass through this one ;
- it is only allowed the passage of the authorised traffic by the local security policy
- the system itself is immune to the trials of penetrating its security.


Assurance of an adequate security level for an organisation is achieved by the elaboration of a security policy in order to prevent the unauthorised access to resources and information .A firewall is not only a combination of devices that supplies security to a network .Firewall is a component of a general security policy playing the protection role of the informational resources of the company.

Data security assurance have to consider the following fundamental security demands:

 Confidentiality sometimes named secrecy protects the content of the transactions against the unauthorised reading by other persons than the receivers specified by transmitter. Confidentiality represents the supreme aim of the computers security and it gains new dimensions as control measures .The developed countries regulated by law control of confidentiality

 Integrity sometimes named accuracy supplies to the receiver of a transaction the security that the received message is identical with the message issued at origin .This service aims that the data stocked in the computer or being in transit in the network not to be altered or modified.

 Availability involves that data and information stocked in the memory of the computer to be accessed by authorised persons. Persons that have access to data are grouped in two categories: system administrators and general users the latter one having access only to certain available data for them.

 Non repudiation supposes confirmation of the addressee of an electronic message this meaning that the message is written or sent by persons who claim they sent .Non repudiation lays at the basis of the electronic signature assuring authenticity of this one.

Implementation of security on levels in the computers network is achieved with the help of the protocols that may be grouped in the following classes:

- identification and authentication protocols;
- protocols for data transfer protection ;
- protocols for ciphering keys administration;
- protocols for present time verification .

According to The National Security Strategy of Romania our country confronts with risk factors too of which there are pointed out the following:

- ✓ trans national and international political terrorism;
- ✓ illegal access of informatics system;
- ✓ economical-financial aggression.

The main types of vulnerabilities regarding information and informational systems for which prevention measures have to be taken are: low level of the informational structure and delays in its achievement at the standards imposed by dynamics of globalisation ,deficiencies of the protection of classified information.

#### **4. Data security in Romania**

At The European level it was established The European Agency for Security of

Information Networks that has as main target to help The European Commission ,the member states and business community to treat, answer and prevent information and networks security matters .Following the legal background of European Union within the field of data security Romania adopted national legislation in this area starting with 1st of January 2007 ,our country having a representative in The Administration Council of ENISA participating directly in the decisions taken in the field of data security at EU level.

Representatives of Bitdefender declared that Romanian market for security solutions reached last year a value of 10 millions of Euro this representing an increase with 20% in comparison with 2006 and they also estimate a 20-25% increase for 2008. Their expectations concern not only the increase of antivirus and firewall area but the increase of other segments less protected too Starting with 2004 Romania has implemented the standard 3D secure - the most modern and safe method of electronic payment- in order to allow the electronic commerce operations to be carried out fully safe.

Specialists of this field consider that the majority of The Romanian companies are not enough precautions and appeal to security services after they are already attacked by hackers, crackers, spies , vandals or other bad intentioned persons.

This year for the first time Romania will participate in “The Day of Internet Safety” organised by The European Network “Internet Safety”.

#### **5. Conclusions**

Due to permanent change and adaptation of development opportunities and risks too the process of information security has to be an incessant and dynamic one .Today no organization can perform her activity without a security policy, time demonstrating that there is a predisposition that all resources to be attacked .On the other hand an excessive preoccupation for large investments in the surveillance and monitoring systems may capture attention



of hackers who stake on profits achievement using virus methods.

Most of the time there are received answers to the eventual cybernetic attacks from the private sector and less from the public one. Governments intervene with security measures in this space in order to provide the security of their own cybernetic infrastructure and thus to be able to reach the missions and proposed targets .

## 6. References

- [1]. Marin R. (2007) – “True face of globalization” – *Political Quadrant, Magazine of analysis and political information*, no. 9
- [2]. Oprea D(2006) – ”Globalization and risk of information security ” – *Research Institute for Artificial Inteligence, Bucharest*
- [3]. Patriciu V. (coordinator ) (2001) – Security of Electronic Commerce ,*Publisingh house All, Bucharest*
- [4].Roşca I (coord) (2004) – Electronic commerce ,concepts ,technologies ,applications , *Economic Publish house , Bucharest*
- [5].Surcel T, V. Dinu (2007) – “Audit of electronic commerce in relationship with protection of the consumer” – *Economic Amphitheatre ,no. 21, Bucharest*
- [6]. Toma S, Săseanu A(2007) – “Globalization, digital economy and electronic commerce in XXI Century - *Economic Amphitheatre , no. 21, Bucharest*
- [7]. Visan M (2004) – Interferences of classic and electronic commerce –comparative analysis of the commercial technologies .*Commerce and globalization, Public house of The Academy of Economic Sciences ,Bucharest*
- [8]. www. Wikipedia.ro p Free encyclopedia
- [9]. www.globalizarea.ro
- [10]. \*\*\* - *Globalization* – Guide of economic notions for ECE/CSI countries
- [11]. \*\*\* (2006)- The Globalization Index. The Global 20, Foreign Policy, [www.ATKearney.com](http://www.ATKearney.com)
- [12]. \*\*\* (2007)- The Globalization Index. The Global 20, Foreign Policy, [www.ATKearney.com](http://www.ATKearney.com)
- [13]. [www.mapn.ro/strategia](http://www.mapn.ro/strategia) securitate (security strategy)- “Strategy of National Security of Romania“

# Impulse-Response Analysis in a Simple DSGE Framework

Leonte Alexandru

*The Academy of Economic Studies, Bucharest*  
*alexandruleonte@yahoo.com*

## Abstract

This paper intends to perform a simple impulse-response analysis on the Romanian economy with the help of a DSGE model. The DSGE methodology has its origins in the Real Business Cycle Theory, and recently it became quite popular, especially after the seminal contribution of Smets and Wouters ([8]). I use a model with a single stochastic variable, namely technological progress, and focus on the response of the main macroeconomic variables to a technology shock. This endeavor is a first step in developing a DSGE model that can be used for policy purposes.

**Key words:** DSGE, impulse-response analysis, real business cycle.

**JEL Classification:** E22, E32.

## 1. Introduction

This paper aims to perform a simple impulse-response analysis with the help of a DSGE model. These models have become quite popular in recent times. Their main advantage is that they offer microeconomic foundations for the neo-Keynesian mathematical relations between macroeconomic variables. The use of a simple model to observe the responses of these variables to a stochastic shock can be regarded with suspicion. Still, it has been shown that simple models can perform as well or even outperform more complicated models, especially in the case of emerging economies, for which long time series are not available, and so parsimony is a highly welcomed feature of a model. This analysis is a first step in the endeavor of building a DSGE framework for the Romanian economy that includes staggered price and wage setting, liquidity constrained consumers, etc., fiscal and monetary

authorities, non-Ricardian fiscal setting, etc., that can be used for policy purposes and that account for the stylized facts that characterize the macroeconomic variables.

## 2. Literature review

DSGE models have their origins in the Real Business Cycle Theory pioneered by Kydland and Prescott ([7]). A large number of recent contributions to the literature that analyze emerging economies follow the approach described in [8]. In the paper, the conceptual framework that characterizes the micro-founded general equilibrium models is enriched with rigidities that are due to the way in which firms set their prices (like those that feature in [2]) and with rigidities due to the structure of the labor market (following [3]). The authors contribute by placing a significant number of stochastic shocks to observe their effects on the macroeconomic variables. Jakab and Vilagi ([5]) build a DSGE model for the Hungarian economy, which features besides agents that maximize their utility function with respect to their budget constraint, liquidity-constrained agents (the so-called *rule of thumb* consumers, first introduced in [4], that fall into two categories: wage-earners with little income and pensioners. A simplified version of this model is used for Hungary in [6] to evaluate monetary policy. In what regards determining values for the parameters, a general tendency of using Bayesian estimation can be distinguished, combined with calibration. The Bayesian techniques (well described in [1]) result in statistically significant coefficients that can be interpreted, even in the case of small samples. Finding arguments (usually from the microeconomic theory) for fundamenting a certain value of a coefficient (in the case of calibration) or a certain distribution with its parameters (in the case of Bayesian estimation) remains a constant preoccupation.

### 3. The model

The model represents a basic DSGE framework. The economy is populated by agents with infinite lives. The representative agent maximizes the following utility function:

$$U_0 = \max \sum_{t=0}^{+\infty} \beta^t \left[ \frac{C_t^{1-\sigma}}{1-\sigma} - \frac{L_t^{1+\varphi}}{1+\varphi} \right] \quad (1)$$

where  $C$  represents consumption,  $L$  represents the amount of time spent at work,  $\sigma$  is the elasticity of inter-temporal substitution,  $\varphi$  is the inverse of the Frisch elasticity of labor supply, and  $\beta$  is the subjective discount factor.

The agent has the following budget constraint:

$$C_t + I_t = W_t L_t + R_t^K K_t + \Pi_t \quad (2)$$

where  $I$  represents investment,  $W$  represents the wage rate,  $K$  represents capital,  $R^K$  is the return on capital,  $\Pi$  is profit.

Capital has the following rule of motion:

$$K_{t+1} = (1 - \delta)K_t + I_t \quad (3)$$

where  $\delta$  is the capital depreciation rate.

Profit is calculated as production minus production costs:

$$\Pi_t = Y_t - W_t L_t - R_t^K K_t \quad (4)$$

The production function is of the Cobb-Douglas type:

$$Y_t = A_t K_t^\alpha L_t^{1-\alpha} \quad (5)$$

where  $\alpha$  is the elasticity of capital.

Finally, the real interest rate is defined:

$$R_t = R_t^K - \delta \quad (6)$$

All the variables are expressed in real

terms, the price index is normalized to 1.

The necessary condition for inter-temporal optimality is derived using the Bellman principle. We get the Euler equation:

$$E_t \left[ \left( \frac{C_{t+1}}{C_t} \right)^\sigma \right] = \beta(1 + R_t) \quad (7)$$

The intra-temporal optimal choice between consumption and labor is:

$$C_t^\sigma L_t^\varphi = W_t \quad (8)$$

The profit-maximization necessary conditions are:

$$\alpha \frac{Y_t}{K_t} = R_t^K \quad (9)$$

$$(1 - \alpha) \frac{Y_t}{L_t} = W_t \quad (10)$$

The model has no closed-form solution. I follow the standard approach and log-linearize it around a non-stochastic steady-state (I use a first-order approximation). Here is the complete list of log-linearized model equations (the small letter represents the log-deviation of the variable from the steady state, namely  $x_t = \ln X_t - \ln X$ , where  $X$  is the steady-state value of the variable):

$$E_t \left[ \frac{1 + \sigma \cdot c_{t+1}}{1 + \sigma \cdot c_t} \right] = 1 + (\beta - 1) \cdot r_t \quad (11)$$

$$\sigma \cdot c_t + \varphi \cdot l_t = w_t \quad (12)$$

$$y_t = w_t + l_t \quad (13)$$

$$y_t = r_t^K + k_t \quad (14)$$

$$r_t = (1 - \beta + \beta \cdot \delta) \cdot r_t^K \quad (15)$$

$$y_t = a_t + \alpha \cdot k_t + (1 - \alpha) \cdot l_t \quad (16)$$

$$y_t = (1-h)c_t + hi_t \quad (17)$$

where  $h = \frac{\alpha\beta\delta}{1-\beta+\beta\delta}$ .

$$k_{t+1} = (1-\delta) \cdot k_t + \delta \cdot i_t \quad (18)$$

The model is closed with the standard dynamic for technological progress:

$$a_t = \rho \cdot a_{t-1} + \varepsilon_t^a \quad (19)$$

where  $0 < \rho < 1$  in order to ensure a positively correlated process which converges, and  $\varepsilon_t^a$  is a normally distributed stochastic shock with 0 mean and constant variance.

I calibrate the parameters using standard literature values and steady-state conditions. The subjective discount factor  $\beta = 0.97$  which corresponds to a quarterly real interest rate of approximately 3,1%. The capital depreciation rate is set to 2,5% per quarter, and the elasticity of capital is set to 0,33. The intertemporal elasticity of substitution is set to 0,5, corresponding to a square root utility function in consumption, and the inverse of the Frisch elasticity is set to 2, following the literature. Finally, I set  $\rho=0,95$ .

#### 4. Impulse-response analysis

We get the following responses to a technological shock:

Figure 1: Consumption response to a positive technological shock

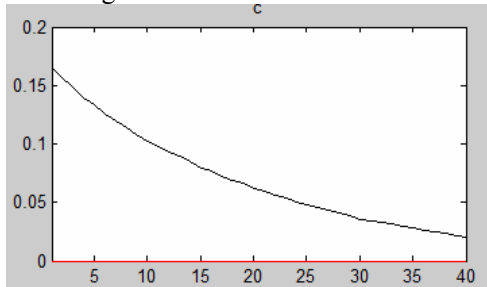


Figure 2: Investment response to a positive technological shock

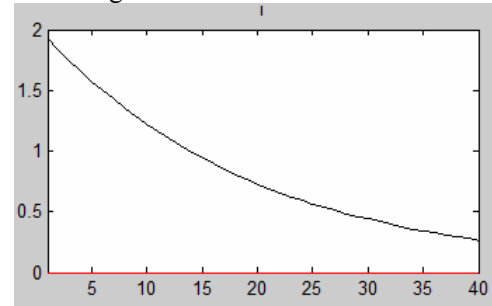
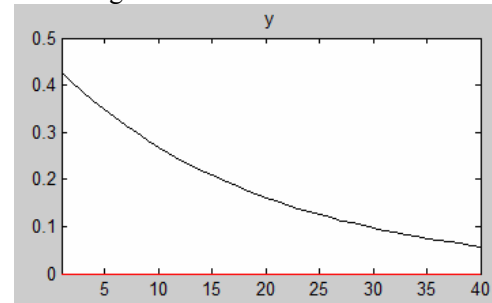


Figure 3: Production response to a positive technological shock



We observe that a positive technological shock leads to an increase in production (according to equation (16)), which in turn leads to an increase in both consumption and investment (according to equation (17)).

A critical parameter which determines the shape of the responses is the inverse of the Frisch elasticity. For  $\varphi=0$  and  $\varphi=+\infty$  we get the following responses:

Figure 4: Real wage response to a positive technological shock ( $\varphi=0$ )

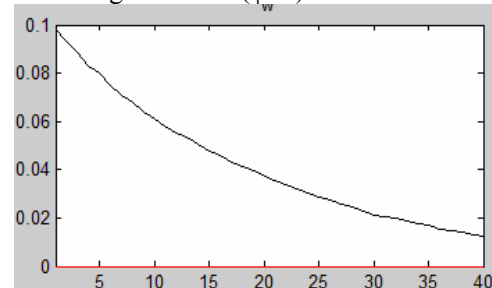


Figure 5: Real wage response to a positive technological shock ( $\phi=1000$ )

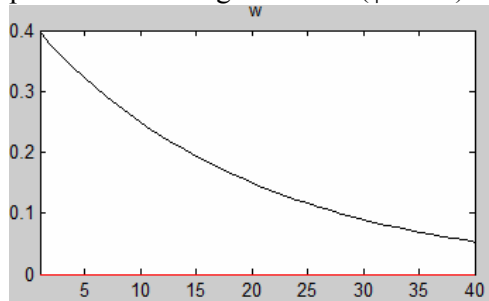


Figure 6: Labor response to a positive technological shock ( $\phi=0$ )

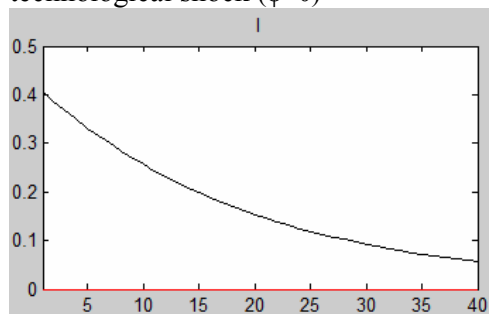
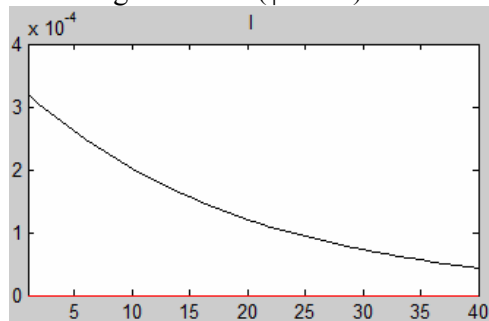


Figure 7: Labor response to a positive technological shock ( $\phi=1000$ )



## 5. Conclusions

The simple DSGE framework that has been used facilitated a micro-founded impulse-response analysis which allowed the observation of macroeconomic variable

behavior. Parameter values have a large influence on the responses, so there is need for extensive micro-evidence in order to calibrate a parameter or specify a prior distribution, in the case of Bayesian estimation.

## 6. Note

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

## 7. References

- [1] S. An, F. Schorfheide, “Bayesian Analysis of DSGE Models”, *Econometric Reviews* 26(204), 2005, p. 113-172.
- [2] G. Calvo, “Staggered prices in a utility-maximizing framework”, *Journal of Monetary Economics* 12, 1983, p. 383-398.
- [3] C. Erceg, D. Henderson, A. Levin, “Optimal monetary policy with staggered wage and price contracts”, *Journal of Monetary Economics* 46, 2000, p. 281-313
- [4] J. Gali, D. Lopez-Salido, J. Valles, “Rule-of-thumb consumers and the design of interest rate rules”, NBER Working Paper no. 10392, 2004.
- [5] Z. Jakab, B. Vilagi, “An estimated DSGE model for the Hungarian economy”, National Bank of Hungary Working Paper no. 9, 2008.
- [6] Z. Jakab, H. Kucsera, K. Szilagyi, B. Vilagi, “Optimal simple monetary policy rules and welfare in a DSGE model for Hungary”, National Bank of Hungary Working Paper no. 4, 2009.
- [7] F. Kydland, E. Prescott, “Time to build and Aggregate Fluctuations”, *Econometrica* 50, 1982, p. 1345-1370.
- [8] F. Smets, R. Wouters, “An estimated Stochastic Dynamic General Equilibrium Model for the Euro Area”, *Journal of the European Economic Association* 1(5), 2003, p. 1123 - 1175

## A Rescue Plan for the Finances of Consumer – the Incomes and Expenses

Lupaș Ioana  
Lupaș Adrian  
Zamfir Cristina Gabriela  
“Dunarea de Jos University” of Galati  
*ioanalupasc22@yahoo.com*  
*alupasc@ugal.ro*  
*cristinapisica@yahoo.com*

### Abstract

The crisis is now a big problem all over the world. The impact of economic global problems over euro zone is very powerful, especially on the lay-off. The most danger for the common people in periods of recessions is the unbalance between the charges and revenues. For balance his expenses and incomes, a person needs to find different solutions. In this work, we have analyzed the budget of the household and then, we tried to give solutions for common people to survey the crises; we made a rescue plan for consumer's finances. Among the first steps of the rescue budget are: to analyze of what you have now, not what you had; make a plan with stages and objectives, then chose the most suitable modality to save the money, and always keep an historic of the incomes, expenses and saving money.

**Key words:** economic global crisis, population expenses and incomes, plan for consumer's finances.

**JEL Classification:** D12, D14, G01

### 1. Introduction

A big problem in nowadays for all over the world, especially in the industrial countries is the recession. The most danger for the common people in periods of crises and recessions are the unbalance between the expenses (charges) and incomes (earnings, gains, revenues). For balance his expenses and incomes, a person need to apply to extern sources.

But, the impossibility to applying to the extern sources because their cost is high or the lay-

off, may lead to the forced execution by creditors and finally to personal bankruptcy and the lost of proper goods. Romania needs a law for person's bankruptcy, to protect persons against forced execution.

On the other way, in such periods, many opportunities come into view, especially for the acquisitions for homes and cars, because their price is low.

### 2. Steps to secure the consumer's financial future in the US

After Suze Orman a recession rescue plan should have five steps<sup>2</sup>:

#### *Step1: Live on half*

Whether someone is single or in a double-income household, the person needs to live only half of what he is used to, and to put the rest in the bank. If all of a sudden he fined himself without a job – or his partner fined themselves without a job – he is now going to have his income cut by 50 percent almost immediately.

By living on half now, the person will know whether he can really afford to pay his bills if the worst happens. When a person is freaked out, that is no time ...and it's never too early to start formulating an unemployment action plan.

This step is the first to use and cut expenses as necessary.

#### *Step2: Stash your cash*

In today's economy, cash is the king and the credit could be shrinking daily.

If the credit card is no longer available, what does the consumer do if he loses his job and

---

<sup>2</sup> Book: Suze Orman's 2009 Action Plan, Keeping your money safe & sound.

have no savings? He will be in serious trouble. Before this recession, credit cards could always be used in case of emergency. Now, credit card companies are making it more difficult for people to use their cards.

Therefore, a good advice is to pay for things in cash.

Each month can add up to big savings and a person can increase his savings even more if he finds the right account, if he compares the interest rates of savings accounts, CDs and other bank products.

*Step3: Make the stimulus package work for you*

In US, the new economic stimulus package changes the rules for tax credit for first-time home buyers.

Part of the intention behind the economic stimulus plan passed by US Congress is to create millions of jobs for Americans, but it's also designed to lend a helping hand to those out of work.

If it happens to get laid off, to lose the job, a person has 18 months where that company has got to cover him with health insurance.

*Step4: Make your home affordable*

The loan modification program is designed to help families dangerously close to foreclosure. The US government estimates it could help 3 to 4 million homeowners keep their monthly mortgage payments if and only if they are qualified in this program.

*Step5: Look at what you have, not what you had*

Things will get better, get worse ...in the next three or four years, it will start to turn around. But there are a few years until every single person feels a hope again.

This is why it is so important to look at what you have and be grateful, instead of looking at what you have lost and feel angry.

After Jean Chatzky there are 5 steps to secure your financial future:

- build a cushion
- pay down debt
- rebalance your portfolio
- keep your job

- work on your credit score.

Also, according to them, there are essentials things that a person in US can't afford to skimp on, because sooner or later will affect them, such as:

- retirement planning
- insurance
- exercise
- healthcare
- charity.

### **3. A recession rescue plan for consumer's finances in Romania**

In generally, and also in Romania, we should follow the next steps for success:

- Find a motivation for savings
- Make a plan with stages and objectives
- Chose for the most suitable modality to save the money
- Make the saving money before the spending money
- Keep an historic of the incomes, expenses and saving money.

These are the steps we must follow to succeed. The necessity of having saved money is obviously: the risk of losing the job, the risk of unwanted events, medical surgery etc.

Also, we can see some opportunities offered by the crisis if we have savings and as a paradox to save more money. An example is a person who searches to rent a house; the market price is 500 euro; he finds an owner who needs liquidities and agreed to negotiate at the price of 400 euro, 20% under the price market, with a period condition: one year or half year. In this case, the person save 1200 euro per year and the owner is satisfied to have fast liquidities.

A Romanian in media spends from 100 lei, 71, 5 lei for consumed food or goods, 15, 6 lei for taxes, contributions, dues and fees. According to the National Statistic Institute, they spend over 90% of theirs incomes.

Table1-b. Total expenditure of main household categories in 2008

Table1-a. Total expenditure of main household categories in 2008

Total expenditure of main household categories in 2008	Total households Trim 4 lei	Total households (percentage)
1. Money expenditure of which, for:	<b>1753,97</b>	<b>84,28%</b>
-purchasing of consumed food and beverages	1282,02	61,6
-purchasing of non-food goods	61,23	2,9
-other expenditure	85,27	4,1
-taxes, contributions, dues, fees	325,45	15,6
2. Equivalent value of agricultural products consumption from own resources	327,12	15,72
<b>TOTAL EXPENDITURE (1+2)</b>	<b>2081,09</b>	<b>100%</b>

Total expenditure of main household categories in 2008	Households of employees (percentage)	Households of farmers (percentage)
1. Money expenditure of which, for:	<b>93,35%</b>	<b>68,88%</b>
-purchasing of consumed food and beverages	-	-
-purchasing of non-food goods	-	-
-other expenditure	-	-
-taxes, contributions, dues, fees	-	-
2. Equivalent value of agricultural products consumption from own resources	6,65	31,12
<b>TOTAL EXPENDITURE (1+2)</b>	<b>2315,29 100%</b>	<b>1775,96 100%</b>

Source: *Population income, expenditure and consumption, bulletin INS, 2009 and my calculation*



Table2-a. Total income of main household categories in 2008

Total income of main household categories in 2008	Total households Trim 4 lei	Total households (percentage)
1.Money income of which:	<b>1917,06</b>	<b>82,7%</b>
-gross salaries and other salary rights	1193,33	51,5
-income from agriculture	51,62	2,2
-income from non-agricultural independent activities	60,42	2,6
-income from social provisions	516,04	22,3
-income from ownership	7,03	0,3
-other income	88,62	3,8
2.Equivalent value of income in kind obtained by employees	74,34	3,2
3.Equivalent value of agricultural products consumption from own resources	327,12	14,1
<b>TOTAL INCOME (1+2+3)</b>	<b>2318,52</b>	<b>100%</b>

Table2-b. Total income of main household categories in 2008

Total income of main household categories in 2008	Households of employees (percentage)	Households of farmers (percentage)
1.Money income of which:	<b>90,45%</b>	<b>68,85%</b>
-gross salaries and other salary rights	-	-
-income from agriculture	-	-
-income from non-agricultural independent activities	-	-
-income from social provisions	-	-
-income from ownership	-	-
-other income	-	-
2.Equivalent value of income in kind obtained by employees	3,68	2,36
3.Equivalent value of agricultural products consumption from own resources	5,87	28,79
<b>TOTAL INCOME (1+2+3)</b>	<b>2624,72 100%</b>	<b>1919,57 100%</b>

Source: *Population income, expenditure and consumption, bulletin INS, 2009 and my calculation*

In 2008, the final trimester, the income of household was 2318,52 lei (increasing 23%, towards 2007, and 59% towards 2006) and the expenditure of household was 2081 lei. (89,8% from total income)

A study made in January 2009 shows that many of the Romanians have the strict necessary goods, 35% of the interviewees, but almost of them are dreaming to buy cheap goods en rates or to take a loan. Third of them intend to spend their holidays in the country and half out. Half of the consumers do not intend to reduce money expenditure for purchasing of consumed food and beverages, but 30% intend to reduce the budget for clothes because of the crisis.

#### 4. Conclusions

In conclusion, how to escape from the dates? The consumer needs a plan for debts management. First the person should make a budget:

- -Total income: 100%
- -Total expenditure: 20% debts (for example), 80% money expenditure for purchasing of consumed food, beverages and non-food goods etc.

If for example, there are 30% debts, a person should reduce the expenses and he will have 70% money expenditure for purchasing of consumed food, beverages and non-food goods etc. and has to identify not necessary expenses. A person can reduce the expenses by organizing the bills, not making any more

debts, changing the companies who offer utilities (e.g. the phone, TV), changing the bank or the credit card etc. Some acquisitions can be postponed and it is advisable to buy cheap things.

*The first priority is the financial stability.*

One of the rules is to keep more liquid money in bank products. We have to be preoccupied by the safety of money.

Regarding the financial behavior, a person must have in mind that the money mustn't been wasted. The money should covered rational and adapted charges because of the crisis. Also, the buying capacity of Romanian is going down. *It is necessary more then ever to think positive, to stop spending and to start saving and try to consume Romanian products.*

#### 5. References

- [1] Bulz, N., Ștefănescu, V., Bianca, M., Botezatu, M., Stoica, M., *Parteneriat creativ de bunăstare – Reconstrucție, modelare, simulare, emulare întru natură, societate, gândire*, Editura Aisteda, București, 2004.
- [2] Monthly Statistical Bulletin nr 2/2009, INS
- [3] Population income, expenditure and consumption, bulletin INS, 2009
- [4] Romanian Statistical Yearbook, 2008
- [5] *Suze Orman's 2009 Action Plan, Keeping your money safe & sound*, 2008
- [6] <http://www.insse.ro> – National Statistic Institute, Romania
- [7] <http://www.sfin.ro>
- [8] <http://www.zf.ro>
- [9] <http://www.capital.ro>

## Projecting the Economic Impact of Strategic Development through Technology

Mareş Valerica

*Academy of Economic Studies, Bucharest*  
*maresvalerica@yahoo.com*

Caraivan Mitruţ Corneliu  
*University Ovidius of Constanta,*  
*caraivanmitrut@yahoo.com*

Mareş Marius Daniel  
*University Spiru Haret of Bucharest,*  
*maresdaniel@yahoo.com*

### Abstract

The Information and Communications Technology (“ICT”) industries have come together as a dynamic ecosystem. Networks, devices, content and applications increasingly rely on each other to innovate and generate new value, providing multiple benefits to the economy.

**Key words:** Information and Communications Technology, economic growth, technology progress, educational burden.

**JEL Classification:** L86, M15, O31, O33, O53

### 1. Introduction

The purpose of this paper is to analyze the impact of investment in Information Technology and Communications (IT&C) equipment and software on the recent resurgence in world economic growth. The crucial role of IT investment in the growth of the economy has been thoroughly documented and widely discussed.

In just a few years, the Internet has had a visible impact on the daily lives of many – at work, at home and how they communicate with one another. But a key policy question for the future is: How will the Internet affect the performance of the economy and the standard

of living of average people? In particular, is the Internet just a different way to communicate or will it be a significant factor in sustaining the remarkable increase in productivity recorded since the mid-1990’s, as many executives and venture capitalists in the industry, and some economists, seem to believe.

Jorgenson has shown that the remarkable behaviour of IT prices is the key to understanding the resurgence of American economic growth. This behaviour can be traced to developments in semiconductor technology that are widely understood by technologists and economists. [1]

The growth of IT investment jumped to double-digit levels after 1995 in all the G7 economies – Canada, France, Germany, Italy, Japan, and the United Kingdom, as well as the United States. These economies account for nearly half of world output and a much larger share of world IT investment. The surge of IT investment after 1995 resulted from a sharp acceleration in the rate of decline of prices of IT equipment and software.

This was traced to a drastic shortening of the product cycle for semiconductors from three years to two years, beginning in 1995.

After 1995, IT&C grew constantly, this being in close relationship with the growth of the Internet. (see Table 1)

Table 1: Internet Users and PCs<sup>1</sup>

Year	Personal computers (millions)	Internet users (millions)
1997	325	117
1998	375	183
1999	435	275
2000	500	390
2001	555	489
2002	615	616
2003	650	721
2004	775	867
2005	808	989
2006	n/a	1168
2007	n/a	1344
2008	n/a	1542

## 2. Sources of Potential Cost Savings

Whether, and at what pace, the potential cost savings and thus productivity improvements will be fully realized depend on a series of factors. In principle, the Internet has the potential to increase productivity growth in a variety of distinct, but mutually reinforcing ways:

- by significantly reducing the cost of many transactions necessary to produce and distribute goods and services;
- by increasing management efficiency, especially by enabling firms to manage their supply chains more effectively and to communicate more easily both within the firm and with customers and partners
- by increasing competition, making prices more transparent, and broadening markets for buyers and sellers, which puts pressure on suppliers to adopt techniques that translate into cost savings.

The cost savings are largely projected to be one-time savings for each firm that achieves them, although in practice, such savings may be spread over time in individual firms, while at the sector level a process of diffusion from first-adopters to followers should generate the

pattern of annual productivity savings we estimate.

However, the limited available evidence suggests that successful implementation of Internet-based cost-savings strategies requires far more in the way of organizational commitment, than actual investment spending of capital. [2]

## 3. Transactions - Cost Savings:

The potential for transactions-cost savings from transition to the Internet is especially high in the health-care sector, because it is so large (for example, in the U.S. in 2007, health care and insurances represented almost 14% of GDP)<sup>2</sup>.

The health care system is so information-intensive, and so dependent on paper records. Moving health-insurance claims processing to the Internet would require aggressive efforts to standardize claims formats, but savings could be large.

Web-based processors may be able to deliver the same quality of service. The Internet also offers great potential in the area of managing medical records, not only for cutting costs, but also for improving the quality and effectiveness of care. Assuming that privacy concerns can be adequately addressed, patients and providers would benefit enormously from conversion of current, mostly paper, medical records into electronic medical records in a standard format. Providers would then be able to access the patient's full medical history quickly and enter their own observations and treatments.

Transactions are the bread and butter of the financial-services industry, and so it is not surprising that the Internet already is leading to lower transactions in this sector in the developed countries. In the mortgage lending industry, customers are using the Internet to shop for information and compare rates, although only a tiny fraction of mortgages now originate on-line, where it is cheaper to process them. This should change over the next few years as consumers grow more

<sup>1</sup> Source: ITU World Telecommunication/ICT Indicators Database. [5]

<sup>2</sup> Source: U.S. Department of Commerce Bureau of Economic Analysis, USTelecom Analysis

comfortable using “digital signatures,” now legal under laws.

The Internet can reduce transactions costs at all levels of government. In particular, the Internet has enormous potential, now only beginning to be realized, for dispensing information to citizens less expensively and more accurately than telephone inquiries. Filing tax returns or applications for permits and licenses on-line, for example, cuts costs both to the government and to taxpayers.

In Romania, the Ministry of Communications wants that in five years all the taxes to be paid online, calling this 500 million Euro project “eRomania”. All the employees now hired will be replaced by online portal access sites and this will reduce the costs with up to 35% out of the total GDP of Romania<sup>1</sup>. The eRomania portal, aimed at simplifying the interaction of the business world and of citizens with state institutions by creating up to 600 online public services by 2013, is a controversial one, with the amount allocated for it, almost half a billion Euros, considered to be too high. The amount may not be efficiently spent, because the amount allocated seemed to be rather high, considering that a website does not cost more than 1 million Euros. [3]

But if we regard the figures from the United States two years ago, we can see that almost the same amount was invested only by the Private Sector Invests \$455 Billion Annually in ICT and Infrastructure. (Figure 1)(Figure 2)

Figure 1: Private Fixed Investment in Software and Equipment 1990-1999 (\$ billion)

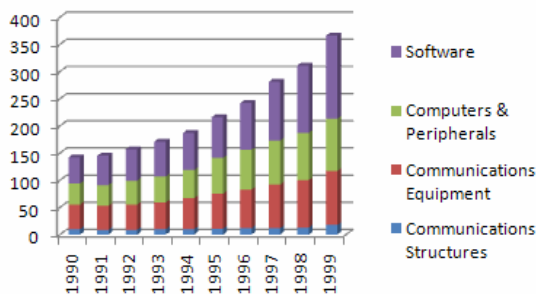
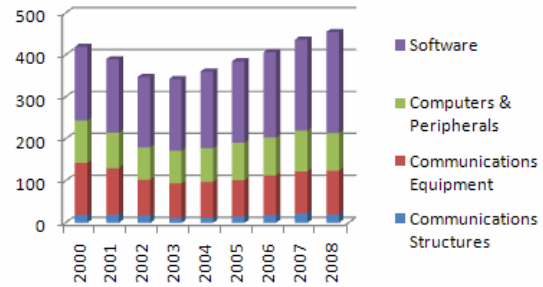


Figure 2: Private Fixed Investment in Software and Equipment 2000-2008 (\$ billion)<sup>2</sup>



In 2008 ICT accounted for:

- 22% of U.S. capital investment
- 43% of U.S. non-structure capital investment

#### 4. The Internet and Efficient Management

The use of the Internet as a management tool may have considerable potential for improving efficiency in many sectors of the economy and may cause significant restructuring of those sectors in the process, especially in the manufacturing sector. Many of the potential efficiency gains come from use of Web-based technology to manage supply chains more effectively, reduce inventory, and cut customer-service costs.

These savings should show up within the firm and arise from better scheduling for information sharing across the company, more efficient interaction with other firms in the supply chain, and elimination of some intermediaries' altogether.

Cisco Systems, for example, has been a leader in dealing with suppliers on the Web to enhance efficiency of its procurement and in monitoring the company's extensive outsourcing of its manufacturing operations. The Internet is also being used effectively in a number of industries to link partners in joint enterprises across large distances, enabling them to share production schedules and integrate their operations. [4]

The Internet is also being used effectively in a number of industries to link partners in joint enterprises across large distances, enabling

<sup>1</sup> GDP estimated for 2010

<sup>2</sup> Source: U.S. Department of Commerce Bureau of Economic Analysis.

them to share production schedules and integrate their operations.

There are numerous potential opportunities also in the auto industry for Internet-aided increases in efficiency, product development, procurement, and supply, and in various aspects of the manufacturing process itself. They suggest the applicability to automobiles of the “Dell model,” under which customers specify exactly what features they want and buy a product that is built to suit their tastes. The Internet driven automobile sector of the future could thus involve far fewer dealers and salesmen than it does now. And considering the auto industry crisis, this may come as a solution for large corporations like GM.

Personal Consumption Expenditures (PCE) for Communications Services, between 1990 and 2008, shows that the mix is shifting to broadband, mobile, and entertainment, however broadband access remains a small portion of overall spending.

## 5. Non-measured Benefits

It is vital not to overlook the variety of benefits to end-users of the Internet, including added convenience, wider choice, and customization, that are not and probably will never show up in the productivity statistics.

Internet will continue to provide customers with wider choices among customized products and services (ordering Dell computers on-line is a perfect demonstration).

Distance learning, while perhaps not adding much in the way to productivity, is being used by firms and an increasing number of colleges to deliver education at times convenient to students, without having them physically attend the courses. An increasingly Internet-based medical system will save lives by, among other things, cutting down on errors in transmitting prescriptions to pharmacies. [6]

## 6. Leading Roles

Directly or indirectly, ICT contributes up to half of U.S. Productivity Growth. As a key driver of productivity, ICT is a critical source for:

- GDP growth
- Rising living standards
- Government fiscal resources

- Global competitiveness

World economic growth, led by the industrialized economies and Developing Asia, experienced a strong resurgence after 1995. Developing Asia accounted for an astonishing 60 percent of world economic growth before 1995 and 40 percent afterward, with China alone responsible for half of this, but output per capita remained well below the world average. Sub-Saharan Africa and North Africa and the Middle East languished far below the world average.

Eastern Europe and the former Soviet Union lost enormous ground during the transition from socialism and have yet to recover completely.

The growth trends most apparent in the U.S. have counterparts throughout the world. Investment in tangible assets, including IT equipment and software, was the most important source of growth. However, Non-IT investment predominated.

The leading role of IT investment in the acceleration of growth in the G7 economies is especially pronounced in the U.S., where IT is coming to dominate the contribution of capital input. The contribution of labour input predominated in the Non-G7 industrialized economies, as well as Latin America, Eastern Europe, Sub-Saharan Africa, and North Africa and the Middle East.

All seven regions of the world economy experienced a surge in investment in IT equipment and software after 1995. The impact of IT investment on economic growth has been most striking in the G7 economies.

The rush in IT investment had especially taken part in the U.S., but jumps in the contribution of IT capital input in Canada, Japan, while the U.K. were only slightly lower. France, Germany, and Italy also experienced a surge in IT investment, but lagged considerably behind the leaders. [7]

The greatest impact may not be felt in e-commerce, but rather in a wide range of “old economy” arenas, including health care and government, because of changes to the way information flows.

As a result of the Internet, there is considerable scope for management efficiencies in product development, supply-chain management, and a variety of other

aspects of business performance, encouraged by enhanced competition.

The penetration rate of Internet access, especially broadband, will affect the extent to which firms face intense competitive pressure to change existing management methods, among other practices. In addition, policy will play an important role. [8]

## 7. The Burden of Knowledge

Another aspect, somehow hidden behind all the benefits, is that if knowledge accumulates as technology progresses, then successive generations of innovators may face an increasing educational burden. Innovators can compensate in their education by seeking narrower expertise, but narrowing expertise will reduce individual capacities, with implications for the organization of innovative activity - a greater reliance on teamwork - and negative implications for growth. The knowledge burden mechanism suggests that while the nature of innovation is changing, negative implications are recorded for the long-run economic growth.

Physical stocks can be transferred easily, as property rights, from one agent to another. Human capital, by contrast, is not transferred easily. While one generation may rather effortlessly bequeath its physical assets to the next, with human capital stocks, this is fundamentally not the case. Technology tends to reinvent itself time and time and again during history.

The vessel of human capital – the individual – absorbs information at a limited rate, has limited capacity, and has limited time on earth. The difficulty of transferring human capital and full comprehension of previously technology gained knowledge has broad implications in economics. The total stock of knowledge and the sentiment that knowledge begets new knowledge, with implications discussed extensively in the growth literature and in the micro-innovation literature, suggests a different, indirect implication of Newton's observation: if one is to stand on the shoulders of giants, one must first climb up their backs and the greater the body of knowledge, the harder this climb becomes. If technological progress leads to an accumulation of knowledge, then the educational burden on

successive cohorts of innovators will increase. Innovators might confront this difficulty by choosing to learn more. Alternatively, they might compensate by choosing narrower expertise.

Choosing to learn more will leave less time in the life-cycle for innovation. Narrowing expertise, meanwhile, can reduce individual capabilities and force innovators to work in teams.

Related to this point, the efficiency of education — the rate at which we transfer knowledge from one generation to the next — becomes a policy parameter with first-order implications for the ultimate organization of innovative activity and for growth. Future improvements in the knowledge transfer rate could potentially overcome growth in the knowledge stock. While this transfer rate probably faces physiological limits, policy choices in education take on further importance.

## 8. Conclusion

One of the major features of the Internet revolution is its potential to make the whole economic system, nationally and internationally, more competitive by bringing many markets closer to the economists' textbook model of perfect competition, characterized by large numbers of buyers and sellers bidding in a market with perfect information. The results should be lower profit margins, more efficient production, and greater consumer satisfaction. In particular, added competition in supplier and product markets should place increased pressure on firms to use the Internet to introduce the cost-savings techniques.

Much of the benefit from the Internet is likely to show up in improved consumer convenience and expanded choices, rather than in higher productivity and lower prices.

In particular, measures to improve privacy protection for Internet users generally would increase the volume of e-commerce and thus reinforce competitive pressures on firms to adopt cost-saving technologies, while delivering non-measured gains in convenience and customization at a faster pace.

A rising burden of knowledge is an inevitable by-product of technological

progress. Even if the stock of knowledge is accumulating over long periods of time, a possible may be that some future revolution in science can reset and simplify the knowledge space, causing a fall in the burden of knowledge.

## 9. References

- [1]. W.D. Jorgensen, "Information Technology and the U.S. Economy", American Economic Review, Cambridge, 2001, Vol. 91, No. 1, March, pp. 1-32.
- [2]. F. Cairncross, "Inside the Machine: A Survey of E-Management", The Economist, 11<sup>th</sup> of November 2000, 357(8196), pp. 5-6.
- [3]. Financial Newspaper Romania, <http://www.zf.ro/zf-english/private-sector-about-eromania-500m-euros-are-too-much-5754485/>
- [4]. V. Mares, M.D. Mares, "Neurolysis of informational communication technologies during the crisis" – 4<sup>th</sup> International Conference Accounting and Management Information Systems AMIS 2009 „Knowledge, information and communication”, Bucharest, 2009.
- [5]. International Telecommunication Union, Telecommunication Development Bureau, Market Information and Statistics Division, [www.itu.int/ict](http://www.itu.int/ict)
- [6]. Gh. Popescu, V. Popescu, C.R. Popescu, "Interdisciplinary Research regarding the Role of Virtual Components in Knowing and Modeling Complex Economical – Social Phenomena and Processes", The International Scientific Session "Challenges of the Knowledge Society", Facultatea de Administrație și Afaceri, Universitatea din București, Bucharest, 2008.
- [7]. N. Tarca, I. Tarcă, "Size and field of activity influence on web sites functionality for Romanian companies", Analele Universității din Oradea, TOM XVII, Facultatea de Științe Economice, Oradea, 2008.
- [8]. R.E. Litan, A.M. Rivlin, "Projecting the Economic Impact of the Internet", Washington DC, 2008.
- [9]. Benjamin F. Jones, "The Burden of Knowledge and the 'Death of the Renaissance Man': Is Innovation Getting Harder?", Productivity Growth: Causes and Consequences – Conference, San Francisco, 2006



## The causes of the 1997 Asian crisis. The start of subprime crisis

Mihuț Marius

“Babeș-Bolyai” University of Cluj-Napoca  
mihut.marius@econ.ubbcluj.ro

### Abstract

This article was started with the theoretical approach of the general economic crisis, the increase/decrease model, by using the process of the money becoming, merchandise money and fiat money. During the time of fiat money there was a break between the material substances from the symbolic value. There was the break when the credit function appeared, because the money and the merchandise cannot circulate simultaneously. The credits have two aspects: a positive one, because it multiplies the possibilities of financing with the same quantity of money; and a negative one, because there is the danger of multiplying of fiat money who will bring increasing value, or much more a symbolic one, of the economy over its inner value, and when trust is lost, there are no money anymore to sustain the growth and the economy will crash.

We have presented the Asian Crisis from 1997 and made a debate on the foreign debt of those countries, the high return rates of investments and the bad allocation, the decreasing rhythm of the exports, the lack of commercial law and of course the huge sums of money taken as loans by the South Eastern Asian countries before the crisis, for investments that had profit rates below the capital cost.

At the end of paper, we tried to present two figures showing and explaining the mechanism of forming and bursting of the speculative bubble.

**Key words:** increase/decrease model, Asian Crisis, foreign debt, investments, exports, profit rates, speculative bubble.

**JEL Classification:** E32, G01, G14, G18

### 1. The theoretical approach of economic crisis. The increase – decrease model

In this attempt of explaining the model increase-decrease we wish to start from the beginning of money. In the evolution process there were two important steps: 1. money as merchandise and 2. fiat money.

1. In this first step money had the function of measurement of value. Money had an intrinsic value. Money and goods are moving simultaneously. It was necessary to pass to next step because gold would have been suffering a depreciation of its physical value if the goods would have been changed for gold.

2. The second step in which money has the function of mean of exchange, and further function of payment. If they are moving with a pushed, imposed value, this value would have been not covered. Without being covered, it becomes fiat money that will work on trust. It would be as if we would take a copper coin and would put a nominal not real value of 1000 \$, but it is not the real value! So those “imposed money” not covered in money as merchandise will not be able to fulfill their main function of unit and measurement of value. “It is the same like in the case in which we cannot measure weight is the gram has no weight itself; the same we cannot measure value if money has not inner value” [7].

In this step the money and the goods are not moving simultaneously. It will be a separation in the material value and symbolic value of the merchandise. If before buying an object the payment would be on the spot, so that money and merchandise would be simultaneously, now we are in the situation in which the merchandise will be on the property of the client when only a percentage will be paid. So we achieved the credit system! The seller credits the client, so that the client will be able to use the money till

the maturity, till it is necessary to pay the seller. So the money will be available in the economy so transactions can be made with them in this period. There will be individuals, entities that will need that money. So the credit can be defined as being a temporary need of money that is temporarily available in the economy. This is also the possibility in which the client pays a certain good and does not receive it but after a period of time. In this case the client credits the supplier, the money being at the availability of the second one in order to be used.

### **The credit – supplier of supplementary profit but also uncertainty**

The credit has two economic consequences: a) a positive one and this because it multiplies the possibilities of financing with the same quantity of money. This financing situation multiplies also the rentability of the investments, and this because the profitability brought is higher than the interest, because otherwise investments will not be made anymore. “The cost and the availability of the credit become important elements of influencing the level of the economic activity; they are probably the most important influence factors in determining the asymmetric shape of the increase/decrease model. “ [9] ... and b) a negative one, because in the real economy fiat money are not fully covered by money as merchandise; there is the danger of multiplying money that will bring increasing value, or much more a symbolic one, of the economy over its inner value. ...the monetary signs without coverage that feeds the over value, and that have as necessity more and more sums of money till we reach paroxysm and to crisis. By cheap credit all the time we had an increase of the symbolic side of the economy, and due to the fact that in some situations in which the hopes of the economic companies are far away from reality, and in spite to converge they are furthering away.

When it is about fiat money, being a convention that it is good as long as exists enough capital to sustain the economic increase. When the players are understanding that the trees cannot grow till the sky, and they are wondering till where can they go, it

is the moment that I like to call it “attention”, after which decrease is coming; so that the trust has a fantastic role in the credit systems... there it is the root of the problem. We will see that this phenomenon happened in Asia in 1997.

The sum of the fiat money should be equal with the sum of goods and services. Everything that it is in plus creates inflation, macroeconomic disequilibrium. That means, as we know it, that the relative value of money is decreasing in comparison with the other merchandises, so that the purchasing power.

Renouncing at the full coverage in gold for money was decided in 1976 in Kingston. From that moment on “there is no need for money guarantee in gold, but with all merchandises of each country” [7]. This is impossible to be put in practice. So was the start for money not covered in real economy.

It is quite true that with the help of the credit, the savings are increasing much more easy and faster, but it is also true that if the trust vanishes than a major decrease can happen.

Once in crisis the banks, trough their representatives, will become more strictly in crediting, saying that will make no exposure once again. And they are not doing it, until they will hold major liquidities. Then they will let money flew, and a new cycle begins. This happened in the '70, and in 1882, than a follow up in Mexico in '94, than the Eastern Asia crisis in 1997, and the crisis of today so called « subprime ».

## **2. Causes of the Asian crisis**

Japan, the wealthiest country was not the only one to increase in such a spectacular way. It was followed by the South Eastern Asian countries, so called dragons (South Korea, Singapore, Hong-Kong and Taiwan). As the figures are showing those countries had a annual average economic increase of 8% from 1970 till 1996.

Table 1. The economic increase of the South Eastern Asian countries, 1970-1998, (in %)

	1970-1996	1997	1998
<b>Singapore</b>	8.2	7.5	0
<b>Hong Kong</b>	7.5	5.2	-4.5
<b>South Korea</b>	8.4	5.5	-6.5
<b>Taiwan</b>	8.3	6.8	4.5
<b>Malaysia</b>	7.4	7.4	-4.7
<b>Indonesia</b>	6.8	6.8	-15.5
<b>Thailand</b>	7.5	7.5	-7

Source: [3]

Those incredible performances were called “the Asian miracle”. But in 1997 this Asian miracle let place to the Asian crisis, and in the majority of cases it was the pass from strong economic increase to devastating recession. The causes of this crisis will be analyzed as follows.

The Asian countries were the victim of the speculative unjustified attacks? The crisis was the consequence of those speculations? The currencies and the stock markets were victims or causes? Are some of the questions that lead to many speculations along the time, without achieving consent? Some economists considers that this crisis was obvious because the economies of those countries had structural problems that sooner or later should have been shown or the other size of the economists front that sustains that there were no reason to panic, and that the only cause of the crisis was panic for the investors in special the foreigners.

### 2.1. The deficit of the balance of trade and the investment rate

One of the macroeconomic disequilibrium’s of the South Eastern Asian countries was the trade balance deficit. A high trade balance deficit and a deficit of the current account, it is commonly considered as being a problem, because it needs an adjustment, a macroeconomic one, but, before the crisis, at the Asian countries was understood as a sign of the forced that they have had. For a better understanding we present you the trade balance equation:

$$NX=S+(T-G)-I. [3]$$

The trade balance is equal to private total savings (S), and public savings (T-G), minus investment (I). From here results the fact that a deficit can have three causes: a weak

degree of private savings, a budgetary deficit (T-G<0), or a high return on investment rate. So before concluding that a foreign deficit is a positive situation, we must know the source of it. Generally speaking, if it is the cause of a high investment rate, it is not a concern, because they are invested money of today that will bring money in future to cover the deficit. If there is another cause then the foreign trade is concerning.

In the table below there are macroeconomic indicators that have been characterizing the most affected economies in 1996, in % of GDP:

Table 2. Trade balance, current account, investment rates and government fiscal balances (in % of GDP), South Korea, Malaysia, Thailand, Indonesia, Philippines.

	South Korea	Malaysia	Thailand	Indonesia	Philippines
<b>Trade balance</b>	-4.3	-4.9	-8.1	-3.4	-4.8
<b>Current account</b>	-4.8	-3.7	-8.5	-3.3	-4.7
<b>Investment rates</b>	38.4	41.5	41.7	30.8	24
<b>Government Fiscal Balance</b>	0.5	0.8	1.0	1.3	0.3

Source: [8]

From this table we can see that the governments had budgetary surplus, so the foreign deficit was due to the high rate of investment; and how investment had a low profit rate, sometimes below the capital cost<sup>7</sup>, this was one of the causes of the Asian crisis. In order to observe better the efficiency of the investments we will present the ROIC indicator that is relation between the investment rate and the output growth rate.

Table 3. Incremental Capital Output Ratio (ICOR) in 1993-1996

South Korea	Malaysia	Thailand	Indonesia	Philippines
4.9	4.8	5.1	3.9	5.5

Source: [6]

<sup>7</sup> For example, in Korea, 20 of the highest 30 conglomerates had results below the capital cost in 1996

The investment rate and the inflow of capital continued the rally even after the negative signs that low return rate brought, only hurrying crisis.

We need to take into account also another aspect of the investment, which means their lack in the technological progress. It is a fact that an increase can be sustained without technological progress only for a limited period of time and this because we use the capital for each worker till the investment achieves 100% from the production. [3] This scenario was at the bases of the Asian miracle, high returns of investments, without technological progress, so the increase should end sometimes.

## **2.2. The exports and commercial law**

It has been seen that the slowing increasing growth of exports. The Asian economies had a average growth is only 5% in 1996, while the increase of approximately 20% in 1994 and 1995. The reasons are many between of: the long economic stagnant increase of the Japanese economy after 1990, the decrease of prices for products for IT (for ex. DRAM) that have been a major part of the exports of that specific country, devaluation of the Chinese currency, the appreciation of the US dollar in comparison with the Japanese currency, etc. The massive inflow of capital together with the decrease of the exports leads to the increase of the trade balance deficit.

One cause of the Asian crisis can be the commercial law that had a lack of knowledge. For instance the bankruptcy law. In Malaysia there is no legal matter on such a thing. One bankrupt company can continue the activity. If the creditor wishes to have the money back there was no legal tender to force the borrowed to pay the debt, the assets cannot be liquidated.

## **2.3. Formation and splashing of the bubble**

At the beginning of the 90 there was the financial market liberalization. Many countries from South East Asia eliminated the control on capital movement, opened the markets for foreign investors, and lifted the

restrictions in the banking activities and insurance. In addition those states established an agreement that linked their currencies to the US dollar. Those aspects encouraged the business world and domestic banks to loan in foreign currency in order to invest or to lend locally in real estate business and capital market. As a follow up in each phase of expansion, the prices of the real estate and shares increased rapidly bringing more capital in this part of the world, especially as banking loans and short term investment. Also in the favor of bringing capital the projects were guaranteed by the states. The pressure to guarantee the projects were made by big corporations in order to maintains the increase. The risk payments attached to those international loans made by Asian States diminished by the beginning of 1997, and rating agencies did not conceived the risk till June 1997 [2]. The market operated with the idea that the return on investment was ensured against shocks. These pressures and credits were simultaneously brought with capital accumulations that lead to a strong deficit of the current account.

As Paul Krugman said: "value – Pangloss: in the situation of the government guarantee, the banks are used to follow the future value, the most optimistic in order to evaluate the investment projects, that will lead to over-evaluation of the projects." [5]

The institutional investors (funds) «are measuring the activity by comparison between others, that will make them like a and makes them follow each other...When one of the markets is increasing value, they must increase investments onto that market, otherwise they become thin and backwards»[9]. Those institutional investors are using other people money and between them there is a huge competition being a fight for clients; and they must report results better and better, so they must go there where capital is having a very high return rate. But when problems appear in order not to report a decrease in the portfolio, the funds are hurrying to sell and this huge supply of value titles will lead to decreasing prices.

Some American fund managers understood the disequilibrium's for those countries and

at the beginning of 1997 started to sell in margin<sup>8</sup> the Thai baht and Malaysian ringgit. Coincidence or not, according to Bijan Aghevli, the former vice-director of adjunct Department for Asia- Pacific of IMF, the organization that put on guard on the local authorities at the beginning of 1997 (without making public), but «it was difficult to convince them of the gravity of the future problems».[1]

Understanding that will follow a depreciation of the local currencies, the institutional investors withdraw largely in the summer of 1997, fact that brought dismantle of the fixed exchange rate with the US dollar. As an immediate consequence was the devaluation of the national currencies, that led to increasing crisis, because the loans were in the majority large, and short loans in US dollars, fact that led to external shocks. Together with the depreciation of the currencies in link with the US dollar the debts were much more burden.

The biggest problem connected to the loans taken was bad internal allocation of these funds brought from foreign markets, and this from many reasons between we can mention: „lax supervision and weak regulation, law capital adequacy ratios, lack of incentive-compatible deposit insurance schemes, insufficient expertise in the regulatory institutions , outright corrupt lending practices”[8], bad credits<sup>9</sup>, the lack of a governmental strategy that will make entrepreneurship to have wished results<sup>10</sup>, etc.

If we take the example of South Korea we should talk about their conglomerates, so called chaebols. These were huge family companies that would benefit from the State help. The link with the power brought

banking credits even that they could have no guarantee.

Table4. Financial conditions that most companies had at the end of 1996 (in hundred million won and %).

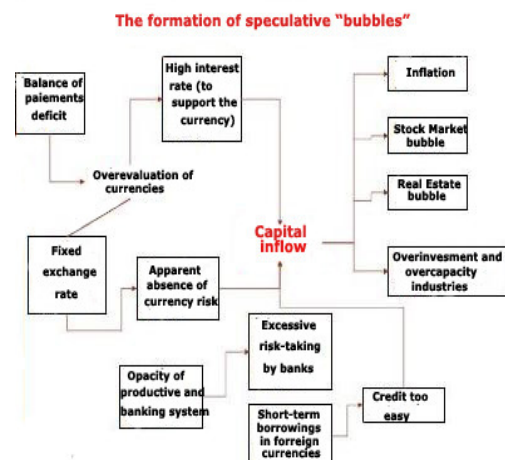
Chaebol	Total Assets	Debt	Sales	Net Profit	Debt/Equity ratio
Samsung	509	370	601	1.8	268
Hyundai	532	433	680	1.8	439
Daewoo	342	264	382	3.6	337
LG	371	288	467	3.6	347
Hanjin	139	118	87	-1.9	557
KIA	142	119	121	-1.6	524
Ssangyong	158	127	195	-1.0	409

Source: [4]

In USA this Debt/Equity rate had an average of 70% in 1996. So that, in 1996-1997, eight from the biggest chaebols were destroyed by the huge debts that were contracted. So from 1996 were sent alarm signals regarding the imbalances of firms.

Before the conclusion, we want to expose the mechanism of formation and bursting of speculative “bubbles”.

Figure 1. The formation of speculative “bubble”



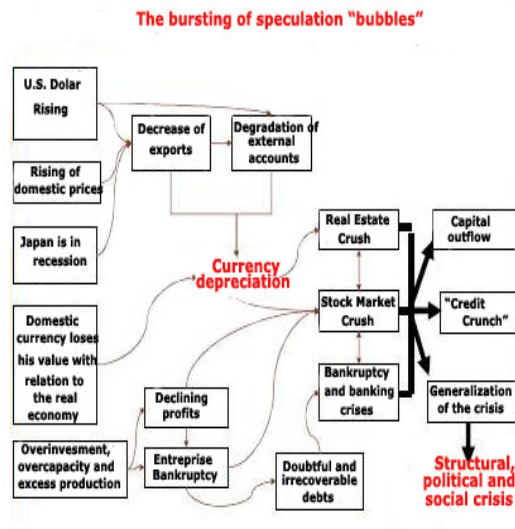
<sup>8</sup> Short selling means the selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold short

<sup>9</sup> By some non official sources quoted by World Bank, bad credits were in South Korea approximately 70% of the own capital of the banks

<sup>10</sup> Starting with 1994, over 40% of the new investment were made in the real estate business, that we cannot say that it is not productive but for sure less productive «a la long» than investment in research and development or why not developing new industries

that are seeing this Asian crisis as being one that started from fundamental problems; from here started the legitimate panic of the foreign investors.

Figure 2. The bursting of speculative “bubble”



### 3. Conclusions

In conclusion, those being the causes presented, we are closed to those economist

### 4. References

- [1]:B. Aghevli – « La crise asiatique-Causes et remèdes », juin 1999, vol. 36, no 2, pp 1
- [2]:G. Belzile, « La crise asiatique et l’économie du Canada », 2006, pp 1-2
- [3]:O. Blanchard and D. Cohen, Macroeconomie, 3<sup>e</sup> édition, I.M.E., Paris, 2004, pp 491-492
- [4]:C. Ilbo- Financial conditions in South Korea, November 29, 1997, pp 2
- [5]:P. Krugman, “Why did Asia crash?” 10 Jan 1998, pp 4-6
- [6]:OECD, Economic survey of Asia, Paris, OECD, 1998, pp3-5
- [7]:G. Popescu, “O paradigma a crizelor economice, Volumul: Criza financiara si economica: cauze, efecte si solutii”, 26 march 2009, pp. 12
- [8]:N. Roubini, P. Pesenti Paolo and G. Corsetti, “What caused the Asian Currency and Financial Crisis?”, New York University, December 1998, pp 5
- [9]:G. Soros, Criza capitalismului global, Editura Polirom, Iasi, 1999, pp. 118, 138

# Human Development and Romania's Position in the World

Moise-Țiței Adina  
*Ovidius University of Constanta*  
*adinatitei@yahoo.com*

## Abstract

The purpose of the present paper is to make a brief presentation of what human development means in Romania. There are a variety of approaches to measure and monitor different aspects of poverty and human development in general, for our purpose we selected the synthetic indicators proposed by United Nation Development Programs, we will analyze the trend recorded by them and we will compare the position of our country in the European and global scale in terms of development.

**Key words:** human development, synthetic indicators, UNDP

**JEL Classification:** O15

## 1. Introduction

Human development must be seen as a new medium where people can fulfill their entire creative potential, they base their existence on needs and interests, with multiple choices- this is more than national income growth or other traditional indicators. Everyone is entitled to a long and healthy life and we all deserve to be informed, to access the resources necessary for a decent standard of living, but also the right to participate in the community life and in the decisions concerning them. The ultimate goal is to create an opportunity for all the members of society while respecting human rights, thereby, increasing respect for self and others.

## 2. Measuring Human Development

Measuring human development is part of the concern of numerous experts, and the results of their studies arouse public interest, especially in the current context, of

globalization, and competition among nations.

Of the many ways, we stopped to that used by Human Development Rapport (HDR), annually published by United Nation Development Program (UNDP). In these rapports we found many indicators, but we focused on those discussing Human Development Indices (HDI), which combine indicators of life expectancy, educational attainment and income. The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1.

The educational component of the HDI is comprised of adult literacy rates and the combined gross enrolment ratio for primary, secondary and tertiary schooling, weighted to give adult literacy more significance in the statistic. The life expectancy component of the HDI is calculated using a minimum value for life expectancy of 25 years and maximum value of 85 years and for the wealth component the goalpost for minimum income is \$100 (PPP) and the maximum is \$40,000 (PPP). The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GDP.

Given the imperfect nature of wealth as gauge of human development, the HDI offers a powerful alternative to GNP for measuring the relative socio-economic progress at national and sub-national levels. Comparing HDI and per capita income ranks of countries, regions or ethnic groups within countries highlights the relationship between their material wealth on the one hand and their human development on the other. A negative gap implies the potential of redirecting resources to human development.

*Table 1 – The trend of Human*

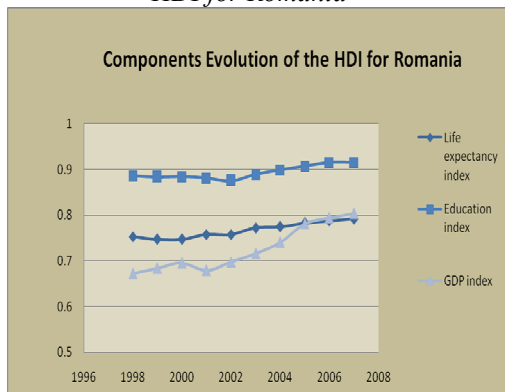
*Development Index for Romania*

Year	Life expectancy index	Education index	GDP index	HDI value
1998	0.753	0.886	0.673	<b>0.771</b>
1999	0.747	0.883	0.684	<b>0.771</b>
2000	0.747	0.884	0.695	<b>0.775</b>
2001	0.758	0.881	0.679	<b>0.773</b>
2002	0.758	0.875	0.698	<b>0.777</b>
2003	0.772	0.889	0.716	<b>0.792</b>
2004	0.775	0.899	0.741	<b>0.805</b>
2005	0.783	0.907	0.781	<b>0.824</b>
2006	0.788	0.915	0.794	<b>0.832</b>
2007	0.792	0.915	0.804	<b>0.837</b>

Sources: HDR, 2000-2009

The table data shows us the dynamic components of the HDI index for a period of 10 years, from 1998 until 2007. For each of them, like access to education, life expectancy and the possibility of having a decent life trend is highlighted. Their contribution to Romania's development level change during is equal, because HDI is calculated as the simple arithmetic average of the other three indices.

*Figure 1 – Components Evolution of the HDI for Romania*



Analyzing the graph we noticed that all three indicators have a tendency to

increase, the most pronounced being the index of living standards. It is not either negligible the positive evolution for the education index, which is due to the increase registered at various levels of schooling.

Regarding life expectancy index, it has an average of 0.7673 units for the period under review, with a mean absolute increase of 0.0043 units per year and an average relative increase of 0.56% annually. *Education Index* has an average of 0.8934 units, an absolute average increase of 0.0032 units annually and the relative average increase of 3.16% annually. Also, the standard of living index has an average of 0.7265, an absolute average increase of 0.0145 units, and the relative average increase 1.99% annually. Therefore, the mathematical observed values, register the positive trend of all components of the HDI index.

To make a forecast for the next period values we assume that all the components will follow the same linear upward trend. Thus, we have long linear features such as:  $Y_t = a + bt$ , where a and b are function parameters, t represents time, and  $Y_t$  are projected values for selected indicators.

- for the life expectancy index the linear function that describes the evolution of the indicator is:  $Y_t = 0.7673 + 0.002675 t$ ;

- for the education index the linear function that describes the evolution of the indicators is:  $Y_t = 0.8934 + 0.002024 t$ ;

- for income index the linear function that describes the evolution of the indicator is:  $Y_t = 0.7265 + 0.007827t$ ;

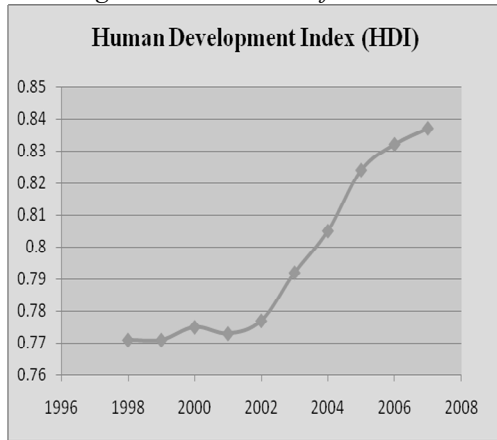
*Table 2 - Projected values for HDI components*

Extrapolation	Year		
	2010	2011	2012
Life expectancy index	0.802	0.812	0.818
Education index	0.923	0.927	0.931
GDP index	0.843	0.859	0.875

Note: Extrapolation was made without taking into account the negative effects that the current economic crisis will have on parameter values and in particular on GDP



Figure 2 – Evolution of the HDI



HDI values recorded during the analyzed period placed Romania among the countries with medium level of development until 2003 including, but since 2004 our country is located in the developed countries group, in which case the HDI value exceeds 0.8.

HDI is calculated as the simple arithmetic average of the three indices previously analyzed. It is recorded an upward trend for the period 1998-2007, as can be seen from the chart.

The average HDI value for the period under consideration is 0.7957, the average absolute increase of 0.0073 units annually and the relative increase is 0.91% annually.

For the next period the indicator values can be estimated using a linear function of time:  $Y_t = 0.7957 + 0.004172t$ . Thus, the project values for HDI are as follows:

Table 3 - Projected values for HDI

Extrapolation	Year		
	2010	2011	2012
HDI	0.858	0.866	0.874

The upward trend of the HDI will continue for the next years, the component that will constantly increase is the level of education, because enrollment in secondary and tertiary education system is in fashion. Unfortunately, the GDP per capita growth captures only the mean change in real disposable income for the lower level of the hierarchy can decrease, while for the rich it will increase.

### 3. HDI and Romania's Position in the World

As following, base on the available data, we tried to illustrate Romania's position in relation to other European countries or with other countries of the world in terms of human development.

Of the multitude of statistical information provided HDR 2009 published by UNDP we took into consideration several indicators which we considered relevant to our approach, namely: GDP per capita (PPP US\$), life expectancy index, education index and human development index (HDI). We considered highly relevant the information corresponding to 2007.

Table 4 - The Hierarchy after HDI

Economic landmark	HDI 2007	GDP per capita (PPP US\$)	Life expectancy index	Education index
<i>Very High Human development</i>				
1. Norway	0.971	53433	0.925	0.989
2. Australia	0.970	34923	0.940	0.993
3. Iceland	0.969	35742	0.946	0.098
4. Canada	0.966	35812	0.927	0.991
...				
9. Switzerland	0.960	40658	0.945	1.000
10. Japan	0.960	33632	0.961	0.971
...				
36. Czech Republic	0.903	24144	0.856	0.938
37. Barbados	0.903	17956	0.867	0.975
38. Malta	0.902	23080	0.910	0.887
<i>High Human Development</i>				
39. Bahrain	0.895	29723	0.843	0.893
40. Estonia	0.883	20361	0.799	0.964
41. Poland	0.880	15987	0.842	0.952
...				
<b>63. Romania</b>	<b>0.873</b>	<b>12369</b>	<b>0.792</b>	<b>0.915</b>
...				
83. Lebanon	0.803	10109	0.781	0.857
<i>Medium Human Development</i>				
84. Armenia	0.798	5693	0.810	0.909
...				
158. Nigeria	0.511	1969	0.378	0.657
<i>Low Human Development</i>				
159. Togo	0.449	788	0.620	0.534
...				
182. Niger	0.340	627	0.431	0.282
<b>OECD</b>	<b>0.932</b>	<b>32649</b>	<b>0.900</b>	-
<b>Europe</b>	<b>0.902</b>	<b>24775</b>	<b>0.832</b>	<b>0.954</b>
<b>EU27</b>	<b>0.937</b>	<b>29956</b>	<b>0.899</b>	-
<b>World</b>	<b>0.753</b>	<b>9972</b>	<b>0.708</b>	<b>0.784</b>

Sources: HDR 2009

Analyzing the above table, we stopped to some issues that show Romania's position regarding human development.

Compared to the European Union, a community of countries with high human development, Romania, as a full member, registered an HDI of 0.837 for 2007 and is situated on the list of countries with a high degree of human development.

In terms of GDP indicator per capita, our country has a value of 12,369, of 2.42 times lower than the European average. Life expectancy index is less than the European average of 1.13 times and the average of life expectancy is only of 70.5 years. The education index is 0.915, slightly lower than the European average which shows Romanians' appetite for diplomas.

If we compare the values of indicators registered for Romania with the values recorded for OECD countries, the differences are even greater, which indicates the low level of human development for our country. Significant differences were recorded for GDP per capita and life expectancy at birth.

In order to illustrate Romania's position in terms of human development we also used in our comparison the values of indicators such as Norway, which is placed on a well deserved top position, and Switzerland, situated on the 11<sup>th</sup> position; it is worth mentioning the fact that both countries are not members of the European Union.

## 5. Conclusions

Romania's desire to become a modern, inclusive society, cannot ignore the aspects concerning life quality and human development in general. The calculation of indicators and international comparisons

can provide us information on the progress of Romania in developing multiple perspectives and helps us in taking action to achieve our goals.

Thus, analyzing the HDI calculated values using the method UNDP, we can conclude:

- for the period 1998-2007 it has been considered an assessment of the human development index and its components, with a small decrease in 2001 compared to 2002;

- since 2002 HDI recorded a significant increase from year to year, as higher levels of education and increase GDP per capita;

- all three components of HDI records a positive contribution for the period under review, significant is the average GDP per capita and less important is the life expectancy which increased slightly from 70.2 years to 70.5 years.

Romania's position after HDI ranking, according to HDR 2009, is 63, which places it on the top of the list, but international comparisons with other European Union countries or with other Europe countries, show us a disadvantage in sustainable development in general and especially in human development.

Things are even more worrying, as our position is after the countries that have a potential much more modest than ours. Unexploited potential is one of the causes of "backwardness" and among the culprits are the deficient political management and the ineffective governance.

## 6. References

1. [www.hdr.undp.org](http://www.hdr.undp.org)
2. OECD, "*Strategies for Sustainable development – Practical Guidance for Development Cooperation*"
3. Human Development Reports, 2000-2009

# Economic Behavior According to the Principles of Sustainable Development

Moise-Țiței Adina  
Băcă Eleonora  
“Ovidius” University of Constanta,  
adinatitei@yahoo.com  
eleonorabaca@yahoo.com

## Abstract

Today, sustainable development is a global responsibility, as long as phenomena such as poverty, hunger, poor access to medical services or pollution accompany permanently the life of billions of people. Therefore, we in what follows we will try to make a brief presentation of some possible solutions, in accordance with the principles of sustainability, which could make a better life for all of us. The solutions we are thinking about are not only related to a new way of consumption, but also, to a new mode of production. We took into consideration proposals which respect freedom, fairness and human values.

**Key words:** sustainable development, economic growth, consumption

**JEL classification:** Q01

## 1. Introduction

The economic dimension of sustainable development means the dematerialization of the economic growth. It also requires focusing on competitiveness, particularly through the dissemination of efficient technologies. Increased competitiveness is the result of a number of factors which target a new structure for the economy. The activities of research and innovation increase the share of services and activities with high value added, a “clean” life in terms of environmental, labor skills to ensure growth, labor productivity growth, etc.

Especially for the developing countries, there is a strong need of targeting tech investments, of reducing energy consumption—the goal of these actions is to decrease the gap

between different national economies. Thus, all these become necessary in order to modernize the existing production capacities, to improve energy efficiency, to offer renewable energy resources, and also for the investment in research that may offer new technical and technological solutions. As for this last point, the poor links with the economic sector caused delays in the technologic transfer of research results and reduced the recovery.

## 2. A New Way of Consumption and the Reconsideration of Needs

The action plan for sustainable development adopted at the Earth Summit, held in Rio de Janeiro in 1992, mentioned as major cause of continued deterioration of global environment the deficit model of consumption and production, particularly in industrialized countries [1]. The message reflected the complexity of the problems we are facing: poverty as well as excessive consumption by affluent populations places a damaging stress on the environment.

According to statistics 15% of the world population living in developed countries accounted for 56% of global consumption, while the poor, representing 40%, accounted for only 11% of this. Current consumption exceeds the planet's ecological capacity, leading to erosion of natural capital at a significant rate.

Sustainable development calls for a review of the consumption in accordance to the finite quantity of resources. All these determine us to reconsider the wastage and the false needs, to rationalize the consumption and rethink the concept of need. The minimal bioeconomics program proposed by N.G.Roegen urges us to

give up fashion, and to think that actions such as: changing the car every year or housing redevelopment every two years is a bio-crime [2].

In his actions the man uses all his abilities to obtain maximum and immediate benefit. The increases in the extraction of energy and mineral resources, create a larger capacity of production. This ultimately proves to be a behavior that ignores long-term adverse consequences. It is specific to the postwar period, when economic growth was sustained by a stimulated demand.

If we consider the sovereignty of the consumer as being the most important concern, the pollution and environmental damage are not part of industry concerns and the damage costs of air, water and ambiance will be immediate consequences we will all have to face. If we consider the sovereignty of the manufacturer, it will assume responsibility for those taken, without ascribe to consumers, especially in the context of their manipulation. *Galbraith* explains that the need to manage, lead and influence consumer behavior is dictated by the circumstances of modern industrial life which through the use of sophisticated technology and large investments generates large organizations inflexible and vulnerable.

An intensely debated question is whether today's society belongs to the consumer or deals with a consumer society. The producer's attitude is characterized by an excessive advertising that removes consumers' reticence and the show is directed by publicity campaigns and financed by the producers of goods.

The freedom of consumers is also restricted by the show offered to him. The purchases we make highly depend on the social category to which we belong or rather that which we would like to belong, thereby, increasing the social role of consumers in accordance with their incomes and developing an unnecessary and ostentatious consumption.

Natural needs have limits, but the potential for consumer goods is high once the goods acquire social significance. Income becomes the main factor determining the dynamics of consumption and individual behavior is influenced by a number of subjective factors.

*Keynes*, in his book "The General Theory of

Employment, Interest and Money", mentions eight "mobiles" which determine people to spend: foresight, prudence, calculation, thirst for prosperity, independence, business spirit, pride and avarice and six other "mobiles" that stimulate the appetite for consumption as thirst for satisfaction, myopia, generosity, recklessness, ostentation, extravagance. According with this, the real result of economic process is the pleasure to exist[2].

The goal of sustainable development is human development first, although it should be not done at any price. The satisfaction of needs must contribute to the affirmation of human personality in economic, social, political, cultural sphere.

### 3. A New Mode of Production

The classical type of economic growth is based almost entirely on non-renewable resources such as fossil fuels or others. This attracted severe criticism from economists and especially from environmentalists, sociologists, philosophers or human rights defenders.

Moreover, the branches of production are autonomous and divided; creating problems to the recycling of waste products. Thus, an entire branch of industrial production that can be used in agricultural production remains unused.

One of the proposals for a new mode of production is the "trivalent enterprise" concept developed and supported by the researcher Maria Popescu. She proposed to integrate the production vertically and horizontally, which would enable a system of operation without any waste, according to nature's model [3]. In this way all material's components and energy resources will be treated, to obtain larger quantities of goods and services with the same quantities of raw materials. The enterprises will produce the goods required on the market, the companies will be downsized, reorganized and restructured according to the overall development prospects and these will be integrated into the local context. The companies should "live as a network", closed in a circle and creating goods without pollution and unemployment.

A new mode of production also means cleaner production, with fewer pollutants

discharged into the natural environment and less waste. There are serious attempts at replacing the fossil fuels with clean renewable resources like biomass, solar, wind, tidal power.

Eco-industry produces not only goods aimed at preventing pollution, but also property intended to measure, limit or correct environmental pollution. The machinery and equipments will be used for water treatment, waste, air protection, beginning on the premise that a once polluted environment cannot be "cleansed" as in the initial phase. All these are possible under severe legislations which could govern, manage and save the environment. There should also be severe rules concerning the incineration, transport and storage of the dangerous waste.

If we take into consideration a new mode of production, we cannot forget biological agriculture. The greed and desire for progress, the intensive management of this sector the desire to achieve performance comparable to that used in industry, have produced changes with adverse effects on human life, the environment, the quality of land, water or forests.

It is assumed that agriculture, forestry and fish are part of the natural environment and, in this spirit, we consider important the cultivation of resistant pest varieties, increase soil fertility through the use of natural fertilizers made in close circuit of the farm, proper crop nitrogen fixation in soil, the use treatment and spray preparations produced from vegetable etc.

*In our opinion*, the mode of production that characterized the last century cannot continue, we must reconsider the system of needs, and it will be necessary to change the consumption and the production in the above mentioned direction, so that the economic policies implemented can be a real response to the sustainable development aspirations.

#### 4. Conclusions

The criticism brought to production and consumption from different positions all validate the same conclusions. Thus, the waste of any kind becomes hard to tolerate, the

poverty placed on the background of an apparent wealth, the damages brought to the environment, the suffocation of overcrowded and over-polluted cities etc. Under these circumstances it becomes necessary to replace the type of growth with a rational one, based on matrix of values and a technical one based on production and consumption. The new way has to be rational in terms of the use of all types of resources (financial, human etc), to be based on clean industries, biologic agriculture, it should also marginalize 'heavy' industries and it should promote information based industries.

All the countries of the world, irrespective of their development need a durable development: the developed states need to keep their standards in terms of their quality of life, the less developed ones need to eliminate their delay. The amplitude and the peculiarities on national economies impose a different approach even if the initial starting point is represented by unanimously-acknowledged requirements.

In the case of Romania, for example, durable development represents the way through which the inherited economical deficiencies can be diminished. The problem is far from being simple, the instability of economic processes and the deep crisis from which it started make things more difficult. However, even under these circumstances we believe that durable development is a viable alternative capable to give birth to useful ideas and actions for such a vital concern.

#### 5. References

- [1]. Agenda 21
- [2]. Roegen, N.G. - *The Entropy Law and the Economic Process* (1971). Harvard University Press: Cambridge, Massachusetts
- [3]. Popescu, M. - *Globalizarea și dezvoltarea trivalentă*, Editura Expert, 1999
- [4]. Didier, M. - *Economia: regulile jocului*, Ed. Humanitas, București, 2004
- [5]. Iancu, A. - *Dezvoltarea intensivă și specializarea națiunilor*, Ed. Economică, București, 2003
- [6]. Pohoată, I. - *Filosofia economică și politica dezvoltării durabile*, Ed. Economică, București, 2003

## Legal Regime Applicable to Local Budget's Execution

Morariu Alunica

*"Stefan cel Mare" University of Suceava*

Ionel Marian

*"Ovidius" University of Constanta*

Ph.D Student Mihailescu Emil Raul

### Abstract

Law 273 of June 29, 2006 on local public finances establishes the principles, the framework and the procedures regarding the formation, administration and utilization of local public funds, as well as the responsibilities of local public administration authorities and of public institutions involved in the local public finance domain. This law also clearly stipulates the coordinates of budget execution at local level, to which we will be referring. Local budgets elaboration stands for a complex process, and at the same time, a strict regulated process in the Romanian public financial law.

**Key words:** budget programming, amount limits, public investments, budget execution.

**JEL classification:** H6

### 1. Local budgets - procedural steps

According to the Law on local public finance, Ministry of Public Finance shall transmit the general public finance departments, the county councils and the General Council of Bucharest, until June 1 of each year, a framework-letter which will specify the macroeconomic context on which the forecasted budget projects will be created, their elaboration methodologies, the limits of amounts recouped from some state budget incomes and from consolidated transfers throughout Bucharest, in order for credit officers to elaborate budget projects.

The credit officers of the state budget or other budgets, budgets in which are stipulated transfers to local budgets, send to local public administration authorities

the amounts within 10 days of receiving receipt of the expenditure limits approved by the Government, in order to encompass them within the budget projects. The same officers, while considering the limits of the received amounts, prepare and submit to the general directions of public finances, until July 1 of each year, balances local budgets projects and their annexes, as well as the estimations for the next 3 years, and thereafter they sent the local budget projects throughout Bucharest at the Ministry of Public Finance until July 15 each year.

Within 5 days after publication of the state budget law in the Official Gazette of Romania, Part I, the Ministry of Public Finance shall transmit to general departments of public finances the amounts deducted from certain incomes of the state budget and the consolidated transfers approved by the budget law state. The general departments of county public finances, namely Bucharest, as well as the county councils and the General Council of Bucharest, allocate on administrative-territorial units within 5 days of notification, the amounts deducted from certain incomes of revenue, as well as the consolidated transfers for the completion of local budget projects by the credit officers.

Taking into consideration the individual incomes and the distributed amounts, the credit officers within 15 days after publication of the state budget law in the Official Gazette of Romania, Part I, completes the local budget project, which will be published in local newspapers or will be displayed at the administrative territorial unit's main office. Administrative territorial unit's residents can lodge complaints on the budget project

within 15 days after its publication or display.

Within 5 days after the deadline for submission of appeals, the local budget project, accompanied by the credit officer's report and the complaints made by residents, is subject to the approval of authorities, namely the credit officers.

Deliberative authorities, not later than 10 days from the date of submission for approval of the budget project, pronounce the result of litigations and adopt the local budget project after it was voted on chapters, subchapters, titles, articles, paragraphs and annexes.

The budget projects are approved by the authorities no later than 45 days after the publication of the state budget law in the Official Gazette, Part I.

If authorities do not approve the local budget projects within the legal time, the general departments of public finances order the suspension of supplying quotas, namely amounts deducted from certain incomes of the state budget and of consolidated transfers until they are approved by authorities. In this case, out of the local budget there can be made payments only to the extent of the other incomes' limit.

Under this law, the credit officers are required to submit the approved local budgets to the general departments of public finance within 5 days from their approval. The general departments of public finance prepare and submit within 10 days to the Ministry of Public Finance the budgets throughout each county, respectively Bucharest, that are grouped within each county and within Bucharest into villages, towns, cities, sectors of Bucharest and county, taking into consideration the budget classification structure.

**Note** on the budget process in case of non-approval by Parliament

- If the state budget law has not been adopted by at least 3 days before the end of the financial year, the previous year budgets will continue to apply until the approval of the new budgets, the monthly expenditure limits usually exceeding 1/12 of the previous year budgets, with the exception of special cases that are solidly justified by

credit officers, or, where applicable, 1/12 of the amounts proposed in the budget project, if these are lower than those of the previous year.

- Public institutions and new-approved measures in the current year, which start with 1 January of the next budget year, will be funded until the budget approval, up to 1 / 12 of their provisions included in the budget project.

- The general departments of the public finance will grant administrative-territorial units amounts deducted from certain budget incomes and consolidated transfers of 1/12 of the previous year's budgetary provisions within the monthly limit.

- If the amounts deducted from certain state budget revenues and consolidated transfers exceed a monthly limit of 1 / 12 of the previous year budgetary provisions after the full use of incomes and allowances deducted from certain state budget incomes, the general departments of public finance may approve their supplementation based on analysis and substantiations presented by credit officers.

- If the amounts shown above (section 4) are proposed in the state budget project as lower than the previous year, monthly limits are given to the quota of 1/12 of the amounts proposed by the state budget project.

## 2. Local public investments

Based on the public investment program of each administrative-territorial unit, public investment expenditures and other investment expenses financed by local public funds are included in the budget projects made by the credit officers, which are also presented in section D as annex to the initial budget, and respectively, corrected and approved by the authorities.

The credit officers of the local budgets annually create the public investment program on a functional classification. For each object included in the investment program are presented financial and non-financial information.

The technical-economic documentation of the new investment objectives, whose finance is fully ensured or supplemented from the local budgets, as well as those financed from internal and external loans, contracted directly or guaranteed by local administrative authorities, are approved by the authorities, while those of new investment objectives, which are financed from external loans and, in addition, from transfers from the state budget and other sources, as well as those financed integrally or supplemented from external contracted loans or guaranteed by state regardless of their value, are subject to Government approval.

The technical-economic documentation for investments designated to prevent and remove the effects of accidents or natural disasters, as well as the consolidated notes regarding other investment expenses included in the global position which are developed and approved according to law, are approved by credit officers while immediately inform the authorities.

The credit officers update and approve on their own responsibility the value of each new or continued investment objective, regardless of funding sources or the competence of their approval, taking into account the evolution of price indices. Investment objectives and other investment charges on investments are included in the annual investment programs, being annexes to the budget only if the technical-economic documentation and the consolidated notes regarding the necessity and opportunity of making investment charges have been previously developed and approved under law.

Obviously, all the credit officers are the ones who determine the priorities in the allocation amounts for each objective registered in the investment program within the limit of funds included in the budget project for this purpose, while ensuring accomplishment of investment objectives within the approved execution term.

The investment objectives are nominated into investment categories within the investment programs as follows: continuing investments, new investments and the "other investment

expenditures" global position. Investment costs are detailed in separate annexes by the credit officer, based on consolidated notes, which will include elements referring to the necessity, the opportunity and to other indicators characteristic of such investments, and are approved by the authorities together with the local budget.

If the case when during the budget implementation, for objective reasons, the implementation of an investment project can not be achieved according to the budget projection, the local budgets' credit officers may propose authorities, until October 31, the approval of funds redistribution among investment projects included in the program.

### **3. Progress of budget implementation. Specific principles**

The progress of budget execution is based on some specific principles:

- Incomes and budget appropriations are approved and included in the budget classification structure through local budgets;
- Budget appropriations are authorized during the budget year;
- Approved personnel costs can be increased by budget appropriations transfers;
- Transfers of budget appropriations from one chapter to another chapter of the budget classification and from one program to another must be approved by the authorities, based on appropriate justifications of the credit officers, and may be made before expenditures are running;
- Transfers of budget appropriations within the same budget chapter, including between same chapter's programs, that do not contravene with this Article, the state budget law or the law of rectification, are the responsibility of each credit officer for the individual budget and the budgets of institutions and subordinated public services and may be made before expenditures are running;
- Proposals for budget appropriations transfers are accompanied by justification, particularization and the



need for implementation of budget classification subdivision and chapter until the end of the budget year, as well as of the program from which it dismisses, and of the chapter and the budget classification subdivision on which budget provisions are supplemented respectively;

- Transfers of budget appropriations under the conditions specified in section (4) and (5), may be made starting with the 3<sup>rd</sup> trimester of the budget year.

#### *Incomes and budget expenditures' allocation on trimesters*

Revenues and expenditures approved by the local budgets are distributed in trimesters, according to the legal terms of revenue collection and the period during which expenditures are necessary.

Endorsements shall be issued by:

a) the Ministry of Public Finance, for amounts deducted from certain incomes of the state budget and for transfers from this budget, based on proposals of the local budgets' credit officers, transmitted by the general departments of public finances within 20 days from the publication of the state budget law in the Official Gazette of Romania, Part I. Thus, the approved amounts shall be allocated on administrative-territorial units by the general departments of public finances;

b) the local budgets' credit officers, for budgets available to them within 15 days after approval of the amounts referred to in points. a).

Transfers' repartition on trimesters, as well as their modification shall be notified by the credit officers of the state budget or other budgets to the local public administration authorities within 10 days after the approval by the Ministry of Public Finance of budget credits repartition on trimesters.

Budget appropriations approved by local budgets can be used through open credits made by their credit officers while considering the approved amount limits, according to the specified destination and in compliance with legal provisions governing such expenditures.

Budget appropriations openings for transfers from the state budget or other budgets to local budgets within limits set

by that respective budgets, are carried out by the Ministry of Public Finance through the general departments of public finance, at the request of local budgets' credit officers, according to the needs of budget implementation concerning its destination, or by other credit officers for legal transfers.

Budget expenditure is made only based on justificatory documents confirming contractual commitments, receiving of material goods, provided services, works executions, payment of salaries and other entitlements, payment of budgetary obligations as well as other obligations.

In the case when during the budget year, based on legal provisions, there happen to exist transfers of institutions, actions or tasks to the concern of local administrative authorities, the Ministry of Public Finance is authorized to introduce appropriate changes in the state budget's volume and structure, without affecting the budget balance.

Budgetary appropriations related to non-refundable external funds have a predictable character and run under agreements concluded with foreign partners. Non-refundable external funds will be collected in a separate account outside the local budget and will be spent only within the limits of this account and for the purpose for which they were granted.

#### **4. The main coordinates of budget execution**

In the budget execution process, budget expenditures go through the following phases: commitment, validation, authorization and payment. Budget execution in towns, cities, sectors of Bucharest, counties and in Bucharest is based on the principle of separation of power between persons having the quality of credit officers and persons who have the quality of accountant.

Operations specific to expenses' employment, liquidation and ordination are in the attribution of credit officers and are executed based on notifications of public institutions departments.

Expenses payment is provided by the financial-accounting chief while considering the limit of available funds. Payment instruments must be accompanied by evidence. These justifying documents must certify the accuracy of paid amounts, receipt of goods, execution of services and others alike under legal commitments. Payment instruments are signed by the chief accountant and the chief of financial-accounting department.

Payments execution within the approved budget appropriations limit shall be made solely on the basis of documentary evidence made in accordance with laws, and only after they have been committed, liquidated and passed.

Payment expenses at villages and at public institutions, on which the financial accounting department has a staff number of less than 5 persons, are provided by the credit officer and the authorized person responsible for accounts in compliance with methodological norms regarding the organization, recording and reporting of budgetary and legal commitments.

For certain categories of expenditures there can be made advance payments up to 30% under the law. Amounts representing advance payments that are unjustified through delivered goods, works executed or rendered services until the end of the year will be recovered, under the contractual provisions, by the public institutions that have granted the advances and will be returned to the budget which gave the credits.

In the case of failure to deliver goods, execute works or render services for which advances have been paid, that particular public institution can recover the amounts by perceiving price increase for delay at the level of the existing revenue, being calculated for the period since they have been granted and until they have been recovered.

## 5. Annual execution account. Budget surplus or deficit

(1) The credit officers shall elaborate and submit for approval by authorities, until May 31 of the next year, annual accounts of budget execution having the following structure:

a) at revenue section: initial budgetary provisions, permanent budgetary provisions and incomes;

b) at costs section: initial budget appropriations, permanent budget appropriations and payments made.

Quarterly and annually, the credit officers prepare financial statements on budgetary implementation which are submitted to the general departments of the Ministry of Public Finance. After verification, they prepare and submit to the Ministry of Public Finance the centralized financial statements regarding budget execution on the whole county, according to established norms and deadlines. Then, the Ministry of Public Finance transmits the Ministry of Administration and Interior a centralized financial situation of the local budgets' execution.

*Note: Annual financial statements, including their annexes, are presented by the credit officer to authorities for approval.*

Annual surplus of the local budget, resulted at the end of the budget year after adjustments are made in the limit of amounts deducted from certain incomes of the state budget, as well as of transfers consolidated from the state budget other budgets, are usually used for:

a) reimbursement of any outstanding loans, interest payments, commissions, expenses and other related costs;

b) establishing the working capital.

The available circulating assets bear interest rates, are kept in a separate account opened on behalf of each administrative-territorial unit, at the territorial units of the State Treasury outside the local budget, and can be temporarily used to cover deficits from gaps between revenue and expenditures in the current year, as well as for a definitive cover of the possible

deficit budget resulted at the end of the budget year.

The working capital can be used to finance some investments attributed to the local administrative authorities or to develop local public services in the interest of the community.

*Note: The use of the working capital and of its execution account is approved by authorities outside the local budget.*

## **6. Some specifications regarding the final execution of local budgets**

Local budgets cash execution is carried out by territorial units of the State Treasury, being highlighted in separate accounts:

- a) budget revenues collected on the budget classification structure;
- b) payments made by public institutions' authorized persons, within both the limits of budget appropriations and destinations approved under law;
- c) charges and payments on domestic and external public debt, which resulted from contractual loans or loans guaranteed by the state, as well as those contracted or guaranteed by local administrative authorities, including those relating to reimbursement maturity rates and payment of interest rates, commissions, charges and other related costs;
- d) other financial transactions made in the local administrative authorities' account;

e) keeping and utilisation of non-reimbursable available external funds or their equivalent in lei, which received on the basis of agreements, governmental understandings and from international bodies, according to approved budgets.

*Note: For contracted loans, other than those from the availabilities of the current Treasury General Account, local administrative authorities may open accounts at commercial banks, in order to run them.*

In the execution process, the allocation of amounts deducted from certain incomes of the state budget is monthly made by the general departments of public finances, on the basis of substantiations made by credit officers.

Obviously, as in the previous legislation, budget implementation shall end on 31 December of each year. Then, any un-received income and any expenditure that is incurred, liquidated and passed under budgetary provisions and which is unpaid until December 31 will be cashed or will be paid in the budget account for the next year.

## **7. References**

- [1] Ionel Bostan, *Drept financiar public*, Dacia Publisher, Cluj Napoca, 2006.
- [2] Dan Şaguna, *Drept financiar fiscal*, All Beck Publisher, Bucharest, 2006.
- [3] \*\*\*Law no. 273 on June 29, 2006 regarding the local public finance.
- [4] [www.mfinante.ro](http://www.mfinante.ro)

## Recent Macroeconomic Developments in the New Member States

Murarașu Bogdan  
*Academy of Economic Studies, Bucharest*  
*bogdan.murarasu@fin.ase.ro*

### Abstract

Recent monetary and fiscal policy measures in response to the macroeconomic developments in the New Member States, in the context of the international financial and economic crisis during the years 2008 and 2009 which prolonged further in 2010 were characterized by heterogeneity and asymmetries. The macroeconomic imbalances characterizing the recent evolution of these economies are different from country to country as a result of diverse factors such as the excess demand magnitude at the onset of the crisis, the importance and structure of the commercial flows, the external financial indebtedness or the different contribution of the economic sectors to the economic growth.

Also, the monetary and fiscal measures implemented before and after the onset of the crisis are important. In particular, in the countries with a fixed exchange rate, monetary and fiscal policy measures have been limited by the additional constraint of maintaining the confidence in the domestic currency. In countries such as Hungary and Romania which have an inflation targeting regime, the interest rate reductions have also been limited by the liquidity problems on the interbank market as well as by a high level of the inflation rate that existed in these economies at the onset of the crisis.

**Key words:** financial and economic crisis, economic growth, fiscal policy, liquidity problems

**JEL Classification:** G01, G15, G18, O49

### 1. Introduction

The macroeconomic developments in European Union (EU) countries in the context of the international crisis that became manifest mainly during 2008 is characterized

by heterogeneity and consequently by different responses of the monetary, fiscal and revenues policies mix. In the European Union economies, especially in case of those countries which aren't members of the euro area yet, the general perception is that the return of the aggregate demand and supply to the levels which existed before the onset of the crisis will be a gradual one and the effects of the uncertainties will be felt with a heightened persistence in all sectors of the economy.

The macroeconomic imbalances of the last decade and the international financial and economic crisis are tightly linked ([1]). The worldwide small real interest rates, the distortions persisting on the credit market, financial innovations and the loose exchange rate and monetary policy of some emerging markets such as China, have contributed to the onset of the financial crisis in the USA and to its propagation on a global scale. The main determinants of the financial crisis in the USA and its evolution to a global economic crisis are the loose monetary policy of several central banks which have fuelled real estate bubbles, excess savings, inappropriate quantification and hedging of counterparty risks, as well as unsuitable measures taken immediately after the onset of the financial crisis ([2]). With regards to the solutions of the crisis, the implementation of a substantial financial stimulus packages will help through the recession without causing significant aggregate demand pressures ([3]).

Regarding the new EU member states, the effects of the economic crisis as well as the measures taken by each government are significantly different in exchange rate targeting countries as opposed to inflation targeting countries. The difference resides in the fact that exchange rate targeting countries have had few options in case of monetary policy measures considering their commitment in insuring the stability of the

exchange rate. An example is given by the economic development of the Baltic States during 2008 and 2010 as they have undergone a serious economic adjustment accompanied by the deterioration of the labour market, by additional constraints on the financial markets and a decrease in the sentiment towards the stability of the domestic currency. In this context, the main challenge of the monetary policy was to maintain the confidence in the fixed exchange rate system. The inflation targeting countries which have a flexible exchange rate regime have been affected by low transmission of the interest rate decreases on the financial markets. This development was mainly triggered by heightened risk aversion and low liquidity on the financial markets. From the inflation targeting New Member States' category we have included in our analysis the following: Czech Republic (CZ), Hungary (HU), Romania (RO) and Poland (PO) and from the exchange rate targeting ones: Estonia (EE), Latvia (LV), Lithuania (LT) and Bulgaria (BG). We have also added in our analysis three developed economies which are not members of the euro area: Denmark (DK), Sweden (SE) and the United Kingdom (UK).

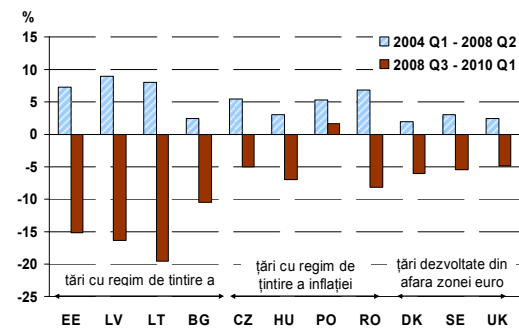
## 2. The impact of the financial crisis on the economies of the New Member States

The impact of the international economic crisis was experienced with different strength in the New Member States and the three developed economies which are not members of the euro area. While some economies like Poland and to a certain extent the Czech Republic have passed this recession without experiencing a major contraction of the economic activity, other countries such as the Baltic States have suffered decreases of the real GDP of more than 10% in the period of 2008 Q2 – 2010 Q1.

As we can notice in Figure 1, the countries which have grown at a high rate in the years before the crisis have also been those who have experienced the most severe decline in the economic activity. The different impact of the crisis can be highlighted through the reaction of the labour market in the analyzed

economies. Regarding the changes in the unemployment rate and the real wages growth rate, the most affected countries are the Baltic States, followed by the central and south eastern European countries and then by the developed countries which are not members of the euro area (see Figure 2). This development of the labour market is tightly linked to the economic developments but also reflects the flexibility of these markets and the efficiency of the policies implemented by the governments.

Figure 1. The economic growth before and after the international economic crisis (average year on year growth, quarterly data)



Source: Eurostat, authors' calculations.

In countries such as Hungary, Romania and the United Kingdom the adjustment of the labour market wasn't achieved by the adjustment of wages which can suggest a delayed response of these economies to the effects of the crisis mainly in case of the public sector.

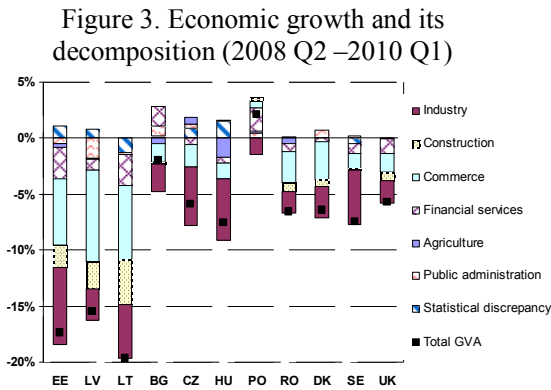
Figure 2. The change in the unemployment rate and the wage growth rate (2008 Q3–2010 Q1)



Source: Eurostat, authors' calculations.

Regarding the different sectors of the economy, it is obvious from Figure 3 that the

industry has contracted the most in all economies but its contribution to the total gross value added (GVA) is different in each economy, depending both on the relative dimension of this sector and on the degree of reliance of each economy on exports.



Source: Eurostat, authors' calculations.

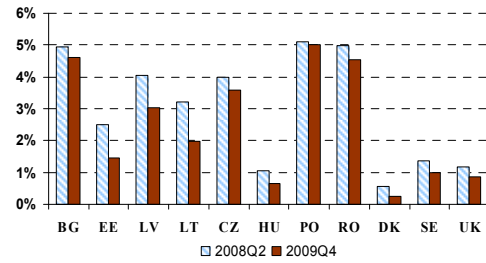
### 3. Possible causes of the heterogeneous macroeconomic developments during the crisis

A first explanation for the different responses of the European economies to the international economic crisis can reside in the different cyclical position of these economies in the period before the crisis and in the unlike effects of the financial crisis on the aggregate supply and the potential output. As it is visible in Figure 1, the decline of the economic activity was more pronounced in the economies which have grown mainly based on excess demand. This was in most cases accompanied by inflationary pressures and important appreciation of the domestic currencies which has led to major external imbalances expressed thorough important current account deficits. The causes which have led to this aggregate demand imbalance are the excessive growth of real wages and loans which have fuelled the growth of unit labour costs and asset bubbles especially on the real estate market.

In order to quantify the magnitude of the disequilibrium between aggregate demand and supply at a certain point in time, the main method is represented by the decomposition of the GDP in potential level and output gap. We can hence determine how much of the GDP change is due to the modification of the

production capacity in the economy (capital stock, labour force) and to the modification in the demand excess/deficit.

Figure 4. The annual growth of the potential GDP in 2008Q2 and 2009Q4 (% yoy)

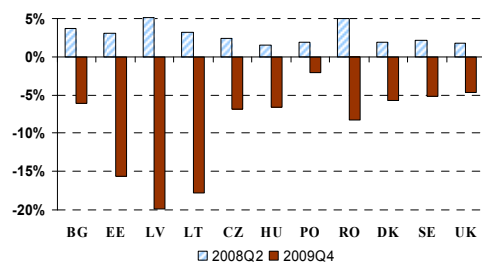


Source: Eurostat, authors' calculations.

For all the 11 analyzed countries, this decomposition was performed using univariate filtering methods: Hodrick Prescott filter, band-pass filter and the univariate Kalman filter. The data regarding the seasonally adjusted GDP are taken from the Eurostat database for the period of 1998Q1 – 2009Q4. The potential GDP and the output gap is obtained as a weighted average of the series resulted using the three different filtering methods, while the weights are inversely proportional with the volatility of the potential GDP. Figures 4 and 5 present the annual growth rate of the potential GDP and the output gap in 2008Q2 and 2009Q4.

The potential GDP growth has decreased in all countries and the biggest reduction is the one in Lithuania. However, the negative evolution of the real GDP growth rate was mainly due to the transformation of the excess demand of the 2nd quarter of 2008 in a demand deficit in the next four quarters.

Figure 5. The output gap in 2008Q2 and 2009Q4 (percent of the potential GDP)



Source: Eurostat, authors' calculations.

The countries which at the onset of the crisis had the largest aggregate demand disequilibria are also the ones which suffered

the biggest corrections – this is the case of the Baltic States, Bulgaria and Romania. However, it is clear that Romania's economy had the largest excess demand, but the correction that followed the onset of the international crisis was only the fourth largest. The difference between Romania and the Baltic States resides in the exchange rate regime – in Romania the depreciation of the domestic currency has partially absorbed the shock generated by the reduction in external demand, and hence the decrease in the economic activity was smaller.

Another possible explanation for the different macroeconomic reactions to the effects of the crisis is the degree of economic openness of the economies. Taking into account the high degree of commercial openness of almost all EU member states, the commercial channel represents a major cause for the spread of the effects of the economic crisis in all EU economies. The structure of imports and exports in the EU member states is another source of divergence in the macroeconomic evolution. Recent analysis has shown that the countries with a significant weight of intermediary and capital goods in their commercial flows have been aggressively affected by the worldwide decline in economic activity following the important reduction of investments at producers' level. On the other hand, the countries with a high weight of consumption goods in the commercial flows have suffered less from the effects of the crisis as the reduction in the consumption of this type of goods has been moderate.

Tightly linked to the degree of openness is the interconnection of the European financial markets. In the countries with a high degree of financial intermediation the effects of the crisis have been more severe. On the back of the increase in risk aversion, the amplification of the financial disintermediation process and the reduction of the economic agents' revenues, the financing requirements of the economies with high degree of intermediation have increased substantially. Following the reduction of the external financing sources, on the back of the increase in the risk premium associated with emerging markets, a substantial correction of the current account and private sector economic activity took place. In case of the

Baltic States, Bulgaria and Romania, the most important reductions of the financing resources came from the other investments' (especially financing lines extended by foreign banks to their subsidiaries) and foreign direct investments' side; in case of Hungary, Denmark or Sweden the significant reduction corresponded to portfolio investments.

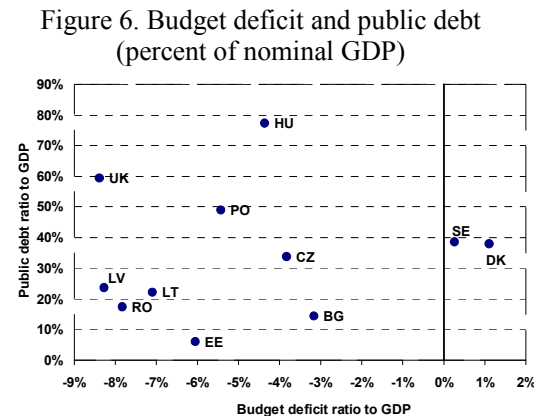
#### **4. Response of the fiscal and monetary policy to the effects of the international crisis**

Except for Denmark and Sweden, all the countries analyzed had an unfavourable fiscal position before the onset of the crisis. In Romania for example, during the year 2007, fiscal policy was expansionary on the back of a favourable economic cycle which subsequently lead to an increase in the budget deficit at around 5.4% at the end of 2008. The main challenge for the fiscal policy since the onset of the crisis was to keep the budget deficit at sustainable levels while also implementing measures to stimulate aggregate demand and supply. Countries such as Latvia, Romania and Hungary which have closed financing agreements with the international financial institutions (The International Monetary Fund, the European Union and the World Bank) will have to implement a series of strict measures convened with these institutions in order to reduce their budgetary deficits. Among these measures we can mention on the public expenditure side: the reduction of the public sector, the reduction of the costs related to pensions and capital expenditures and on the revenues side mainly the expansion of the taxation base. The aim of these measures is the reduction on a three years' horizon of the budget deficit to GDP ratio below 3%. In countries like Lithuania and Estonia the measures regard the reduction of public expenditures such as capital ones and social transfers but also the increase of the taxation rate. In the Czech Republic and Poland fiscal policy measures weren't specific to a recession as automatic stabilizers have adjusted these economies. An example in Poland's case is the reduction in labour taxation in 2007, a measure which has

worked during the crisis as a financial stimulus for both employers and employees.

The uncertainty regarding the evaluation of the fiscal policy measures resides in the difficulty of estimating the degree in which aggregate supply has been affected by the economic crisis and the decrease in the potential GDP growth rate as these two issues relate to the structural position of the budget balance. Figure 6 presents the fiscal position of the economies relative to the degree of public indebtedness. The least favourable combination is the one in which a high budget deficit is accompanied by a high level of public debt situated close to the Maastricht criteria value of 60%. In such a situation are countries like Poland, Hungary and the United Kingdom which are on a different level of economic development suggesting that crisis effects on public finance don't depend very much on the level of development.

In case of Romania, the excessive budget deficit recorded in the second half of this year was accompanied by a moderate public debt expressed as a ratio of GDP. This makes possible the increase in the public financing needs without jeopardizing the Maastricht criteria regarding public debt.



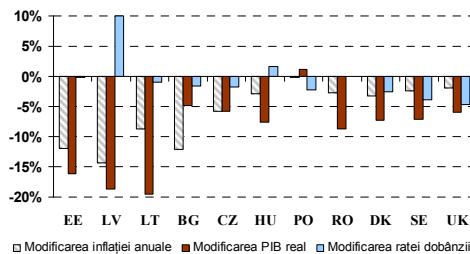
Source: Eurostat, authors' calculations.

Regarding the response of the monetary policy to the current macroeconomic problems of EU countries, their effectiveness was determinant to the different evolution of these countries. In those economies in which there is an exchange rate targeting regime, monetary policy decisions were confined by the necessity to ensure a stable value of the

domestic currency with respect to the euro. This limitation has affected the real economy as it wasn't sustained by monetary policy measures. Also, in most of these countries, in the period before the onset of the crisis the level of the real interest rates was extremely low and that fueled a sizeable excess demand and an unsustainable economic growth.

One can notice in Figure 7 that in the countries with a pegged or fixed exchange rate, the reduction of the interest rates was smaller compared to other economies while the real GDP decrease was larger but accompanied by a more sizeable reduction of the annual inflation rate. In countries such as Hungary and Romania which have an inflation targeting regime, the interest rate reductions have also been limited by the liquidity problems on the interbank market as well as by a high level of the inflation rate that existed in these economies at the onset of the crisis. Also, the unfavourable perception regarding the risk of the investments on emerging markets determined an increase in the risk premium and the maintenance of interbank interest rates higher than the monetary policy rate.

Figure 7. The development of the main monetary indicators (2008 Q2 – 2009 Q4)



Source: Eurostat, authors' calculations.

## 5. Conclusions

The macroeconomic developments of the EU New Member States in the context of the international financial crisis in the years 2008 – 2010 were characterized by heterogeneity and were accompanied by distinct economic policy measures. The different impact of the economic crisis on these economies can be explained by the different position of these economies in the business cycle at the onset of the crisis but also by factors such as the



different structure of the commercial flows, the distinct external financing dependency or by the different contribution of the economic sectors to the formation of gross value added. Also, the monetary and fiscal measures implemented before and after the onset of the crisis are important. In particular, in the countries with a fixed exchange rate, monetary and fiscal policy measures have been limited by the additional constraint of maintaining the confidence in the domestic currency. Also, in the Baltic States, Bulgaria and Romania, the expansionary fiscal policy before the onset of the crisis has affected the functioning of the automatic stabilizers which in recessions should stimulate

aggregate demand by reducing the impact of taxation on the disposable income of economic agents.

## **6. References**

- [1] Obstfeld, M. and K. Rogoff (2009): „Global Imbalances and the Financial Crisis: Products of Common Causes”, Federal Reserve Bank of San Francisco Asia Economic Policy Conference, Santa Barbara, CA, October 18-20, 2009.
- [2] Taylor, J. B. (2009): „The Financial Crisis and the Policy Responses – An Empirical Analysis of What Went Wrong”, NBER Working Paper, no. 14631.
- [3] Krugman, P. (2008): „The Return of Depression Economics and the Crisis of 2008”, New York Times .

# Aspects of Using Data Mining Techniques in the Study of Student Performance

Oprea Cristina,  
Zaharia Marian

Enăchescu Daniela

*Petroleum&Gas University, Ploiesti*

*oprea\_cris2005@yahoo.com*

*marianzaharia53@gmail.com*

*denachescu22@yahoo.com*

## Abstract

In our world the large amount of existing data and the need to convert and analyze this large amount of useful data has led to the concept of data mining.

Using data mining techniques is driven by the urgent need, common to many fields, to store, access, describe, model, and especially to understand and effectively use of the large amounts of data.

Lately the use of data mining in the field of academic analysis has proved particularly useful.

This paper presents the concept and architecture of data mining systems, and also, is presented some of its applications in the field of university to study students' behavior.

**Key words:** data mining techniques, effectively use, data, student performance;

**JEL Classification:** A29;

## 1. Introduction

Knowledge acquisition is one of the priority areas of artificial intelligence research. Extraction techniques and methods consistent and relevant knowledge from large empirical data, obtained either by total research, either by selective survey, based on a representative sample, have developed and improved significantly, with the exponential growth in technology information.

Development in recent decades, information technology has fostered the creation and implementation of complex algorithms to extract knowledge from large databases. These techniques are today the

basis for a particular area, and growing, that of artificial intelligence: data mining.

## 2. An overview; concept and stages

Extracting information from data is, as is well known, a concern for centuries in science, and more. Bayes' theorem (1700s) and regression analysis (1800s) are examples of these concerns long before the emergence of computer science.

The emergence and development unprecedented since the second half of the twentieth century, computers and information technology has facilitated the development of new techniques such as neural networks, clustering, genetic algorithms (1950s), decision trees (1960s) and Support vector machines (1980s). In the new context, is crystallized area today called data mining. So, *data mining is the process of applying these methods to data with the intention of uncovering hidden patterns* [12].

Unlink information extraction, whose goal is to automatically extract structured information from unstructured documents, data mining is a data processing using sophisticated data search capabilities and statistical algorithms to discover patterns and correlations in large preexisting databases; a way to discover new meaning in data[18].

A synthetic definition of data mining is provided by Wikipedia[17]: *Data mining is the process of extracting patterns from data.*

Commonly, data mining, involves four classes of tasks: classification, clustering, regression and association rule learning.

These steps can be developed to enable better practical application of data mining processes. In this sense, stress contribution

Irina Tudor, one of the first Romanian specialists who developed this area that the main stages in the process of data mining are [15]:

- Problem definition
- Database construction,
- Use of data (data is understanding, their view, create pivot tables that provide a clear picture of consistency of the database);
- Data preparation (selection of variables to be predictive model components)
- Model building
- Evaluate model
- Interpretation of results and improved model

Data Mining involves the integration of techniques from different areas of both storage and processing, and artificial intelligence and representing an interdisciplinary field, the main disciplines wherewith it crosses are those technologies, generic named, as the data warehouse and database systems, automation learning and statistics.

### **3. The architecture of Data Mining Systems**

Data mining system is a computer system consists of all hardware and software components that interact and communicate with each other for finding data models (knowledge) from a data warehouse.

Data mining system architecture consists of the following components [6]:

- Databases, data warehouses or stores of information are represented by one or more databases, data warehouses, spreadsheets or any other information storage;
- Server database or data warehouse is responsible for extracting relevant data based on user demand for data mining;
- The knowledge base contains domain knowledge which is used to guide the search or to evaluate the significance of patterns obtained. Knowledge can be represented by a conceptual hierarchy is used to organize attributes or attribute values on different abstraction levels, user experience (heuristics) that can be used to assess the

significance of patterns, restrictions or limitations and significance of the metadata.

- data mining engine and consists of a set of functional modules for tasks such as: characterization, association analysis, classification, evolution and deviation analysis;
- pattern evaluation module uses a series of indicators and interact with data mining module so as to guide the search to those significant patterns.
- User interface provides communication between users and system. It allows users to travel patterns or data structures of databases or data warehouses, to assess patterns and to visualize patterns generated in different formats.

### **4. Using methods and data mining techniques to analyze the behavior of students**

Although using data mining techniques in higher education is an area of recent research, there are many works in this field. Studies conducted between 2000-2009 led to the conclusion that using data mining techniques in education is a promising area of research and have specific requirements.

One recent study based on using data mining techniques has been developed at the Faculty of Information Technology and Computer Science from Yarmouk University [14]. This study sought to highlight factors that determine the performance of students in the Computer Programming (C++) and predicting the exam performances.

The data analyzed were collected using a manual acquisition system by interviewing based on questionnaires.

As environmental data mining was used Weka platform. The methods used are algorithms ID3, C4.5 and Naïve Bayes classification by decision tree, classification algorithms and attributes. Were generated decision trees, sets of rules and was performed sensitivity analysis of factors.

Were initially identified 12 attributes according to attribute purpose to test scores. Following classification, were determined nine significant attributes for student performance (Table 1). Classification was

performed on four classes: A (9-10), B (8-9), C (7-8) and D (5-7).

By applying decision tree method was found that the greatest influence on student performance on the course of Computer Programming (C++) is the profile of graduate school. This attribute is considered as the root node of the decision tree. Also were resulted a set of 41 production rules. Some general rules, the longest usually consists of 9 attributes, while the shortest rule covers only 2 attributes.

Table 1 Attributes for student performance

	Attribute	Possible values
9.	Profile graduated high school	A, B, C, D
8.	Form of financing	No fee, duty, an employee of the university
7.	Current chair holder	CIS, CS, MIS
6.	Function of the teacher	Lecturer, Lectured, Professor
5.	Family environment	Family, Friends, Single
4.	Type studies	Normal, Parallel, International
3.	Teacher sex	M, F
2.	Specialization followed by the student	CIS, CS, MIS
1.	Student sex	M, F

Of production rules discovered, the most representative are:

- *If the student is female and graduated high school profile is A, then note that you will get to the C++ is C (between 7 and 8).*
- *If the teacher is female and the student is employed at the university and graduate school is C then note that you will get to the C++ is A (between 9 and 10).*
- *If specialization followed by the student is the CIS and the type of study is parallel and chair holder of course is CIS or CS and profile college graduate student is B*

*or D then note that you will get to the C++ is D (between 7 and 8).*

To obtain accurate classification model was tested three different classification methods: ID3, C4.5 and Naïve Bayes. The results obtained (ID3 = 28.32%, C4.5 = 38, 05% and Naïve Bayes = 38.05%) indicates that samples collected and attributes are not sufficient to generate a high quality classification model.

A second study, on which we stop, was made by P. Haddawy and N. Hien [9] to Technology Institute in Asia (TIA) use data mining techniques at predicting success in relation with students graduated college, and other information extracted from registration dossiers.

Data used in the study covers the period 2003-2005 and data are available at registration. These data are from 1386 graduate and 212 graduate students.

Were used attributes, namely: age, sex, marital status, nationality, English language test result, the institute where he obtained his diploma earlier specialization, average graduation, field of study and type of diploma (Masters or PhD), the average obtained in TIA. . Nationality attribute values were determined according to classification made by World Bank country against Inter gross product. Attribute institute where he obtained his diploma have values between 1 and 10 and represents its position in the ranking institutions. This ranking was made on the basis of the Asian Institute of Technology, obtained by foreign students admitted prior to the institute.

The tend, that is found after analyzing the values of dispersion, is that the doctoral students receive higher marks than those who attend Masters.

Also, PhD students are older. Because of these differences have been created two separate prediction models one for master and other for doctoral students.

Using a bayesian network for analysis and reasoning based on cases, the technique can be applied to any higher education institution which has a database of students and has good information on applicants.

Finally, another interesting study was conducted at the Islamic University of Gaza [7] and sought to analyze the learning behavior of students. They used data from

151 students who were in the database during the first semester of the academic year 2007-2008. Data sources were:

- E-learning course that used to (Moodle) from which data were extracted on resources utilization provided by the e-learning system: courses (e-books), exercises (e-exercises), homework (e-homeworks) and the results of students in solving exercises available in the system.
- The faculty database from where they collected data on GPA score (ratio between the number of credits obtained and the number of exams passed) obtained by students, the final score in that discipline.
- Information held by teachers in relation to attendance of the students in courses and intermediate scores obtained.

Were identified the attributes: attendance, GPA score, number of hours that the e-learning system is used, and utilization of resources: e-resources, e-exercises, e-homework, term marks obtained, laboratory marks obtained and the final mark.

KNIM data mining system was chosen for this study, an open source system developed by the University Kontanz from Germany.

Classification was used to predict the student's final mark at the database course. It was generated a decision tree using J48 algorithm, which the following production rules were separated:

- *If the intermediate mark and the presence score is good then the final mark will be excellent.*
- *If the term mark is a failure and the lab mark is a failure too, then the final mark will be a failure.*
- *If the term mark is medium and GPA score is lower then the final score is low.*
- *If the term note is medium and GPA score is good, and then utilization of e-homework resources is small then the final score is low.*
- *If the term note is medium and GPA score is good and then utilization of e-homework resources is average and is present score is medium then the final score is good.*
- *If the term mark is medium and GPA score is very good then the final score is very good.*

The advantage of using this model is that the smaller notes can be predicted. The teacher can now predict which students will not pass the exam before the end of the semester.

Group data was performed with Expectation-Maximization algorithm (EM-clustering). EM-clustering algorithm is a mixture of maximum probability estimates based on the parameters of stochastic models.

Students were grouped according to their performance in five classes (groups). Outlier analysis was used to detect data that are significantly different from the rest of the data. Each of these knowledge obtained from the outlier analysis can be used to improve student performance. For example, students can be identified with learning problems.

In addition, similar studies with significant results among the studies conducted by Varsha Namdeo, Anju Singh, Divakar Singh, Dr. RC Jain [11] at a technical college profile in India, the study at the Faculty of Electrical Engineering, Eindhoven University the Netherlands [3] which aimed to identify students who need assistance to continue their studies, and the study by Bodea, V, Rosca, I at the Academy of Economic Studies [2], which among its main objectives aimed to identify the most important attributes on student performance, identification of the evolution of student performance and the analysis risk of the lack of integration in the academic work for the first-year graduate students.

## 5. Conclusions

Growing interest in data mining site may be motivated simply by the urgent need, common to many fields to store, access, describe, shape, and especially to understand and effectively use the large amounts of data.

Data-mining is a powerful analysis tool that provides to the institutions of any kind, whether governmental, non-governmental, or any other field, for example, general education, the opportunity to be able to allocate better their human and material resources, and to achieve a better management.

Data Mining introduces new concepts and methods in the academic environment.

However, this is a new type of predictive analysis, with a large scope for research and education.

Data mining techniques are suitable for marketing applications at university level, and analysis on how to improve the quality of education. In addition, IT systems orientation to data mining applications was observed because they offer a good decision support in the educational environment. This is just one of the many applicability areas of these data mining techniques, with the best results for the university-level management.

## 6. References

- [1] Berry, M.J.A., Linoff, G.S., *Data mining techniques: for marketing, sales and customer relationship management*, Wiley Publishing, Indianapolis, Indiana, 2004.
- [2] Bodea, V., Roșca, I.Gh., “*Analiza performanțelor studenților cu tehnici de data mining: Studiu de caz în Academia de Studii Economice București*”, în *Managementul cunoașterii în universitatea modernă*, coord.: Bodea C.N. și Andone I., Editura ASE București, 2007.
- [3] Dekker, G., Pechenizkiy, M., Vleeshouwers, J., “*Predicting Students Drop Out: A Case Study*”, In *Proceedings of the International Conference on Educational Data Mining*, Cordoba, Spain, Educational data mining, 2009
- [4] Filip, F. Gh., „*Decizie asistată de calculator: decizii, decidenți, metode de bază și instrumente informatice asociate*”, Editura Tehnică, București, 2005.
- [5] Gorunesu, F., - „*Data Mining. Concepte, modele și tehnici*, Editura Albastră”, Cluj-Napoca, 2006
- [6] Han, J., Kamber, M., „*Data mining: Concepts and Techniques*”, Morgan Kaufman Publishers, USA, 2000.
- [7] Halees, Alaa El, „*Mining Students Data To Analyze Learning Behavior: A Case Study*”, The International Arab Conference on Information Technology (ACIT), 2008  
<http://www.ijcaonline.org/archives/number22>
- [8] Hand, D. J., Mannila, H., Smyth, P., „*Principles of Data Mining*”, The MIT Press, Cambridge, 2001.
- [9] Hien, N. T. N., Haddawy, P., “*A Decision Support System for Evaluating International Student Applications*”, 37th ASEE/IEEE Frontiers in Education Conference, October 10 – 13, Milwaukee, WI., 2007
- [10] Ioniță, A., „*Asupra termenului de data mining*”, *Revista Română de Informatică și Automatică*, vol. 15, nr. 2, 2005.
- [11] Namdeo, V., Singh, A., Singh, D., Jain, R.C., „*Result analysis using classification techniques*”, *International Journal of Computer Applications* Volume 1 – No. 22, ISBN 978-93-80746-21-0, 2010.
- [12] Kantardzic, Mehmed. „*Data Mining: Concepts, Models, Methods, and Algorithms*” John Wiley & Sons, 2003
- [13] Roșca, I., Bodea, C., „*Managementul cunoașterii în cadrul instituțiilor de învățământul superior. Posibilități de îmbunătățire a managementului universitar prin data mining*”, în *Societatea cunoașterii*, coord. Roșca I., Editura Economică, 2006.
- [14] Qasem A. Al-Radaideh, Emad M. Al-Shawakfa, and Mustafa I. Al-Najjar, *Mining Student Data Using Decision Trees*, The 2006 International Arab Conference on Information Technology (ACIT'2006), 2006
- [15] Tudor, I., Cărbureanu, M., „*Tehnici de data mining în managementul cunoașterii într-o universitate*”, în *Managementul cunoașterii în universitatea modernă*, coord.: Bodea C.N. și Andone I., Editura ASE București, 2007.
- [16] Thuraisingham, B., M., „*Data mining, Technologies, Techniques, Tools and Trends*”, CRC Press, 1999.
- [17] [http://en.wikipedia.org/wiki/Data\\_mining](http://en.wikipedia.org/wiki/Data_mining), accesat pe 15 ianuarie 2010
- [18] [www.wordnetweb.princeton.edu](http://www.wordnetweb.princeton.edu)

## G. Mladenatz and his Writings: the International Echo of a Romanian Co-operative Theorist

Păiușan Robert  
Academy of Economic Studies, Bucharest  
office@arse.ro

### Abstract

The present article focuses on the international echo enjoyed by the writings of Gromoslav Mladenatz (1891-1958). He was in the interwar and immediate postwar period a distinguished professor at the Commercial Academy of Bucharest, a research fellow and mentor in the field of co-operation. His internationally most quoted work was *History of co-operative doctrines*, which was published successively in Romanian, French, Italian, Serbo-Croatian and Spanish.

**Key words:** co-operation, interwar period, co-operative movement

**JEL Classification:** B31

### 1. Introduction

Gromoslav Mladenatz (1891-1958) belongs to the hall of great professors and scientists honoring the Commercial Academy of Bucharest, dating from interwar and immediate postwar period, that have become known worldwide.

### 2. Mladenatz work

Mladenatz is the author of a work totaling 8 books and dozens of studies, articles and didactic materials that were published not only in Romanian but also in many foreign languages.

His writings include:

- *Istoria doctrinelor cooperative*, (History of the Co-operative Doctrines), Bucharest, 1931. Better known is the French version, which enjoyed a world wide recognition of the still young economist: *Histoire des doctrines*

*co-opératives* (History of co-operative doctrines), Presses Universitaires de France, appeared in Paris in 1933 in the well-known collection “La Bibliothèque Économique Internationale” of great economic and social-politic doctrines, with a very courteous foreword of the French specialist in co-operative issues Bernard Lavergne. He wrote that Mladenatz’s entire life, dedicated to the study and practice of co-operative movement, entitled him to write an objective and documented book. “Briefly, it is impossible to tell more and better things in such a restrained number of pages” [1], wrote Lavergne. The book was put in print due to the special request of the economist Charles Gide, in his capacity as president of the International Institute for Co-operative Studies.

- The same work was later translated into Italian, Serbo-Croatian and Spanish in Mexico and in Argentina. The Mexican edition *Historia de las doctrinas cooperativas*, which appeared in 1944, was commented by Luis Nuevamana, a specialist in the field. The Argentinian edition, translated after the French version, appeared in 1969 with the comments of B. Lavergne;

- *Problema concentrării întreprinderilor cooperative* (The Problem of the Concentration of the Co-operative Enterprises), The National Office for Co-operatives, Bucharest, 1932;

- *Tratat general de cooperatie* (General Treaty of Co-operation) Ed. Muguri, Bucharest, 1933. It included most of his lessons held at the Commercial Academy and the Higher School for Co-operation, both in Bucharest, and at the International Co-operative School in Basle – Switzerland;

- *Asociațiile cooperative de consum* (The Co-operative Consumption

Associations), The National Office for Co-operatives, Bucharest, 1933;

- *Istoria gândirii cooperative* (History of the Co-operative Thought), The National Office for Co-operatives, Bucharest, 1935, was a completed version of his 1931 Romanian book;

- *L'économie coopérative* (Co-operative Economy), in "Revue des Études Co-opératives", 2, 1933, in which he presented a genuine opinion on organizing a socio-economic system of co-operative orientation. This paper established the place of Mladenatz as a co-operative theorist in the French speaking area. The Romanian version *Cooperația în economia agricolă* was published in "Independența economică", Bucharest, 1935;

- *Gândirea cooperativă în România* (The Co-operative Thought in Romania), Independența Economică, Bucharest, 1939.

In Mladenatz's opinion, the co-operative system would not abolish property and freedom, but put them in the hands of the masses, as producers and consumers, leading to the expansion of the social basis of a democratic society. The co-operative action is developed in line with three sets of basic principles, on an economical, social and ethic level.

In its organization, the cooperation is obliged to respect the unity in interest and refraining political engagement of the participants. According to the definition of Mladenatz, the co-operative represents a free association of a number of small producers or consumers, who chose to establish a common enterprise, through which they would exchange services between the associates.

### 3. Points of view of other economists

Mladenatz is among those economists who were in favor of the third economic way, between the free-market and the central planned economic systems. For instance, Romanian economist Virgil Madgearu favored a peasant agricultural state, Manoilescu a corporatist industrial order, other Romanian economists a solidarity solution. For

Mladenatz, *the social co-operative economy* was offering a new perspective for bringing together the work and the results of the work. The fundamental principle of the social co-operative economy is the specific way of the social product repartition, which take the character of an economy pursuing the general interest [2].

The agricultural cooperative, associative form of performing common work represented for Mladenatz the only social and economic organization, through which the peasant could combine the individual ownership of a land with the collective ownership of the inventory of modern agriculture [3]. As the prices of Romanian agricultural products fell on the international market during the economic crisis in 1929-1933, he would recommend the involvement of co-operatives in the trade of grain with the purpose of removing the intermediaries and adopting a production structure that would prove itself to be much more productive.

The co-operative units would show differences in comparison to capitalist enterprises on different levels such as: the purpose of forming, means of action, position towards capital and labor, economic results and others. The principles of a co-operative organization were the following: self help, solidarity, predominance of labor interests, profit distribution to those directly involved, autonomy in relation to the State. These principles made it possible to put this method in practice, because it was considered fair in distributing a social product- establishing an adequacy between the incomes and the personal contribution into achieving those incomes.

### 4. The co-operative movement

Going through a wide bibliography on this subject, Mladenatz basically put together a synthesis of the most important characteristics of the co-operative movement:

- The co-operative movement is the action of emancipation of the working classes, that has as starting point the *idea of organizing working interests*;
- The action of emancipating the working classes comes from the *genuine*



*initiative* of those interested. It is an action of self help, different from a charitable action as from the one started by a political authority that has as purpose helping and defending the interests of those economically weak.

- The co-operative sets in power stage the spirit of solidarity and not the one of competition of those associated. It crowns the principle “comprehend to live” and not the one of “fight to live”.

- The co-operative pushes people towards associating with those of his kind. It doesn't search for winning but for bringing *services* to those associated. It is not a creation of selfish purposes, but it is *open for all* than can be used through their participation at the association, respecting the rules.

- The co-operative represents a *collective economy*. All or only parts of the economic functions of adherents pass to the task of the common enterprise.

- Each co-operative unit is not considered an isolated institution, but a cell of a great confederate organization that has as main purpose the public interest.

- This organization is considered to be permanent. By gathering funds from different institutions throughout the years, they aim at building common funds which will further serve to develop the movement even more in the future [4].

Mladenatz got involved in developing the co-operative movement at an international level by serving different functions: as member of the International Office for Labor, International Co-operative Alliance, International Institute for Co-operative Studies, as well as a plain participant (representing Romania or a personal level) at international gatherings that had as theme co-operative issues. He was for cooperation between national co-operative organizations and according to his opinions, this would lead to mutual knowledge, exchange of experiences but was also a doctrinal necessity, no one could organize a cooperative by himself [5].

Emphasizing the ideas of the historic German school (which influenced his development as an economist) he considered that the laws and trends in economy, in the extent in which they were actually validated by real life, had a historical and fleeting character [6].

## 5. Mladenatz studies

The writings of Mladenatz, beginning with those published in French, were very well received and appreciated in the specialized international literature. This fact is confirmed by all the favorable reviews of his books. Moreover, they generated study concerns on the problem of co-operatives in Romania reflected in PhD thesis, books, studies and reflections on this topic. There are worth mentioning the following studies:

- R. Kamil, *La coopération en Roumanie*, PhD Thesis, Paris, 1930;

- J.G. Polinet-Charron, *Les coopératives rurales et l'Etat en Tchécoslovaquie et en Roumanie*, Paris, 1932;

- A. Chabert, *La coopération en Roumanie*, PhD Thesis, Paris, 1940.

This last work, written towards the end of the 30's, enhances a rich Romanian bibliography, beginning with the most important writings of Mladenatz. The author refers to the topic from three different perspectives: historical (it reflects the evolution of the Romanian co-operative, starting with the first organization forms till the late 30's), legal (studies of the legislation of co-operatives) and economic (analysis the credit cooperative separated from the co-operatives for consume, supply and production) [7].

## 6. Conclusions

In line of these considerations, Mladenatz formulated some interesting reflections about the place of economic science and the mission of an economist. The economic science was considered a social science, and the studied object was not the individual, but *socetas oeconomica*, the entire world of acts and ideas in the economic domain.

## 7. References

- [1] B. Lavergne, "Avant-propos" à l'Histoire des doctrines coopératives, Paris, Presses Universitaires de France, 1933, p. V. Also see I. Văcărel, *Viața și opera economistului Gromoslav Mladenatz* (The Life and Works of the Economist Gromoslav Mladenatz) in *In memoriam Gromoslav Mladenatz. Teoria și mișcarea cooperatistă în secolul XX. Studii* (In the Memory of Gromoslav Mladenatz. The Theory and the Co-operative Movement in the XX Century. Studies)
- [2] V. Axenciuc, *Cooperația ca sistem economico-social în concepția lui Gromoslav Mladenatz* (Co-operation as a Socioeconomic System in the Conception of Gromoslav Mladenatz), in *op. cit.*, p. 37.
- [3] G. Mladenatz, *Istoria doctrinelor cooperative* (History of Co-operative Doctrines), Bucharest, 1931, p. 14-20.
- [4] G. Mladenatz, *Gândirea cooperativă în România* (The Co-operative Thought in Romania), vol. I, Independența economică, București, 1939, p. 12-13.
- [5] G. Mladenatz, *Reuniuni cooperatiste internaționale* (International Co-operative Gatherings), in "Independența economică", 1, 1930, p. 15.
- [6] I. Văcărel, *op. cit.*, p. 4. Also see L. Zahiu, A. Dachin, *Forme contemporane de organizare cooperatistă în agricultura mondială* (Contemporary Forms of Co-operatist Organizations in the World Agriculture), in I. Văcărel, *op. cit.*, p. 90.
- [7] Crina Petrescu, *Ecouri ale cooperației românești în țări occidentale în prima jumătate a secolului XX* (Echos of the Romanian Co-operation in the Western Countries in the First Half of the 20th Century), in I. Văcărel, *op. cit.*, p. 109-110.

# The Improvement of the Performance of the Public Administration in Romania

Panea Ionuț Valentin  
*Academy of Economic Studies, Bucharest*  
*ionut\_panea@yahoo.com*

## Abstract

The present article focuses on the role and the importance of the Human Resource Management as a whole in a public organization and also some pieces of advice for the improvement of its performance in the Romanian Public Administration.

**Key words:** human resources, management, public administration, civil servants

**JEL Classification:** H50

## 1. Introduction

Within organizations, people are the key and vital resource, today and tomorrow, ensuring the survival, growth and competitive success. All the organizations have established links between them and all of them constitute the modern society.

Human resources are considered to be the first strategic resources in an organization [1], are unique in terms of their potential for growth and development and their ability to meet and overcome their limits to meet new challenges and demands of present and, why not, for the future.

Because of their peculiarities, human resources are the only inexhaustible resource of creative solutions and new ideas, original and valuable ones, which can lead to the development of organizations and society as a whole, but may equally well destroy it and cause disaster or big problems. Therefore, means for forming organizations concern human resource quality, considering that people are most valuable asset.

## 2. The importance of human resources

Human resources are one of the most important investments of an organization. There is evidence that investing in people is the surest way to guarantee the survival of an organization or to ensure the development, competitiveness and its future.

Naisbitt and Aburdene states that: "The new information society, human capital has replaced financial capital as a strategic resource." [2] Management of human resources decisions are among the most difficult, because they link the individual factors, organizational and situational influences which are reflected in these decisions. They need to always be taken according to the person referred to in its personality.

Personnel decisions vary from one organization to another, from one subdivision to another, from one country to another, because such decisions must be tailored to their needs and their importance is not the same in all cases. Personnel decisions must evaluate dual-looking statements, which are morally or ethically and legally extremely complex. They must be very responsible in terms of social responsibility, developed and evaluated in terms of social impact.

Man by nature, mentality and culture forms a biological entity that, even for the genetic revolution, remains a great unknown variable. Human potential differs from an individual event in other genetically influenced, by biological, social, cultural, educational and other factors specific to each individual and each activity or each organization. Therefore, human resources is a great human potential, to be understood, motivated and trained in order to involve full employees to achieve organizational objectives.

Taking into account all aspects that define human personality: skills, knowledge, aspirations, character and temperament traits, resource management can harness the most demanding, valuable, rare, difficult to imitate, relatively irreplaceable, unique resource equipped with the ability to create to produce and use all other resources available to an organization [3].

### 3. The importance of the civil servants

The increased interest in human resources does not mean an undervaluation of the material, financial or informational resources. Systemic design approach involves the organization of human resources in close interdependence with other resources, from the fundamental objectives, whose achievement compete together. Human resources at the expense of other pressures affect the dynamic balance that makes the organization function and its development [4].

The establishment of the rule of law in Romania has imposed the need for employment relations of civil servants to be established by specific legislation, unlike the other categories of employee status. As stated in government programs, public administration reform in Romania is based, with priority on those legislative initiatives that can provide real government autonomy and a high degree of professionalism.

The Romanian Constitution stipulates in art. 72, par. (3), letter i) that the status of civil servants is regulated by organic law, which highlights the importance given by the fundamental law of this country's social categories that resume the proper functioning of the rule of law.

In the draft of the statute, there were considered European Community standards in this area, aiming at forming a career civil servant, politically neutral, able to fulfill the duties of the public authorities and institutions as part of a body of public officials consistent with similar structures in countries with extensive experience in the field of democracy.

In my doctoral thesis, I tried to analyze two important institutions, one in Bucharest, The General Directorate of Public Finances and one in the nearby Ilfov county, The Ilfov County Council. At the end I tried to formulate

some general advice regarding the improvement of the Human Resource Management processes involved in the functioning of the two institutions.

In the Directorate of Public Finance of Bucharest I appreciate that we cannot speak about the existence of human resource management policies, representing those carried out by specialized divisions to ensure the recruitment, selection, development and personnel necessary to achieve conservation objectives. Being a public administration, it is subject to hierarchical forums like the Ministry of Finance and Tax Administration Agency, in the scheme of organization and staffing. Thus there are certain restrictions on the number of personnel in public institutions in terms of reducing the overall number of civil servants.

### 4. Conclusions

After analyzing the way people work in the evaluation of the performance of human resources in the Directorate General of Public Finance of Bucharest, there are to be drawn the following conclusions:

- The performance evaluation system represents the base reward/punishment system for employees based on individual contribution to organizational goals;
- The results of the performance evaluation of individual professional human resources is to identify those with potential promotion, but also those with professional or integration issues;
- The results of the performance evaluation process will identify the individual needs of individual professional training and professional development of staff;
- The current system has a somewhat formal character, the lack of a specific evaluation system of public servants engaged in finance and taxation, and more detailed assessment of professional performance. Methodology for assessing the professional performance is a general applicable to all civil servants regardless of the operating field. Public Finance General Directorate of Bucharest has a specific task on which would be to set their own criteria and to determine their weight in the completion of each activity.
- Has an annual character and becomes a routine activity to be carried out at regular

intervals, without taking into account the objectives underlying this activity and its achievement;

- There are certain restrictions practiced by the evaluation system, which cannot allow the sharing of personnel tasks, functions or positions, which are somewhat rigid in application. For example, if for the evaluation of individual job performance was assessed a civil servant with a grade of "exceptional" under the law and could promote a higher level, it will not if the institution had no job vacancies;
- Lack of an evaluation grid established on the bases and rules of modern science to ensure greater relevance assessment;
- Use the same performance criteria for civil servants implementation without making a distinction of importance criterion in the functions of each position in the party. If for the assessment of a civil servant in charge of execution that will collect taxes from the

## 5. References

- [1] A. MANOLESCU – *Managementul resurselor umane* (Human Resource Management), Editura Economică, p. 19, 2007, ISBN: 9789737092908.  
[2] A. MANOLESCU – *Managementul resurselor umane* (Human Resource Management), Editura Economică, p. 17, 2007, ISBN: 9789737092908.

taxpayers, "creativity and initiative spirit" is not a relevant criterion, for working to support other taxpayers, it is essential.

- The evaluation system is quite complex, cumbersome and difficult to maintain because of the way of scoring and making calculations for the final verdict and abstention of the multitude of performance criteria and individual goals;
- The current HR performance evaluation only put emphasis on trial managers, the evaluator's perception that any person has a value system or is subject to their own limits.
- The absence of a scientific assessment process and specialists, to apply these methodologies on the basis of modern science. We believe that individual job performance evaluation results would be significantly different if it were made Teams of specialized assessors to sit next to psychologists, sociologists and other specialists in fields studying human behavior.

[3] O. NICOLESCU, I. VERBONCU – *Fundamentele managementului organizației* (The Fundamentals of the Management of the Organizations), Editura Universitară, p. 225, 2008, ISBN: 9789737494481.

[4] V. LEFTER – *Managementul resurselor umane. Teorie și practică. Ediția a II-a* (Human Resource Management. Theory and Praxis. 2<sup>nd</sup> Edition), Editura Economică, p. 128 2008, ISBN: 9789737094223

## Data Warehouse and Business Intelligence Components

Păunescu Loredana-Maria  
*Petroleum&Gas University, Ploiesti*  
*loredana.paunescu@yahoo.com*

### Abstract

Management information systems are now essential tools of the modern manager, the vast majority of routine decision making, decision-making process with the necessary information search and retrieval techniques of information was completely taken by these systems.

In addition, their improvement continues, accompanied by improved performance computing provides increased opportunities for acquisition of segments of the increasingly comprehensive reasoning activity will be produced by human decision-maker. The category of systems that provide support in decision making can be defined. The term business intelligence. It covers all informational tools that provide a more "intelligent" business process.

**Key words :** data warehousing, information system, decision process, expert systems.

**JEL Classification:** M10 ;

### 1. Introduction

Information systems to assist decision and business intelligence tools tend to become ubiquitous elements within companies. Dynamics of contemporary economic life and the information explosion makes use of different types of systems to assist decision-making process despite the limitations imposed by an inability necessity. In perfect reproduction of human reasoning by computer, management information systems are now essential tools of the modern manager, vast majority of routine decision making, decision-making process with information necessary techniques.

The search and retrieval of information being taken over entirely by these systems. In addition, their improvement continues, accompanied by improved performance

computers, offers greater possibilities of taking over segments of increasingly comprehensive reasoning of activities carried out by human decision-maker . The category of systems that provide support in decision making can be defined by the term business intelligence. It covers all informational tools that provide a more "intelligent" business process. Integrating traditional applications, operating with a range of programs or data analysis category expert systems provide a basis to assist effective decision making.

In terms of making decisions based on business intelligence solutions, have been identified these basic steps:

- Analysis - filtering data from many useful information according to business model and identify performance indicators. Analysis of information in different contexts to identify trends Business intelligence means the information available to all company departments so that every manager to carry out its own analysis and be able to monitor performance indicators on the segment that is interested;
- The discovery of causes - explain the causes of certain phenomena which do not correspond with the business model;
- Action - making decisions based on information analyzed. These decisions are based on protecting the future effects it will have an action (eg, increased sales to a particular product as a result of promotions). Again, the human component plays an important role: it estimates that the variants of action will result. Business Intelligence assist in decision making by being able to simulate the effects (what if analysis);
- Measuring outcomes - in this last stage we can see if the decisions were correct or if the results are not exactly those expected, indicating the direction in which we must act to improve them.

## 2. Designing Business Intelligence Solutions

When we want to implement a Business Intelligence solution must start from the needs of users will use. Should not be taken into account only the management team here, but any user will need, in one form or another, the information in this system to operate. Users can share a system of Business Intelligence:

- Users of information - they need only report or specific performance indicators. They use standard reports and have no capacity to review;
- Consumers of information - they need opportunities to analyze information in various contexts and seek functions for dynamic data queries;
- Analysis and experts - those who are multidimensional analysis is required to identify trends and to take major decisions. They need ad hoc analysis and access to any information in the system. In order to get a more correct the categories of system users and to meet their requirements, design solutions should consider the following two elements:

a) locating information on which the analysis is done

b) these data will be present, usually in various existing operational systems: applications Line of Business (LOB) systems, Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), human resources (HR) management network Distribution (supply chain). All these systems have some common characteristics, among which are the most important is that transactional systems. Another aspect, which usually prevents the use of data for analysis, is that the systems are isolated and little communication with other systems and data are not correlated. When you wants to achieve a solution to review must find a way to integrate data from these systems.

c) Users of the system and the types of information needed

Will be created for user profiles, later to be developed and planning system design based on these requirements. The systems' capacity for business intelligence focus on improving access and delivering useful information to

both consumers and information to those providing information. A computer system for business intelligence needs to offer scalability and be able to support and integrate software tools from several manufacturers. A data warehouse[1] is a data source of a BI system. There is also a large amount of information on the Intranet web servers on the Internet and in paper format. Computer systems for business intelligence are designed to allow access to all forms of information, not just those stored in a warehouse of a company data[2]. Inside a firm we collect large amounts of data on daily transactions: data about orders, inventories, invoices, Sales, Customer, etc..

Also, companies also external information (eg demographic information). Being able to consolidate and analyze this data can often lead to a competitive advantage (increase sales, reduce production costs, improving sales, finding new sources of income, etc.).. All this is possible if there is appropriate applications and tools needed to analyze the data and whether data is in a format suitable for analysis.

The main objectives of a BI system are:

- to allow low-cost solutions that offer advantages to the company;
- to allow quick and easy access to company information for a large number and variety of users;
- to provide support for modern technologies (complex analysis techniques, tools, OLAP, data mining tools, etc.)[3]
- to provide an open and scalable operating environment.

Note that the computer systems for business intelligence are actually modern decision support systems-level organization that uses new information technologies. The term computer system for business intelligence is actually a term "umbrella" used by experts to a wider class of decision support systems[4], integrating all the features of data warehouses, OLAP tools, data mining tools, web, etc. .

Depending on the complexity of decision making at the organization, the number of users, organizational requirements, the amount of information necessary for decision-making process and other factors, modern decision support systems will employ and integrate one or more of new technologies current information. If you use the data warehouse /

data center and query and reporting tools then we have a decision support system with data warehouses.[5]

If you integrate data warehouse with OLAP tools are obtained so-called ROLAP systems, and if it is used and facilities offered by the Web get oriented decision support systems Web. Many companies prefer to build a separate system for BI applications, either security reasons or for reasons of performance. Nowadays there is a variety of tools and methodologies available to develop BI solutions:

- applications such as IBM's DecisionEdge for customer relationship management, Oracle Sales Analyzer for analysis of marketing activity, Oracle Financial Analyzer for analysis of financial activity, etc. ;
- query tools such as Cognos Power Play, Business Objects, Business Objects, IBM's Query Management Facility etc. ;
- OLAP tools such as Essbase, Arbor Software, Express Analyzer, Express Objects, Oracle, etc. ;
- statistical analysis tools such as SAS System, SAS Institute, etc. ;
- data mining tools such as IBM's Intelligent Miner.

Many of these applications and tools have web facilities. OLAP tools are used frequently in decision support systems, they enable interactive analysis of multidimensional data. Their main merit is that they are close to analysts' mode of thinking and improve execution performance of applications.[6]

Consequently, multidimensional database technology won lately attention from manufacturing companies and researchers. Whatever type of architecture implemented OLAP tools shows the user data in a multidimensional data model and applications are made using multidimensional paradigm. Yet many of the existing OLAP products have certain limitations:

- does not provide a query language similar to SQL;
- treats asymmetrical dimensions and measures,
- there is no widely accepted conceptual model for multidimensional databases.[7]

Multidimensional modeling is a conceptual modeling technique used by OLAP applications. However, multidimensional data

modeling is not a problem specific to OLAP systems. Statistical databases, geographic and time databases are related to multidimensional data.

Data models proposed in the field of statistical databases, spatial, temporal models have many common points with OLAP data. For example, temporal database rows and columns of relational tables are viewed as two dimensions, and time appears as the third dimension, creating what is called the cube of time (time cube).[8]

All views, reports and analysis are made in terms of hypercubes (n-dimensional cube). A three-dimensional matrix can be visualized as a cube with each dimension forming a face of the cube. Typical dimensions of an enterprise data are time, measures, products, geographical regions, distribution channels etc. Underlying all activities of a firm stand processing. This includes collecting, storing, transmitting and manipulating data.[9] The importance of good information can be viewed as the difference in value between the correct and wrong decisions, where decisions are based on information. The greater the difference between good and bad decisions, the more important to have good information. Most companies invest more in information technology. Good information must be accurate, current, complete and easily understood. The first functional requirement OLAP systems appears from these general requirements for data processing: to provide accurate, current, complete and easy to understand. The activities and operational decision-oriented analysis is a core business activity, regardless of its size, area activity, legal form.. Buying, selling, manufacturing and transportation are examples of operational activities. Information on sales, production and costs may be recorded and managed in one or more databases, used for operational purposes. Operational activities are performed at a relatively steady. Data is read and updated frequently and is an actual photo of what happens in business. Each application uses a small amount of information and its nature is generally predictable. Monitoring, evaluation, comparison, strategic planning and resource allocation are examples of analytical work. The information generated by the activities of decision analysis is oriented as it is in a form



that makes it immediately usable in decision making. Orientation is essential for decision analysis.[10]

Many activities are focused on operational decision without relying on analysis. Less frequently, managers and analysts can ask: « What is the difference in profit between one trimester and other from the last year? ». The answer to such questions is information that is based on analysis and decision-oriented. The data is more read than updated to these activities. Applications using the derived data and analytical nature is not always predictable. Most companies use different tools two types of activities:

- to ensure maximum efficiency in both activities
- to achieve fast update transactional and account activities quickly in OLAP systems is an important category of decision support systems-oriented companies must have quickly date. Nowadays, the firms must use rapidly the applications, offering users quick and easy access to information to reflect changes in business environment. BI systems focus on quick delivery and access to user informa A data warehouse is not yet a complete solution for the needs of managers. A weakness of the solutions using data warehouses is that specialists focus less on technology and management solutions (Business Solutions). Although manufacturers offer powerful data warehouse for building and accessing a data warehouse, these tools require a significant amount of work for implementation. It also puts too much emphasis on the store building process and less on Many organizations believe that if you build a data warehouse and provides users with the correct tools, the problem is solved. In fact it is just the beginning.[11]

Although information from the warehouse is fully documented and easily accessible, the complexity will limit the use of store managers, the main beneficiaries. Business intelligence systems focus on improving access and delivering useful information to both consumers and information to those who provide information. A computer system for business intelligence needs to offer scalability and be able to support and integrate software tools from several manufacturers. A data warehouse is a data source of a BI system.[12]

There is also a large amount of information on the Intranet web servers on the Internet and in paper format. Computer systems for business intelligence are designed to allow access to all forms of information, not just those stored in a data warehouse. One company is collecting large amounts of data on daily transactions: data about orders, inventories, invoices, sales, clients, etc.. Also, companies need and external information (eg. demographic information). Being able to consolidate and analyze this data can often lead to a competitive advantage (increase sales, reduce production costs, improving sales, finding new sources of income, etc.)..

All this is possible if there is appropriate applications and tools needed to analyze the data and whether data is in a format suitable for analysis.

### 3. Conclusion

Integrating traditional applications, operating with a range of programs or data analysis category expert systems provide a basis to assist effective decision making.

### 4. References

- [1] Cristopher Adamson, *Mastering Data Warehouse Aggregates. Solutions for Star Schema Performance*, Wiley Publishing, Inc., Indianapolis, 2006 ;
- [2] Ralph Kimball, Margy Ross, *The Data Warehouse Toolkit. The Complete Guide to Dimensional Modeling*, Second Edition, Wiley Publishing Inc., Indianapolis, 2002 ;
- [3] Inmon, W.,H., *Building the Data Warehouse*, Fourth Edition, Wiley Publishing Inc., Indianapolis, 2005.
- [4] C. Di Mauro, J.P. Nordvik, and A.C. Lucia, *Multi-criteria decision support system and Data Warehouse for designing and monitoring sustainable industrial strategies - an Italian case study*, ISESS - International Symposium on Environmental Software Systems, [www.iemss.org/iemss2002/proceedings/pdf/volum\\_e%20uno/434\\_dimauro.pdf](http://www.iemss.org/iemss2002/proceedings/pdf/volum_e%20uno/434_dimauro.pdf)
- [5] T. W. Liao, J.-H. Chen, E. Triantaphyllou, *Data Mining applications in Industrial Engineering: A Perspective*,
- [6] \*\*\*, [www.biblioteca.ase.ro/downres.php?tc=8621](http://www.biblioteca.ase.ro/downres.php?tc=8621)
- [7] \*\*\*, Proceedings of the 25th International Conference on Computers and Industrial

Engineering – New Orleans, Los Angeles, March, 1999

[8] Sebastian C. Brandt, Marcus Schluter, Matthias Jarke, *A Process Data Warehouse for Tracing and Reuse of Engineering Design Processes*, The Second International Conference on Innovations in Information Technology (IIT '05)

[9] Radu Platon, Mouloud Amazonz, *Application of data mining techniques for industrial process optimization*, Conmet Energy Canada, <http://conmetenergy-conmetenergie.nrcon-mcon.go.ro.ca/industrial-processes/industrial->

[systems-optimization/pulp\\_paper/publications/2007141.html](#)

[10] Clive Duebel, *Application of Data Mining Techniques to Industrial Processes to Improve Business Performance*,

[www.knowledgeprocesssoftware.com](http://www.knowledgeprocesssoftware.com)

[11] \*\*\*, DataMinig, [www.dmreview.com  
thor.info.uaic.ro/~licenta/rezumat/rezumat\\_strobel  
ilinca.pdf](http://www.dmreview.com/thor.info.uaic.ro/~licenta/rezumat/rezumat_strobel_ilinca.pdf)

[12] \*\*\*, *Data Mining: What Is Data Mining?*, [www.anderson.ucla.edu/faculty/jason.frand/teacher/  
technologies/palace/datamining.htm](http://www.anderson.ucla.edu/faculty/jason.frand/teacher/technologies/palace/datamining.htm)

## Some References Regarding the Public Function Development Stage in Romania

Ph.D Student Perifan Mihai  
Ph.D Student Caraman Tania  
Ph.D Student Teliceanu Claudiu

### Abstract

A modern public service requires changing organizational culture, the transition from personnel management to human resources management being accomplished through a strategic modernization of the first. Moreover, the issue of leadership in public administration has raised many and profound debates in the specialty literature, very often public institutions being perceived as unable (as opposed to private organizations) to implement and promote a competitive leadership style. Human Resource Management in Romanian Public Administration is much less visible in public institutions, while at the National Agency of Civil Servants (NACS) there is only a HUMAN RESOURCES MANUAL with indicative value for these institutions.

**Key words:** public service, human resources management, single salary, assessment procedures review, continuous training of personnel, administrative decentralization.

**JEL Classification:** H61, H68

### 1. Introduction

Both in Romania and other Eastern European countries the administrative reform has been often understood only at the level of new laws and regulations adoption, the only administrative changing tool being located in the law. There have been taken and put into practice ideas, policies, procedures and laws without taking into account well grounded prior studies and without being adapted to the Romanian reality.

Different administrative systems, different cultures, different legal systems and practices have created or create different conditions compared with other countries in the world, especially as the public management functions (forecasting, organization- coordination, management, motivation, evaluation and control) have been ineffectively implemented year after year, while some were missing altogether. Thus, there have emerged such new structures, which were incapable though to implement change and achieve optimum level of effectiveness and efficiency.

With regard to Human Resource Management in Romanian Public Administration, we can mention that it is *scarcely visible* in public institutions, and there is a HUMAN RESOURCES MANUAL with an indicative value for these institutions at the National Agency of Civil Servants (NACS) [1]. This manual we refer to provides information on the principles and practices governing human resources management in Romanian public administration, being mainly based on legal rules (rules which often create difficulties in their application).

Considering the presented points, as well as the characteristics of personnel management against the human resources management, we may rather define within public institutions staff management characterized by [2]:

- short- or medium-term developed strategies as comparing with long-term ones that are specific to human resources management;
- acceptance of subordination and not of psychological reasoning based on occupational dedication;
- identification of bureaucracy and not of some organic links at an organizational level;

- a criterion of unconditional subordination integration and not of integrative participation;

- a vision in which staff is included in labour costs, etc. without being regarded as an investment.

A modern public service requires changing *organizational culture*, the transition from personnel management to human resources management being accomplished through a strategic modernization of the first. Moreover, the issue of *leadership in public administration* has raised many and profound debates in the specialty literature, very often public institutions being perceived as unable (as opposed to private organizations) to implement and promote a competitive leadership style [3]. Leadership and organizational development must be the focus of Public Administration in Romania. As an example among the instruments that could show efficacy in this regard, *Blake Mouton Managerial Grid* is found, representing a two-dimensional model of leadership styles in the way that it uses both personnel concern as well as tasks concern in order to identify the leadership style practiced by a person occupying a leading position. [4]

## 2. Range of issues on public function

Taking into consideration the development level of public function in Romania and the impact of Romanian economic current affairs in this area, we identify the main existing problems, as follows:

- **Numerical reduction of human and financial resources in the budget sector**, as a main result of the economic crisis, is one of the problems faced by the Local Public Administration in Romania at this moment [5]. The efficient use of public funds based on the application of vigorous public financial management and the employments made as a result of real analysis of needed staff related to the organizational and divisional strategic objectives [6] wouldn't lead to the necessity of applying this measure.

- **Poor implementation or inappropriate applicability of motivation, including the wage system** [7], by referring to human resources performance. Lack of transparency of the wage system or motivation in general, correlated with the absence of some effective human resources policies, lead to *personnel demotivation increase* and thus to the stagnation and/or *decrease of their professional performances*.

As an example: Although an assessment of how public officials perform their duties and of the training level is necessary especially when it is sought to form a professional body of civil servants, the real problem lies on how well this assessment reflect reality.

Even if there are set clear criteria for each category of civil servants, the evaluator's subjectivism is more difficult to be removed, at least for now. *Civil servants must be motivated, according to established criteria and not based on subjectivism of the evaluator or of the halo effect. Proper evaluation of human resource brings performance within organization and indirect recognition of human capital* [8].

We estimate that, under these conditions, it is/will be imperative to analyze and review the applicability of civil servants' performances evaluation system and of local administration contracted personnel. Therefore, it is aimed that *human resource motivation should be based strictly on real professional results* and competences that lead to achieving project or organizational objectives as a whole, while meeting defined performance criteria.

*Systems of public sector performances measurement is still in a transition phase, transition which is identified (in a higher stage) even in countries where these systems have been used at all administrative levels. However, procedures and performances measurement tools suffer continuous changes, being neither exhaustive nor truly systematic...* [9]

- **Poor development of human resources departments** within public authorities and institutions or their **lack** in some public

organizations (such as City Halls in rural areas). *Responsibilities of such a department are usually laid upon one of the civil servants, who is not always professionally trained to the exercise such powers.*

A first effect of this problem is the *non-unitary application and/or breach of current legislation relating to the public function*; a second effect is the *faulty application or administration of human resources*; and not least, the lack or, *in the case when these are formulated, the faulty application of human resource management strategies*. In order to solve this problem, we consider useful the analysis of each entity that identifies these deficiencies and the development of an action plan related to the complexity of each situation.

• **Weak system of continuous training.**

In this case, we have identified public administration personnel training without always taking into account the deficit or training related to the objectives or responsibilities of the occupied position, as well as the existence of a reduced number that should bring additional theoretical and practical knowledge in specialty fields required by public institutions. Until these weak points we plan to study in this project will be resolved, we believe that development of a work environment that facilitates learning with continuous assessment of results is really useful. [10]

• **Damaged image of civil servants** (and contractual staff) research is another strong research point in the project. *Image of civil servants and public administration is determined by the citizens' perception about the evolution of the - corruption - factor, as well as their connectivity to it.* Therefore, reduction of quality, efficiency and timeliness of service delivery to citizens reflect in their opinion a *less favourable image that is associated with public institutions employees.* [11]

• **Lack of direct, strengthened collaboration of the National Agency of Civil Servants (NACS) with local public authorities and institutions** leads to limitation of the NACS' role in the public

function's management process. We may also mention the lack of institutional capacity of NACS related to the nature and volume of task it must perform.

On the other hand, NACS does not take into consideration contractual personnel or personnel having special status in public institutions. We consider necessary the existence of an authority to administrate both civil servants and other personnel we have referred to.

• **Necessity to:**

a. obtain structural and process-related improvements of public policy cycle management in central and local public administration,

as well as

b. improve quality public services delivery, with emphasis on the decentralization process.

By carrying out *Operational Programme for Administrative Capacity Development*, public institutions and authorities, as well as stakeholders interested in this area can access various local funds in order to diminish/eliminate the presented weak points.

Administrative Capacity Development/modernization of the Romanian public administration is an approach which aims at creating a more efficient and effective public administration with a body of competent civil servants for the socio-economic benefit of Romanian society. This stands for another point to solve current problems of the public administration amid European concerns of administrative cooperation under the Treaty of Lisbon. [12]

We believe that through research that we propose we will help achieve these national and local objectives.

The issues presented here are recognized by the National Agency of Civil Servants, to a greater or lesser extent, as being problems confronting Public Administration at the moment.

On the other hand, since the implementation of Decision No. 699 of 2004 for the approval of the updated Strategy of the Romanian Government on speeding up the reform in public

administration from 2004 to 2006, we are not aware of another strategy that had the same status and same legal value. Exceptions and given only by:

- **National Reform Plan 2007-2010** [13], a document that shows a *low concern for human resources actions in public administration*, as according to content of chapter on Public Administration;

- **Strategy for better regulation at the central public administration level 2008-2013** [14], which the executive would adopt a bit later; obviously, it includes neither local public administration, nor concerns about the human component that should provide performance based on decentralization in public administration.

Therefore, local authorities may allow limited *formulation of strategies at local institutional level in the absence of a framework strategy for Romania*.

Moreover, at the local administration level we can identify poor financial decentralization, in many cases existing only transfer of organizational tasks and some public services administration from the central level to the territorial one, without a sufficient financial support.

- **Government Programme 2009-2012** [15] in Chapter 19 - Public Administration Reform includes *Human Resources Management* section, which *aims at implementing the single salary law, review of assessment procedures and continuous personnel training*, but it also covers the issue on *Improving the efficiency and transparency in the activity of public administration institutions, Administrative decentralization and local administration efficiency increase (section that brings as novelty the elaboration of a project on Romania's administrative-territorial reorganization) and Financial decentralization*.

Moreover, *according to the latest studies of public polling institute, the civil servant in Romania is perceived as an almost negative manner*.

Thus, the following *negative aspects have been identified*:

- The fairly high score obtained by *human relationships and attention paid to*

*the chief* denotes the application of professional promotion practice based on *knowledge* (preferred, nepotism), although the related persons are not sufficiently competent;

- The perception of the degree of corruption at the direct chief level - only 55.4% say their boss is correct;

- Discontent manifested towards their income - 48% of respondents say they are pretty unhappy or deeply unhappy, and for 67% it meets minimum requirements;

- In terms of initiatives prevention, only 51.8% believe that their ideas are promoted to the management sector in the organization they are working for;

- Management instability of public functions which are under the influence of changes in the political sphere - 48% of respondents indicate device management change as a consequence of interchanging political parties in power;

- *Public* behaviour (physical and verbal violence; rules of conduct in public spaces are not followed);

- Less annoying is the lack of information (on certain issues, the overall level of training or lack of civic culture).

### 3. Conclusions

To conclude with, after years of accelerated reforms in public administration, civil servants' perceptions and values reflect as well some positive effects in the process of modernization, but these are at a considerable distance from public demands, as contrasted with good practice standards of developed countries and theoretical and practical study of international literature in the field.

### 4. References

- [1][http://www.anfp.gov.ro/oip/doc/publicare/giduri%20si%20brosuri/59706ABCDEFMRU\\_final\\_fara\\_anexe.pdf](http://www.anfp.gov.ro/oip/doc/publicare/giduri%20si%20brosuri/59706ABCDEFMRU_final_fara_anexe.pdf)
- [2] STANCIU, Stefan - *Managementul resurselor umane*, SNSPA Publisher, Bucharest.
- [3] HINTEA Calin - *Management public*, Accent Publisher, 2007.
- [4] MORA, Cristina - *Leadership si dezvoltare organizatională in Administratia*

*Publica Locala din Romania*, in Revista Transilvana de Stiinte Administrative, 1 (21)/2008.

[5] MORARIU, Alunica; ROMAN, C.; BOSTAN, Ionel; BURCIU, Aurel - *Recessional consequences manifested on the labour market*, INTERNATIONAL JOURNAL OF METALLURGY/ Vol. XIV - No. 10 (2009), SPECIAL ISSUE, ISSN 1582 2214 - MULTIDISCIPLINARY RESEARCHES IN NEW FIELDS/ English Version, published by Romanian Metallurgical Foundation (FMR).

[6] SIUGZDINIENĚ, Jurgita - *Human Resource Development System in the Context of Public Management Reform*, NISPAcee Annual Conference, 2009.

[7] PROFIROIU, Marius; ANDREI, Tudorel; PROFIROIU, Alina - *Reforma sistemului de salarizare din administratia publica din Romania - analiza si comentarii*, in Revista de Administratie si Management Public, 13/2009.

[8] ALBERTI, Adriana; BERTUCCI, Guido - *The changing role of the State in a globalizing world and the need for a more open, participatory, and effective government*, in Administration in a Globalized World, United Nations, 2005, New York, NY 10017, USA.

[9] ANDRONICEANU, Armenia; BURCEA, Gabriel Stefan - *Studiu comparativ privind sistemele de masurare a*

*performantelor in sectorul public din Danemarca, Finlanda si Marea Britanie*, in Revista de Administratie si Management Public, 4/2005.

[10] MORARIU, Alunica - *Tendinte europene in managementul functiei publice*, Art Press Publisher, Timisoara, 2008.

[11] AGUILAR, F. Luis; GALÍNDEZ Cristina; VELASCO, Ernesto - *Public Policy and Human Resource Development in Administration in a Globalized World*, United Nations, 2005, New York, NY 10017, USA.

[12] \*\*\* Treaty of Lisbon on treaty modification regarding the European Union and the European Community Training Treaty, signed at Lisbon, December 13, 2007 - came into force on December 1, 2009

[13] \*\*\* National Reform Plan 2007-2010, [http://www.gov.ro/aplicarea-planului-national-de-reforme-monitorizata-trimestrial\\_11a102938.html](http://www.gov.ro/aplicarea-planului-national-de-reforme-monitorizata-trimestrial_11a102938.html).

[14] \*\*\* Strategy for better regulation at the central public administration level 2008 to 2013.

[15] \*\*\* Government Program 2009-2012.

[16] MARINESCU MAZURENCU, Miruna; NICULESCU-ARON, Ileana Gabriela; MIHAESCU, Constanta - *Romanian Public Servant Professional Life: a Quantative Approach*, in Journal of Applied Quantitative Methods, Statistical Research by Surveys: Case Studies, Constraints and Particularities, 2/2/2007.

## Advantages and Disadvantages of Globalization

Podașcă Raluca  
“Petro&Gas” University, Ploiesti  
raluca.podasca@yahoo.com

### Abstract

Globalization has become one of the most debated issues of our times. Considering that many of the approaches to this phenomenon do not have an answer yet, we are still dealing with multiple interpretations, some even contradictory. The globalization of the world economy entails common standards and values; it can generate both global balance and imbalance having both winners and losers. Failure to adapt to the globalization process brings along a series of disadvantages that lead to poverty and economic crisis. Every country must confront and adapt to this inevitable and irreversible process that is globalization.

**Key words:** globalization, poverty, economic crisis, competitiveness, labor productivity index of economic globalization.

**JEL Classification:** F02, F15, F41.

### 1. Introduction

The phenomena from the past decade that mark the evolution of the world economy are a sign of globalization, of interdependencies, and of interaction. Any event from whatever corner of the world affects more or less the entire world economy. The globalization phenomenon is relatively recent. It appeared after World War II and it developed stunningly in the past few years.

The scope of globalization is to create a network of the world's economic life. The network, as a development and communication level, gains multiple dimensions, guaranteeing the complex relationships between the micro, macro and world economic levels. Therefore, Philip Kotler considers that “the companies that will succeed in business will be the ones that will

manage to create the most efficient global networks.”

The revolution in communications contributed decisively to the globalization of production and competition, changing unfalteringly the way businesses were initiated and developed. Therefore, the transnational companies decentralized their production processes, creating the goods in countries where the costs are minimal. The globalization of production created jobs and offered higher salaries to workers from less developed countries, increasing the competition between the workforce demanders[1].

The national identity of a nation will disappear as an effect of globalization. The role of the state tends to decrease in favor of the transnational companies.

Globalization is an unprecedented world scale revolution, a new era. Defining globalization is extremely controversial. Globalization may be considered to be the process of expanding transactions between people across country borders, of accentuating the interdependencies between states, as a result of an unprecedented development of the cash flows of goods and services, information, capital. It implies the internationalization of commercial exchanges, of production, and in the past decades of capital markets.

### 2. Measuring globalization

The degree to which a country is connected to the world represents a new issue that has recently caught the attention of specialists. They intend to compute an index which reflects as accurately as possible the degree of globalization of an economy. “Foreign Policy Magazine” computed a globalization index which is a compound, multidimensional index that includes four dimensions:

- the integrating dimension which determines the degree of interdependency



of the respective economy to the other countries: commercial flows, external payments, foreign investment flows;

- the political dimension which represents the degree of international political commitment of the state: number of foreign embassies of each country, number of attendances in international organizations, participation in UN peace maintenance missions;
- the technological dimension which reflects the degree of IT connectivity of a country ( the weight of Internet providers from the total population, the weight of Internet users from the total population, the number of Internet servers with high performance standards);
- the personal dimension that concerns international tourism, international telephone traffic[2].

Table 1. Country Classification according to the compound index of economic globalization, 2009

Rank	Country	Global ization Index 2009	Global ization Index 1995
1	Singapore	7.29	6.04
2	Hong Kong (SAR)	6.90	5.50
3	Ireland	6.87	5.08
4	Belgium	5.82	4.51
5	Sweden	5.77	4.00
6	Denmark	5.77	4.36
7	Switzerland	5.62	3.93
8	Netherlands	5.45	4.62
9	Israel	5.16	4.67
10	Finland	5.14	3.76

Source: Ernst & Young, "Redrawing the map: globalization and the changing world of business", January 2010

The compound index of economic globalization offers the opportunity to actually compare the states of the world.

In the Ernst & Young classification Romania holds the 30<sup>th</sup> position out of 60 countries included, with a globalization index of 4.00 in 2009 as opposed to 2.65 in 1995. It is noticed

that the small countries dominate the globalization index classification which is measured through their integration in the world economy, as they are focusing more on international markets for growth and economic prosperity. Unsurprisingly, the classification is led by Singapore which is extremely dependent of international trade: the aggregated imports and exports represent over 300% of the country's GDP. Only a small correlation was noticed between a country's size (economic power) and its degree of globalization, statistically speaking. However, economic intuition suggests that small countries have a stronger tendency towards globalization. The globalization index marks two major trends:

1. The economic crisis slowed down the globalization process but it is estimated that as the economy recovers, the globalization index will rise again although at a slower pace than in the beginning of the year 2000.

2. Technology will remain the main engine of globalization. Without the technological innovations like mobile telephony and the Internet, globalization as we know it would not have been possible.

Culture remains the most visible form of the modern world's globalization and measuring the flows of trends and ideas is much more difficult than of measuring cultural, financial, or population flows. The cultural globalization index takes into account statistical data regarding the import and export of books, periodicals and newspapers, data gathered by UNESCO. All these indicators are computed based on the number of people, starting from the assumption that the higher this is, the higher the probability that a person has access to foreign cultural products. Another indicator that should be introduced is the movie flow but data is available only for a small number of countries [3].

Table 2. Internet Users Percentage in September 2009

Area	Internet Users Percentage out of the total area population	Internet Users Percentage by area out of the total number of users
Africa	6.8%	3.9%
Asia	19.4%	42.6%
Europe	52.0%	24.1%
Middle East	28.3%	3.3%
North America	74.2%	14.6%
Latin America/ Caribbean	30.5%	10.3%
Oceania/ Australia	60.4%	1.2%
Total	25.6%	100.0%

Source: [www.internetworldstats.com](http://www.internetworldstats.com)

As presented in the above table, Asia, Europe and North America hold 81.3% out of the total of Internet users. This means that at this moment these areas are the most favored to a rise in the Internet economy. Furthermore, there are clear discrepancies between the developed and the less developed countries in terms of technologic and informational levels necessary for the existence and functionality of the new economy. These differences will slow down the creation of the new global economy.

### 3. The advantages of globalization

The goal of globalization is profit and maintaining the companies' activity. Considering that R&D expenses increase rapidly and the life span of products has drastically diminished, a denser network of partners was in order. The internationalization of production, the introduction of technical progress, the reduction of transport costs, they all contribute to the decrease of production costs which allows a cut in the prices of goods and services and the access of the population to cheaper goods. Globalization also brings an

increase in competitiveness which has a positive effect on production by increasing the diversity of goods and services. Also, the companies' productivity as well as their efficiency increase which lead to a better customer demand satisfaction. Local companies deal with international economic agents and in order to survive, they need to adapt quickly to the market's demand, to increase the quality of its products and to decrease the prices.

International regulations concerning the free movement of goods and services facilitate the access to more and more markets. During the past few years, the custom duties for most of the industrial products decreased continuously and a lot of developing countries changed their orientation from countries exporting mainly primary products to countries exporting processed products. The globalization phenomena is an advantage mainly for the countries with developed economies that have a greater economic competitiveness: high labor productivity, very advanced technologies, skilled workforce, reduced production costs.

Globalization offers unlimited possibilities for a real global development but it progresses unevenly across regions. Certain countries adhere to the global economy much faster than others and they enjoy consistent economic growth and poverty reduction. For many East Asian countries, the politics toward global integration led to economic growth and prosperity.

During the past few decades, the political, economic, technological, social, cultural and psychological trends have managed to radically change the world. The speed at which the global economy has been transforming at the brink of the two millennia was unimaginable half a century ago. The third millennium brought along a richer world, a world in which life expectancy and the standard of living increased, a world characterized through more freedom and the possibility to choose between more options.

### 4. The disadvantages of globalization

Apart from the advantages related to the phenomenon of globalization presented mainly from the point of view of the transnational corporations, there are a series of

opinions that consider that this irreversible process generates a series of dangers that should not be overlooked.

Globalization tends to suppress the cultural traditions of the nations. The cultural specificity is diminished and the mass culture appears. It tends to overpower the other cultures ending up in replacing them. Mass culture becomes a universal culture with a strong consumerist character. Some voices that criticize capitalism consider that certain dominant cultures, like the American one, tend to overwhelm the other cultures, globalization becoming a process of domination of the weak by the strong corporations of the world. As such, the gap between the rich and the poor increases and the countries with a less performing economy start being overlooked. For these countries, the consequences of globalization are reduced exports and close to zero attractiveness for foreign investors [4].

Some authors consider that the price paid for globalization surpasses the advantages that it brings: the corruption took over the political life, the environment was destroyed and the speed of change did not offer enough time for the countries to adapt culturally. Globalization generated economic crisis that led to the increase of mass unemployment.

The leaders of Third World countries believe that their destinies are determined by the forces of globalization and they hope that “this tsunami will transform into a positive force of reconstruction and development and not into a menacing force of destruction and destabilization”. Africa is the most disfavored area of the world due to the lack of economic cooperation from globalization.

The developing countries are disregarded because they cannot keep up with the rapid process of globalization and fall into the abyss of poverty and disintegration.

Favored by globalization, the underground economy increased. Great fortunes are created many times as an effect of drugs and weapons traffic, prostitution, smuggling, money laundering, all under the mask of corruption. The world market was liberalized before the creation of the necessary global institutions for control and supervision of corruption and the opportunity to exploit the system was never greater.

## 5. Conclusions

The main losers of the globalization process are those countries that cannot join this growing phenomenon. They are left behind because of a lack of trustworthy political, juridical, economic, and social institutions. They have rejected the international economic ties like in the case of the African countries. The winners are the nations that drew commerce, capital and high technology (Japan, Korea, and Ireland). Therefore the losers are not really victims of globalization but more of the lack there of.

## 6. References

[1] Popescu, M.D. , Globalization and development trivalent, Expert Publishing House, Bucharest, 1999.

[2,4] Zaharia, R. M. , Global economy, ASE Publishing House, 2004

[3] Bari, I. , Economic globalization, Economics Publishing House, Bucharest, 2005

## Environmental ethics

Popa Cristina

*Ministry of Environment, Forest and Sustainable Development*

*cris20072002@yahoo.com*

PhD Candidate Maricescu Liliana Denisa

*“Valahia” University of Targoviste*

### Abstract

Respecting environmental constraints has a long history in humans' behavior and contributed in the development of the value systems that guide our behavior. In the last decades, these constraints are somehow differently shaped and understood since humans' technological capacity increased well beyond the limits of natural systems. These developments and the natural dynamic create premises for undesired processes to be unleashed. Are these changes mirrored in our value systems and how could they be integrated in these systems in order to shape a sustainable human behavior are the questions addressed by our paper. It is found that it is necessary to introduce new values in order to reflect some important environmental changes.

**Key words:** ethics, sustainable development, behavior, environmental change

**JEL Classification:** Q50

### 1. Introduction

Ethics means several different things, including systems of value in the customs and practices of human beings; those aspects that constitute moral behaviour; and the philosophical study of moral principles. Environmental ethics takes into account the fact that an individual has the moral obligations that go to the moral obligations of all ecosystems. The paper brings in discussion the ethical problematic of environment, starts from the manifestation of environmental actions and goes further to normative principles of environmental ethics.

Environmental ethics is a new sub-discipline of philosophy that deals with the ethical problems surrounding environmental protection, has emerged as a new discipline that joins the world of natural ethical values (Van de Veer and Pierce, 1994, Armstrong and Botzler, 1998). Even now is recognized the universality of human rights, the reports of society with environment are contradictory, we discuss three manifestations of environmental actions: deep ecology, intermediate ecology and shallow ecology.

### 2. Deep Ecology

Philosophical belief system that holds that all forms of life—plant, animal, human—have an intrinsic right to exist in the natural environment and that humans have a direct responsibility to maintain the environment for all life forms. Is ecology that placing humans within ecosystems, different but not better or more valuable than other species or other "beings". With deep ecology, all beings have inherent value, apart from their usefulness or interest to humans, and people do not have a right to kill other creatures wantonly, destroy their habitats or cause pollution of the air, land or water on the basis that human need and human want is more important and powerful than any other creature's right to exist.

Deep ecology has led to a new system of environmental ethics. The core principle of deep ecology as originally developed is Arne Deike Eide Næss doctrine of biospheric egalitarianism — the claim that, like humanity, the living environment as a whole has the same right to live and flourish.

### 3. Shallow Ecology

Philosophical belief system that holds that humans have a responsibility to protect the environment so it can support human life both in the present and in the future. With shallow ecology, people start from an assumption, often unexamined, that human beings are the central species in the Earth's ecosystem, and that other beings and parts of systems are of less importance or value.

In its extreme manifestations, shallow ecology views other beings and features of the Earth as resources for human use, and fails to see their intrinsic value or their value to each other.

#### Box 1. Case study

*Suppose a mining company which has performed open pit mining in some previously unspoiled area.*

*Does the company have a moral obligation to restore the landform and surface ecology?*

*And what is the value of a humanly restored environment compared with the originally natural environment?*

*It is often said to be morally wrong for human beings to pollute and destroy parts of the natural environment and to consume a huge proportion of the planet's natural resources.*

*If that is wrong, is it simply because a sustainable environment is essential to human well-being?*

*Or is such behaviour also wrong because the natural environment and/or its various contents have certain values in their own right so that these values ought to be respected and protected in any case? .*

### 4. Intermediate Ecology

In which humans have greater value but efforts are made to extend value to nature, usually other animals. Natural items have some intrinsic value, but wherever they conflict with human interests the latter must take precedence. Wilderness preservation, for example, is defensible in these terms as the preservation of something which does indeed have some intrinsic value which also meets some human needs; where oil, minerals and

other apparently vital needs are concerned, however, the former must give way.

Today, face with problems such greenhouse effect, the destruction of the ozone layer, and the presence of toxic and nuclear waste, the growing disappearance of wilderness areas, a steady loss of biodiversity among living things, and even the actual extinction of some species, more and more it is recognized that we have environmental obligations. Moreover, the massive destruction of the environment caused by military actions across the world, the military industry is among the most heavily polluting industries. The arms race not only wastes Earth's limited resources, but also leads to a lack of trust among nations. Some countries have annual military budgets of more than 40 billion US dollars, while to save the tropics, where 70 per cent of non-human species live, would require only 30 billion US dollars.

Once we recognize the environmental obligation all areas of ethics are affected, including just war theory, domestic distributive justice, global distributive justice, human rights theory and many others. Take global distributive justice as an example: if one considers how climate change will affect people throughout the world so differently – affecting individuals' homes, sanitation, resistance from disease, ability to earn a living and so on - it is clear that consideration of the environment is essential to such questions of justice. Part of the job of the environmental ethicist will thus be to give such disciplines the benefit of his or her expertise.

Finally, environmental ethics will be informed by our scientific understanding of the environment. Whether it be changes in our understanding of how ecosystems work, or changes in the evidence concerning the environmental crisis, it is clear that such change will inform and influence those writing on environmental obligations.

### 5. Principles Of Environmental Ethics

The environmental ethics concern is to outline our moral obligations in the face of such concerns. Environmental ethics extends the scope of ethical concerns beyond one's community and nation to include not only all people everywhere, but also animals and the whole of nature – the biosphere – both now

and beyond the imminent future to include future generations. There are many overlapping concerns and areas of consensus among environmental ethics, environmental politics, environmental economics, environmental sciences and environmental literature.

An environmental ethic is typically a global ethic with a global perspective, environmental pollution does not respect national boundaries. No country can deal with this issue alone. To cope with the global environmental crisis, human beings must reach some value consensus and cooperate with each other at the personal, national, regional, multinational and global levels.

Three normative principles of environmental ethics

*(1) Principles of environmental justice*

Environmental justice is the minimum ethical stance of environmental ethics. There are two dimensions to environmental justice. Distributive environmental justice concerns the equal distribution of environmental benefits and burdens, whereas participatory environmental justice focuses on opportunities to participate in decision-making. While domestic environmental justice is easily understood and accepted, the institutionalizing of global environmental justice remains a challenge to global society.

*(2) Principle of intergenerational equality*

The principle of intergenerational equality is an extension of that of equality. Equal rights constitute the core of the principle of equality. The rights to life, liberty and happiness are basic human rights shared by everyone, future generations as well as the present generation. Every generation should leave the following generation an equal opportunity to live a happy life.

*(3) Principle of respect for nature*

Though they may come from different perspectives, most environmental ethicists agree that we have a duty to conserve and protect the integrity of the ecosystem and its biodiversity. No one doubts that the prosperity of human beings depends on the prosperity of nature. Human beings are part of nature, and the human economy is a sub-system of nature's economy.

Environmental justice is the priority issue of environmental ethics. Unjust social frameworks maintain and reinforce

environmental injustice, with the result that the privileged permanently enjoy the benefits of the environment while the disadvantaged bear disproportionately the burdens of the environment. A right to the environment is one of the basic human rights, and everyone and every state has a duty to protect it. International environmental injustice is especially worrisome today. The developed countries should change their policies of transferring heavily polluted industries to developing countries, stop exporting hazardous waste to developing countries and adjust the high-consumption lifestyle of their population, these require better environmental policies.

Most policies have environmental and normative implications. Therefore, environmental ethics plays a great role in decision-making. Decision-makers are often ignorant of, unclear about or unable to deal with the ethical elements of their decisions. Policies involving prevention and control of pollution, or preservation and restoration of natural areas, are evaluated in terms of economics, politics and ethics. The environmental ethical dimensions of any given policy should be systematically explored, political powers should be urged to pass environmental protection laws, and people should be encouraged to engage in environmental protection campaigns.

Environmental ethics needs to be and will be informed by changes in the political efforts to ameliorate environmental problems. While this enterprise can be, and often is, quite abstract, it is also meant to engage with the real world. After all, ethicists are making claims about how they think the world ought to be. Given this, the effectiveness of states and governments in "getting there" will affect the types of ethics that emerge. For example, the Kyoto Protocol might be regarded as the first real global attempt to deal with the problem of climate change. However, without the participation of so many large polluters, with the agreed reductions in greenhouse gas emissions so small, and with many countries looking like they may well miss their targets, many commentators already regard it as a failure. Ethicists need to respond not just by castigating those they blame for the failure. Rather they must propose alternative and

better means of resolving the problems we face.

## 6. Conclusions

Given the increasing concern for the environment and the impact that our actions have upon it, it is clear that the field of environmental ethics is here to stay. If contemporary society adhere to the principles of environmental ethics, environmental protection and maintenance of biological diversity will become fundamental priorities, known as the ethics encourages social responsibility and the use of natural resources ensuring a sustainable development.

In the context of sustainable development, the business community acknowledges and accepts the need to gradually implement a social and environment police. Environmental protection is no longer regarded as an area reserved exclusively for government and community, but rather a shared responsibility of several interest groups: companies, financial institutions, managers, creditors, contractors, customers. The financial consequences, environmental responsibility and the risk to damage the reputation of a company is important for the adoption of standards of ethics and responsibility of environmental protection in each company.

Additional, civil society required to be consulted by the industry actors, and organizations are asked more and more to make public its standards of ethical conduct. Currently, external partners are more interested in the manner in which managers run their businesses. Some industries in particular are very sensitive to public opinion, in a world where communication is instantaneous and global. Following ethics in protecting the environment, companies react by social responsibility activities, environmental ethics is visible through the actions of corporate social responsibility, it calls on us to think and act locally as well as globally.

## 7. References

- [1] M. Bleahu, "Privește înapoi cu mânie... Privește înainte cu teamă", Economică Publishing, Bucharest, 2001.
- [2] P. Curry, "The Campaign for Political Ecology on Ecological Ethics: A Critical Introduction", 2008.
- [3] I. Ioan, F. Bran, C.V. Radulescu, "Dimensiunea manageriala a conservarii naturii", Universitara Publishing, Bucharest, 2010.
- [4] UNESCO, "Environmental ethics and international policy", 2006.
- [5] A.H. Wendy, "Characteristics of Environmental Ethics: Environmental Activists' Accounts", *Journal Ethics and Behavior*, nr.4, 1994.

# Automatic Detection of Common Long-Term Monetary Policies on Global Exchange Market Using Gabor Analytic Phase Binary Encoder

Nicolaie Popescu-Bodorin  
*Spiru Haret University, Bucharest, Romania*  
<http://fmi.spiruharet.ro/bodorin/>

## Abstract

An application of Signal Processing to time series data analysis is presented here. Gabor Analytic Phase Binary Encoder (GAPBE) is used to retrieve the phase information from the long time series of currency exchange rates. As a result, a binary code is generated for each currency. Then the (dis)similarity between the local trends of any two different currencies is expressed through Hamming distance. A common policy for two different currencies is found when the Hamming distance between the binary codes representing the two given currencies is sufficiently small, but exact interpretation of the similarity scores obtained is left to the specialists. And this is all from the economist's point of view.

On the other hand, those interested in iris recognition should read this paper because the same procedure can be used to encode images of human iris. In this case it is worth to give an example of cheating iris recognition by finding two different irides having too similar iris codes. From this perspective, we show here that the exchange market provide us with such an counter-example in which two different exchange rate variation curves are encoded as too similar binary codes.

## 1. Introduction

This paper aims to present an application of Signal Processing to time series data analysis. Even if the examples here are based on time series reflecting currency exchange rates, an informed reader will be able to replicate the results using other particular data sets. If someone is interested in automatic detection of (dis)similarity between the local trends of some time series, the approach presented here is suitable for achieving the goal, regardless the particular nature of the data. When the time series contain the currency exchange rates for a long period of time, the similarity between the local trends of two different currencies is called a *Common (Shared / Mimetic) Long-Term*

*Monetary Policy* (CLTMP). This paper shows how to recognize automatically such a policy regardless if it happens intentionally or not.

Gabor Analytic Phase Binary Encoder (GAPBE) was originally introduced in [2] under the name of Gabor Analytic Iris Texture Binary Encoder (GAITBE) and used to encode images of human irides as binary iris codes. As is shown here, it can be also used to encode other signals (exchange rate time series in this case) very different from those for which it was originally designed.

For each currency, GAPBE is used here to retrieve the phase information from each exchange rate variation curve (Fig.1) as a binary code. Then the (dis)similarity between the local trends of any two different currencies is expressed using the Hamming distance between the corresponding binary codes generated for those currencies. A common policy for two different currencies is said to be found when the Hamming distance between the binary codes representing the variations of the two given currencies is sufficiently small, but the exact interpretation of the similarity scores obtained here will be left to the specialists

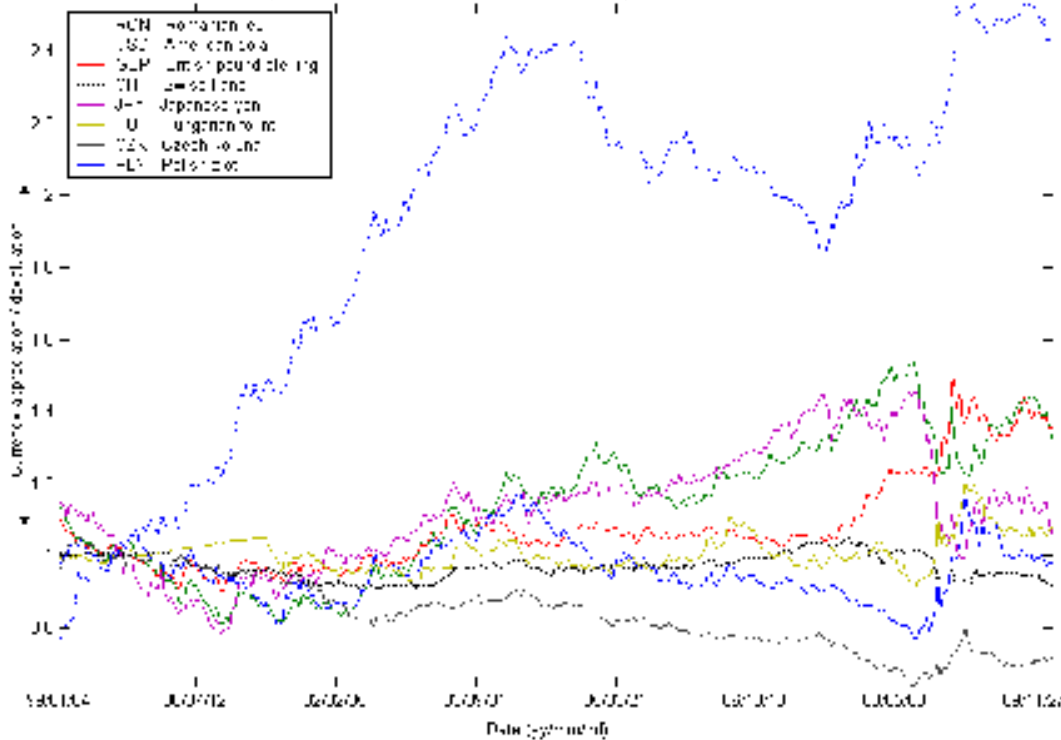
## 2. The test data set

The test data set used here comes from European Central Bank [1] and contains the exchange rates between euro and the other convertible currencies for a period of eleven years (1999-2010). Just for unification, the old ROL currency is expressed as RON. The appreciation / devaluation curves in Fig.1 are obtained as follows:

- All currencies use EUR as reference (an



Figure 1. Currency exchange rate variation (appreciation/devaluation) curves for the last eleven years (1999-2010). The data originated from [1].



imaginary horizontal line at the height of one should be interpreted as being the euro reference

- The second reference value is computed for each currency as being the average currency-euro exchange rate on the first 1.4 years (between 1999/01/04 and 2000/06/01)

The two references defined above allow us to analyze exchange rate variations against the euro - as an external reference, and against a virtual auto-reference value computed for the early history of each currency. They also allow us to represent currency devaluation / appreciation curves in a horizontal narrow band around 1, regardless the big differences between the nominal values of different exchange rates (for example, see the following two average exchange rates: 0.6954 for GBP-EUR and 130.87 for JPY-EUR).

### 3. The phase of a time series

The concept of *phase* comes from Signal Processing where is generally used to express information about the local variations within a signal, where '*local*' means that the variations are measured within a

neighborhood of the current point. The neighborhood is usually called a *window* and its extent is referred as the scale at which the signal is analyzed. And nothing changes if the analyzed signal is a time series of exchange rates.

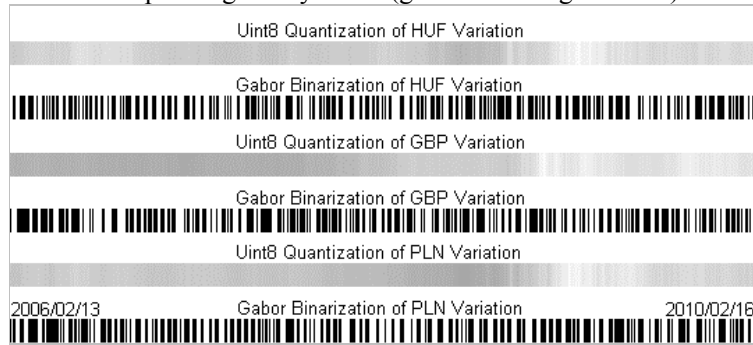
When thinking about windows and scales, consider the following example: using a big window will enable us to find the roads within a satellite image but only a small window will allow the selection of a certain car from a certain road matching a given set of criteria. Here, the phase of a time series is computed as follows: for a given signal  $v$ , the corresponding strong analytic signal is computed:

$$a = v + jH(v),$$

where  $H$  denotes the Hilbert transform [5] computed using a certain window of size  $s$  (here we will use windows of one, two, or four weeks) and  $j$  is the complex unit. Then the phase information contained in  $v$  is retrieved as the instant phase  $P$  of the complex signal  $a$ :

$$P = \text{atan}(\text{imag}(a) / \text{real}(a)),$$

Figure 2. Uint8 quantization of three currency variation curves (HUF, GBP, PLN) and their corresponding binary codes (generated using GAPBE).



where the division by zero is considered a legal operation and the notation ‘./’ indicates component-to-component division. Gabor binarization (Fig.2) of initial signal  $\mathbf{v}$  is then defined as being the logical index (binary code):

$$B = \text{logical}(P > 0),$$

also regarded as a relation between the components of  $\mathbf{B}$  and  $\mathbf{P}$ , respectively. In short, the above three operations define what we called Gabor Analytic Phase Binary Encoder (GAPBE). More details about the encoder can be found in [2]. Also, a demo program will be available for download as soon as possible [6].

In Fig.2, three variation curves from Fig.1 (HUF, GBP and PLN) are quantized as uint8 (unsigned 8-bit integer) row vectors and replicated (32 times each) to form a visible image. The same type of replication is done with Gabor binarization codes in order to obtain big enough images illustrating exchange rate variations in 8-bit and 1-bit domains.

#### 4. Gabor-Hamming indicators

Let us consider  $n$  currencies  $C_1, \dots, C_n$  and their Gabor binarization codes  $B_1, \dots, B_n$ . Hamming similarity between two binary codes  $B_i$  and  $B_j$ , denoted  $h_{ij}$ , is the ratio between the number of the corresponding bits that agree and the common length of the codes:

$$h_{ij} = \text{sum}(\text{logical}(B_i == B_j)) / \text{length}(B_i)$$

Such similarity coefficients computed for eight currencies are presented below, in Table 1 and Table 2, as percents.

*Gabor-Hamming indicators* of common long-term monetary policy for a certain set of  $n$  currencies are defined here as being the

biggest values found within the lines and columns of  $h_{ij}$  matrix, excepting - of course - the elements within the first diagonal.

In Table 1 and Table 2, *Gabor-Hamming indicators* are marked in bold. The coefficients marked with gray background tell us that the compression practiced by applying GAPBE can lose enough information such that the similarity between two very different variation curves (Fig.1 RON-HUF, RON-PLN) to be scored almost identical or even better than the similarity between two curves that really look alike (Fig.1, CZK, HUF, PLN).

Table 3 shows the correlation coefficients  $c_{ij}$  computed for all pairs of currencies (i,j). *Correlation-based indicators* of common long-term monetary policies are defined here as being the most extreme values found within the lines and columns of  $c_{ij}$  matrix.

From all *Gabor-Hamming indicators* (Tables 1, 2), those marked with underline have the highest level of confidence because they are also confirmed by the *correlation-based indicators*.

**Table.1.** *Gabor-Hamming indicators* of common long-term (2006/02/13 - 2010/02/16) monetary policies computed using a window of two weeks.

%	USD	GBP	JPY	CHF	CZK	HUF	PLN	RON
USD	-	<u>58</u>	<u>66</u>	54	45	38	39	44
GBP	<u>58</u>	-	50	48	47	52	51	52
JPY	<u>66</u>	50	-	<u>67</u>	47	36	38	40
CHF	54	48	<u>67</u>	-	44	39	39	40
CZK	45	47	47	44	-	63	<u>67</u>	57
HUF	38	52	36	39	63	-	<u>77</u>	<u>67</u>
PLN	39	51	38	39	<u>67</u>	<u>77</u>	-	65
RON	44	52	40	40	57	<u>67</u>	65	-

**Table 2.** *Gabor-Hamming indicators* of common long-term (2006/02/13 - 2010/02/16) monetary policies computed using one-week, two-weeks and four-weeks windows.

%	USD	GBP	JPY	CHF	CZK	HUF	PLN	RON
USD	-	<b>60</b>	<b>67</b>	53	45	39	39	46
GBP	<b>60</b>	-	52	50	51	51	52	53
JPY	<b>67</b>	52	-	<b>67</b>	47	37	38	41
CHF	53	50	<b>67</b>	-	46	40	42	42
CZK	45	51	47	46	-	<b>65</b>	<b>67</b>	58
HUF	39	51	37	40	<b>65</b>	-	<b>75</b>	<b>68</b>
PLN	39	52	38	42	<b>67</b>	<b>75</b>	-	<b>65</b>
RON	46	53	41	42	58	<b>68</b>	<b>65</b>	-

**Table 3.** *Correlation-based indicators* of common long-term (2006/02/13 - 2010/02/16) monetary policies.

%	USD	GBP	JPY	CHF	CZK	HUF	PLN	RON
USD	-	<b>36</b>	<b>36</b>	16	<b>-78</b>	-38	-42	19
GBP	<b>36</b>	-	-69	<b>-75</b>	-56	50	47	<b>92</b>
JPY	<b>36</b>	-69	-	<b>93</b>	1	<b>-78</b>	<b>-74</b>	<b>-80</b>
CHF	16	-75	<b>93</b>	-	17	-73	-67	<b>-86</b>
CZK	<b>-78</b>	-56	1	17	-	26	<b>39</b>	-38
HUF	-38	50	<b>-78</b>	-73	26	-	<b>88</b>	69
PLN	-42	47	<b>-74</b>	-67	<b>39</b>	<b>88</b>	-	65
RON	19	<b>92</b>	<b>-80</b>	<b>-86</b>	-38	69	<b>65</b>	-

## 5. Conclusion

From the economist's point of view, the facts presented above tell that *Gabor-Hamming indicators* of common long-term monetary policy are suitable tools for economical analysis but they should be used in conjunction with other indicators of other type (*correlation-based indicators*, for example).

The same recommendation is theoretically advisable when using GAPBE in iris recognition, but unfortunately it is unpractical because, in iris recognition, supervising Hamming similarity with other parameters inevitably leads to an important

loss of speed.

The automatic analysis of the sub-market containing those eight currencies considered in Fig.1 and Tables 1-3 reveals a cluster of three Central and South-East European currencies which behave unitary, as a single currency (CZK, HUF and PLN).

It can be also seen that RON currency is the big looser on this sub-market because, excepting a positive trend in between 2005-2007, it always failed to integrate with the common long-term regional monetary policy of its stable neighbors.

## 6. References

- [1] European Central Bank, *1999-2010 XML Data Archive of Euro Foreign Exchange Reference Rates* (retrieved on February 16, 2010), <http://www.ecb.int/stats/exchange/eurofxref/html/index.en.html>,
- [2] N. Popescu-Bodorin, "Gabor Analytic Iris Texture Binary Encoder", *Proc. of the 4<sup>th</sup> Annual South East European Doctoral Student Conference*, vol. 1, pp. 505-513, South-East European Research Centre (SEERC), July 2009.
- [3] N. Popescu-Bodorin, "Exploring New Directions in Iris Recognition", *Proc. of the 11<sup>th</sup> International Symposium on Symbolic and Numeric Algorithms for Scientific Computing*, pp. 384-391, Conference Publishing Services of IEEE Computer Society, 2009.
- [4] N. Popescu-Bodorin, "Fragile Bits' vs. Multi-Enrollment - A Case Study of Iris Recognition on Bath University Iris Database", *ROMAI Journal*, Nr.5, vol. 2/2009, pp. 127-144, February 2010.
- [5] F. R. Kschischang, "The Hilbert Transform", Department of Electrical and Computer Engineering, University of Toronto, retrieved on February 20, 2010, <http://www.comm.toronto.edu/frank/papers/hilbert.pdf>
- [6] N. Popescu-Bodorin, *List of Demo Programs*, retrieved on May 04, 2010, <http://fmi.spiruharet.ro/bodorin/demos/>

## Bioeconomics – the Essence of Nicholas Georgescu-Roegen’s Legacy

Popovici Veronica  
„Ovidius” University of Constantza  
verovnp@yahoo.com

### Abstract

The ever augmenting climate debate nowadays sent us back on the field of research to one of the first economists that truly understood the devastating effects of human activity over our planet – no other than the founding father of bioeconomics, Nicholas Georgescu-Roegen. Reflecting upon all the factors that contributed to the tremendous insightfulness and incredible topicality of his convictions, we embark on a synopsis of the great Romanian economist’s lifetime work and on an analysis of his fundamental heritage for the human kind, fitting it in the pattern of the main biographical circumstances which influenced his academic development and interests.

We will try to outline the key moments which determined the transition from a purely mathematics-driven formation to an authentic interest for the economic science, its social character and the fitting of the bio-physic setting in this context, only to end up analysing the multiple layers of bioeconomics and to further canvass the different acceptations of what we proudly consider to be the essence of Nicholas Georgescu-Roegen’s message for posterity.

**Key words:** Nicholas Georgescu-Roegen, bioeconomics, entropy law.

**JEL Classification:** A 12; B 29; B 31.

### 1. Introduction

The innovative economist genius Nicholas Georgescu-Roegen has brought a contribution of an unquestionable value to science, being the first scholar who recognized the economic relevance of the thermodynamic principles and, especially, of the entropy law.

For almost half a century he has been inner critic of the neoclassic theory, outlining its

alternatives and insisting on the fact that the pure quantitative arithmomorphic standard economic theory eliminates MAN with all his characteristics and influential environmental factors from science, this approach offering a truncated image of reality.

In this context, Nicholas Georgescu-Roegen adopts a different angle for the economic science, but also for the political economy, with respect to the thermodynamic evolution. His revolutionary ideas involve a transformation of economic values through an authentic reconciliation between modern economics and biology as science of life, the result of this reconciliation being bioeconomics.

With a comprehensive embedment of economic, social and bio-physical constraints, the subject matter of economics becomes more than a simple description of the changes which take place within the markets, gaining multidisciplinary valences, the true purpose of economics being to produce an immaterial flow – the pleasure of living.

A raised awareness of the interdependencies between resources limitation, social instability and social organisation of the economic activity is becoming more and more recurrent nowadays, which makes our attempt to revise the underestimated contribution of Nicolas Georgescu-Roegen to this polemic even more justified.

The work of Georgescu-Roegen is however much more ample, being usually perceived through two registers, the first including articles on consumer theory or the production theory, written in the first stage of his career and following especially the tendency of that time to intensely use mathematics in economics, and the second one emphasizing his deep interest for what, thanks to him, has become known under the name of bioeconomics, interest which marked the rest of his academic efforts in the last part of his life.

Hence the very contradictory appreciations of his contribution, a large part of economists validating the early writings on pure economic theory and ignoring his late work, very criticized by neo-classical economists.

On the other hand, the pleaders of the latter consider Georgescu-Roegen a real pioneer in the sustainable growth and development field, giving up the neo-classical paradigm in the '60s in order to dedicate his entire attention to the issue of limited resources and social institutions.

In spite of these conflicting opinions about the work of this great economist, there were nevertheless voices claiming for coherence and logical evolution in its path from the system of values that accompanies the economic activity's point of view, starting from the hedonistic one of the neo-classical economics, then to the conflict between neo-classicism and the system of social values in the agrarian economy and culminating the '70s-'80s with the examination of the conflict between individual, social values and environment.

This article aims therefore at taking a brief glance at the entire work of the great Romanian economist and an analyzing his fundamental legacy, fitting it into the pattern of the main biographical circumstances which influenced his academic development and interests.

Thus we will try to outline the key moments which determined the transition from a pure mathematical development to an authentic interest for the economic science, his social character and the fitting of the bio-physic setting in this context, in order to stress in the end upon bioeconomics and to debate more widely the different meanings of what we proudly consider to be the essence of Nicholas Georgescu-Roegen's message for posterity.

## 2. Biographical and scientific marks

Professor Nicholas Georgescu-Roegen was born in a modest family with Greek descent in Constanta, on February the 4<sup>th</sup> 1906.

A brilliant young student, he took mathematics and statistics courses in some of the top elite schools of Europe: he attained a bachelor in mathematics from the University of Bucharest in 1926 and a PhD in mathematic statistics at Sorbonne in 1930, at the age of only 24.

He then continued his postgraduate studies at the College University of London, under the

guidance of the renowned statistician Karl Pearson. After a relatively short experience as a lecturer at the University of Bucharest, during which he also married Otilia (a mathematician colleague with whom he shared many interests), he was offered a Rockefeller researcher scholarship at Harvard between 1934 and 1936. Here he had the chance to work closely with the great Joseph Schumpeter, presiding the long weekly meetings of economic debates of the European researchers at Harvard, gatherings that represented maybe the most remarkable reunion of economists who ever worked together in the same place (and consisting of famous names such as Oscar Lange, Fritz Machlup, Gerhard Tintner, Nicholas Kaldor, Wassily Leontief, Ed Hoover and Paul Sweezy – all of them becoming afterwards great economic scientists).

This 'apprenticeship' in the economic science, as Georgescu-Roegen himself described it, meant a period of intense intellectual activity for him, in which many of the significant ideas that marked the second part of his career were born and found a rich soil to flourish.

Thus, under the close guidance and sympathy of the mentor Schumpeter, who shared his vision according to which the most important changes in economics are of qualitative and not of quantitative nature, his work at Harvard strengthened his belief that the economical processes, as well as the historical ones, are unique and impossible to accurately describe by any mathematical formulas.

In this short defining period, Georgescu-Roegen wrote four papers, out of which the last one – an original and pioneering contribution to the consumer choice theory, named '*The pure theory of the consumer's behaviour*' (Quarterly Journal of Economics, August 1936) – brought him fame and launched his international career.

Schumpeter would have wished to have Georgescu-Roegen as co-author for one of his books, reason why he invited him to join the group of professors at Harvard at the end of the scholarship; however this offer was turned down, Georgescu-Roegen preferring to return out of patriotism in his native Romania where he occupied different governmental positions and endured four dictatorships.

In 1948, under the threat of being arrested by the communist régime, Georgescu-Roegen managed to leave Romania, returning in the

end in the United States, where he became a professor at Vanderbilt University in 1949, position he kept until he retired in 1976.

For an economic thinker less gifted, such a decision to isolate himself from the revolutionary intellectual changes taking place in the USA would have been fatal. But not for Georgescu-Roegen who, although distanced from the economic activity for 12 years, following the voice of his heart and putting an ocean between his reality and the one of the burning revolution of the new economy, thanks to his extraordinary talent and strong mathematical base managed to recover the 'lost' time extremely quick, with the advantage of having enlarged the perspective over the institutions' importance for the economic development, gained throughout the time spent in his native country.

His first book – '*Analytic Economics*' (Cambridge, MA: Harvard University Press, 1966) – contains twelve articles published between 1935 and 1960 in different journals, some of them being considered even by the author among his fundamental contributions to the economic theory.

However, starting with this very book, Georgescu-Roegen already shows his disapproval regarding the growing tendency of excessively mathematizing economics, of the technology supremacy over reality and of disregarding the true economic life.

His specialization in mathematical statistics, the ideas highlighted mostly on the subject of economic utility and the experience gained in the governmental economic planning during the 'Romanian exile' were the essential elements allowing Georgescu-Roegen to have an overview of economics and offered him the pillars of critical argumentation to the classical economic theory, in the entropy and bioeconomics papers. One of these main pillars is to be found in his insistence upon the fact that economic phenomena are dialectical by nature and are based on the bio-physic reality of the environment.

Moreover, the original approach of the choice process, determined by the ranking perspective of the human needs, also determined him to emphasize the differences between '*homo oeconomicus*' described by the neo-classical theory and the active people within a social context – differences very well synthesized in the period during which Georgescu-Roegen

drew his attention towards the agrarian economy.

The two articles written on this subject and published in 1960, respectively 1965 draw from a number of economists the merit of forming the point of complete detachment from the neo-classical theory in Georgescu-Roegen's work and moreover, announced a fundamental change in his orientation as an economist.

In spite of a real interest for the underdeveloped and overpopulated agrarian economies and a deep understanding of their evolution displayed in these articles (unfortunately completely out of the current scientific focus areas), they formed the foundation of the emergent ecological economy, serving as a preamble for his future papers and constituting an ideal mean to display some of the most significant ideas which form the basis of bioeconomics.

Thus, in examining the agrarian life, Georgescu-Roegen outlined the obvious dependency of the peasant upon the biological and seasonal cycles, immediately emphasizing the fact that these do not lend themselves to the economic theories derived from an analogy with mechanics (the classical theory).

However, the impact of the biological processes upon the economic activity does not limit itself only at the level of the rural communities; therefore, appealing to the second law of thermodynamics, Georgescu-Roegen inserts the idea of entropic degradation as a fundamental constraint of all economic activities.

Then, he delimitates the economical effects of low entropy in the reduction of the stocks and the rising of the flows, idea which formed the basis of his fundamental paper – '*The law of entropy and the economical process*', published in 1971.

The fundamental message towards economists was that of recognizing the humans as a biological species, constrained by bio-physical processes and as social beings 'moulded' by institutional patterns.

### **3. Georgescu-Roegen's entropy and bioeconomics**

The use of the second thermodynamic law – the entropy law – as a metaphor for economical activity is for sure the main scientific step

associated with the name of the great Georgescu-Roegen.

A few characteristics specific to thermodynamics, such as the qualitative change, irreversibility, inter-determination, limitation as a basic condition, are in complete antagonism to the mechanic model associated with the standard economical process, producing a very different image of the economic activity compared to the simple classical circular model which did not present the influence of any exterior systems or resources.

Georgescu-Roegen highlighted the fact that humans, as all biological beings in fact, depend upon the energy available in usable form, this being one of the essential distinctions on which he repeatedly insisted – the one between the free or available energy, and the ‘bound’ or unavailable energy. The entropy measures the unavailable energy of a system, and the human race unfortunately has the ‘merit’ of being at this time the most significant factor which contributes to entropic degradation through the rising of the extraction rate of natural resources and the elimination of the waste in the environment.

In the ‘70s Georgescu-Roegen invented the term ‘bioeconomics’, adopting a new approach to economic science; as he himself says, the term has the purpose of always making us think of the biological origin of the economic processes and thus bringing in foreground the problem of humankind’s existence with a limited stock of accessible resources, located and attributed unequally.

This last and most important part of the Romanian-American economist’s work integrated best the social and environmental components of the economic activity. He employed the term of *exosomatic organs* (borrowed from the biologist Alfred Lotka) in order to name the apparently unlimited variety of ‘detachable limbs’ developed by men in order to extend their range and field of activities.

Moreover, he also ascribed the current state of turmoil for humanity, characterized by ecological disasters on a wide scale and by ‘malignant inequality’ due to this exosomatic evolution.

The long history of humankind in the use of these ‘exosomatic organs’ has created dependence on the comfort and pleasure that they bring. The difficulty occurs however in

their process of production, very dependent at its turn on the finite stocks of energy and matter, bringing the obsession of our species for *more* and *better* on a path of collision with the imminent bio-physical limits.

Another feature of this exosomatic evolution represents the emphasis of social conflicts. Georgescu-Roegen perceived the division in social classes as a function of the production process which divides people in ‘governors’ and ‘governed’, a division which continues in the same direction in the sphere of distributing production’s fruits, as well as in the use of these exosomatic organs.

Thus Georgescu-Roegen criticized the neo-classical pure mathematical paradigm regarding the market equilibrium, arguing the oblivion of an essential detail, namely that the Walrasian equilibrium presumes the existence of an initial distribution of revenues and that this distribution is determined by the division in social classes.

The logical course on which Georgescu-Roegen gradually integrated the institutional and bio-physical component in his papers culminated with the personal model of the production activity presented for the first time in 1965 and then more detailed in ‘*The entropy law and economical process*’ and other papers. In this model he defined the technologization trend as being viable only if it can simultaneously maintain the adequate material structure and its functions forming the basis of the resource flows necessary to produce technology and, consequently, can serve the human species for an infinite period of time and in the current environment conditions.

This viability imposes therefore that the natural, terrestrial resources funds remain unchanged after the production process. Without sustaining all the necessary conditions in order to maintain these material funds, the ability of the economical process to produce energy flows cannot be perpetuated – therefore, the system of funds has to remain non-degraded within a viable production process.

In addition to that, according to Georgescu-Roegen’s opinion, the sustainability of any system should be evaluated on the sustainability of the whole system, not just on that of a part of it at a time. Without maintaining and sustaining the functions of the fund’s elements, an economic process cannot continue to produce economic flows in time. That is the reason why Georgescu-Roegen

always insisted on the fact that time should be a parameter in any production function, having a strong influence on the viability concept which forms the basis of its bioeconomical program.

In strong relation with these strong ideas was born also the fourth law of thermodynamics, the indisputable merit of this discovery being entirely attributed to the Romanian economist. Georgescu-Roegen had the brilliant idea to generalize the entropy law for matter. Thus, the fourth law doing nothing else but proclaiming for matter exactly what the second law of thermodynamics proclaimed for energy: «The same quantity of matter and energy can only be used once» or, «The same quantity of entropy can only be use once».

When matter is concerned however, an essential difference occurs, namely that instead of the tendency towards zero temperature, when the entire energy has become unusable, the tendency towards chaos occurs, when the entire matter has become unusable after its use, hence the irreversibility of this process.

This epochal discovery led Georgescu-Roegen to the developing of a program of bioeconomical measures in order to stop humankind's hustle towards disorder and chaos. Under the conditions of only a very small part of the used energy being able to become usable again through recycling, the only viable way to stop this imminent process, in his vision, is to find ways of freezing the terrestrial resources fund at its current stage, through rationalization, moderation, mutual help and returning to a precedential stage of development of the human society.

#### **4. The bioeconomical program of Georgescu-Roegen**

The economical and political recommendations detached from his bioeconomical approach were often catalogued as unrealistic, even utopian, demonstrating once again the universal rigidity associated with the consideration of a revolutionary paradigm.

Another cause would also be the incision with which Georgescu-Roegen claimed that the inhabitants of the developed countries should accept a lower standard of life if there was a wish for third world countries to ever get out of poverty.

Because of the rapid growth of global population, its unequal distribution, as well as that of the natural resources in the entire planet, and the monopsony power exerted by the developed nations over the resources of the world, he did not see another solution but slowing down the economy in some parts of the world so that the poorer nations could catch up and reach a 'modest' level of development, level which gradually would impose itself as a general standard.

Ultimately, his vision dictated the complete change of direction for the global economy, from one based on terrestrial resources funds to one based on solar energy flows.

'The minimal bioeconomical program' developed by Georgescu-Roegen in 1976 offered eight recommendations to head the human society in the opposite direction, including the gradual decrease of the population until it reaches a level which can be sustained just by organic agriculture, avoiding to use polluting energy sources (and employing regulating measures if necessary), giving up extravagant fashion, equipment and machines, producing goods which can be used longer and repaired easier, and rediscovering the equilibrium between labour and spare time, a transformation which would come naturally under the implementation of the rest of the measures.

In spite of the relevance and necessity of implementing many of these measures, even the most enthusiastic supporters of Georgescu-Roegen remain speechless in front of political and social obstacles raised by the desideratum of these kind of drastic changes.

Even the great economist himself revealed often scepticism about the human race's power of acceptance of any program which would presume the reduction of our material comfort, admitting sadly and sarcastically that we are maybe fated to have 'a short, but intense and extravagant life rather than a long, vegetative existence, without many remarkable events'.

The core of the bioeconomical paradigm consists therefore in the imperious change of our values system, so that decisions would be made based on the idea that the available matter and energy resources of the Earth are actually the legacy of mankind and should be preserved as much as possible for the future generations.

The implications of this kind of behaviour are naturally of biological, economical and



political nature, but any sacrifices should be made in the vision of Georgescu-Roegen on behalf of the greater good, of the posterity's protection, abandoning the maximization of the utility principle in favour of a more sensible principle – the one of minimizing the regrets.

The problem is not that people would be insensitive or incapable to act in a rational way regarding future generations, but the fact that, although no one is immortal, the entire humanity acts as if it would live forever and, consequently, values welfare without moderating itself and without abstaining from the things assuring it.

And however natural this reasoning might seem, this does not mean that a program which tends to treat all generations as being equal in rights in inheriting our planet is less rational, on the contrary.

## 5. Conclusions

Concluding our remarks, we cannot wish for more but to strengthen Georgescu-Roegen's message which, although needing an implementation much more adapted to nowadays reality, it remains as important and moreover, in our opinion, will become more and more relevant with the passing of time. The oppressive questions remain, of course, how much time will it need to pass before it receives the value it deserves and if the time that would have passed shall not eliminate the advantage of its existence?

The polemics around some of the most important ecological problems our species is confronted with, like losing biodiversity and global warming, have had as a result the display of policies based on the classical economical theory disadvantages, namely on the personal interests of some singular individuals belonging to every generation.

The economic discipline has much to gain from Georgescu-Roegen's contribution, whose ideas can revive and enrich these debates reappeared in the last years between economists and philosophers regarding the notion of rationality of an individual, notion which forms the basis of the neo-classical theory of utility.

The nature of the values defining us and the essential role of time are recurrent subjects in the works of Georgescu-Roegen, putting him always outside the static, strictly quantitative

and monist approaches of the neo-classical economy.

His heretical insistence on the fact that all markets, societies and ecosystems share a general dependence on energy and the inexorable laws of thermodynamics brought him to the entirely disagreeable conclusion that modern human society is not sustainable.

Maybe his message has persisted to always being as rigid and misfit to the comprehension power of a society blinded by consumerism and infatuated with slogans, sophisticated equipment and speed.

For Georgescu-Roegen, a realistic vision of the entropic nature of our existence would simply translate itself into a wise use of the resources; by their useless and ignorant dissipation we do nothing else but annihilate our chance for future choices, shortening the life of our species.

He even reaches that point of invoking capital commandments, where "Thou shall not kill!" or "Love your neighbor as yourself!" would transform under these dark perspectives into "Love your species as yourself!".

If we wish the human race to persist on Earth, our values system has to evolve farther than integrating the market values, even farther than the one of human communities' traditional values.

Such a 'viable' system of values has to take into consideration the limitation of resources on this unique planet, our dependence and vulnerability towards the fragile equilibrium of the live network surrounding us.

What is sad is the observation that at the present level of mankind development, such a conscious position regarding the dramatic role which we all play in our own elimination continues to be ignored, underappreciated and interpreted in distorted manners.

We can say that we are in an obvious deadlock when even the contemporary substantial literature on subjects of sustainability does not do anything else but underline the very difficult position, politically speaking, of the entire movement against the polluting the environment; this happens while all the professional reports on the other hand manage to describe in a worrying manner the effect of human activity on the planet, only to conclude with the same encouragement towards bigger economic growth as a solution for sustainable development.

Georgescu-Roegen's position and the solutions proposed by him can really be considered drastic and not easy to digest for a society arrived at a high degree of complexity, from all points of view.

However, not taking them into consideration or categorically discrediting them is for sure an equally reckless choice, especially now when all signals point out that we cannot continue to avoid addressing the crucial choices we must make.

Because, in the end, as the great economist also said, the human species will be the one defeated in this fight – “the planet Earth has went through much more difficult periods of time than the one it faces right now because of humans' activities, it had a very good life without us for the most part of its existence and it will continue to live exactly the same after we will cease to exist”.

## 6. References

- [1] Ayres, Robert U.: The second law, the fourth law, recycling and limits to growth; *Ecological Economics Journal*, vol. 29, 1999, pag. 473-483;
- [2] Cojanu, Valentin: Georgescu-Roegen's entropic model: a methodological appraisal; *International Journal of Social Economics*, vol. 36, no. 3, 2009, pg. 274-28;
- [3] Daly, Herman E. : On Nicholas Georgescu-Roegen's contribution to Economics: an obituary essay; *Ecological Economics Journal*, vol. 13, 1995, pg. 149-154;
- [4] Gowdy, John M. ; Iorgulescu Polimeni, Raluca: The death of homo economicus: Is there life after welfare economics?; *International Journal of Social Economics*, vol. 32, no. 11, 2005, pg. 924-938;
- [5] Perrings, Charles: Georgescu-Roegen and the 'irreversibility' of the material process; *Ecological Economics Journal*, vol. 22, 1997, pg. 303-304;
- [6] Popescu, Gheorghe ; Filimon, Ruben : Nicholas Georgescu-Roegen - Evolutionist epistemology – the arrow of time; Ed. Risoprint, Cluj-Napoca, 2009

## Innovation as a competitive weapon in the uncertain service economy

Rațiu Monica Paula

Oprescu Alina,

Botea Lucian

*Romanian American University, Bucharest*

*monica.ratiu@yahoo.com*

*alina.oprescu@rau.ro*

*lucian.botea@rau.ro*

### Abstract

In this paper we want to demonstrate that nowadays - innovation is one of the key components of the service economy. Innovation today is not just a simple option for any service company, each and every one should use innovation to ensure revenues, profits and why not – survive on a more dynamic and evolving market. Starting from Peter Drucker's theory we can consider innovation one of the specific tools of the entrepreneurs, the means by which they can exploit changes as an opportunity for another business or another service.

Innovation is one of the key elements to make a business successful and help existing companies to face the challenge of globalization – the new economy. Using innovation is a must for a company that wants' to have a competitive advantage.

New service delivery models are essentially created after working closely with customers to provide innovative and unique solutions that can satisfy the consumer ever-changing needs.

**Key words:** service innovation, knowledge economy, technology, service systems, creativity.

**JEL Classification:** L80, O31, O33

### 1. Introduction

Innovation is one of the major driving forces - alongside skills, investment, enterprise and competition - that improves the productivity increases of organizations, and is therefore responsible for significant profit gains in the service sector. It is capable to create the conditions for business success and

help companies and countries to respond to the challenge of globalization. Innovation can be defined as the successful exploitation of new ideas – this definition applies to all firms in the economy and is equally relevant to services innovation. In the UK's Innovation Report 2003 were identified seven success factors for the country's innovation performance: sources of new technological knowledge; the capacity to absorb and exploit knowledge; access to finance; competition; customers and suppliers; the regulatory environment; and networks and collaboration [3].

In the knowledge economy, cleverness and dynamism, innovation and technology are considered to be essential instruments. These challenges created by „the new economy” are affecting all management areas that must align to these changes and must use the essential instruments (cleverness, dynamism, innovation and technology), without that, the failure is sure.

Innovation can take several forms: product innovation – changes in the things (products/services) which an organization offers (for example, a new design of car, a new insurance package for accident-prone babies and a new home entertainment system); process innovation – changes in the ways in which they are created and delivered (examples: change in the manufacturing methods and equipment used to produce the car or the home entertainment system, or in the office procedures and sequencing in the insurance case); position innovation – changes in the context in which the products/services are introduced (examples: the creation of a new market segment around low-cost flying, the development of a wide range of new media applications across both the internet and mobile delivery platforms); paradigm

innovation – changes in the underlying mental models which frame what the organization does (the shift of mainstream customers to low-cost airlines, the provision of online insurance and other financial services [8]).

A wide number of factors are impeding firms' commitments to innovation, with none of these standing out as markedly more important than the others. These barriers to innovation can be classified into three groups. The first relates to demand – customers do not want and/or cannot pay for innovations; customers are unresponsive to innovations; and previous innovations make further innovations unnecessary. The implication here is that firms do not innovate because they perceive no need to, and/or no reward for innovation. The second set of barriers relate to the firm's own abilities and internal impediments to innovation – the firm lacks the required technologies; the firm lacks the key staff necessary to innovate; organizational rigidities make innovation difficult; and the firm is too busy to innovate. The implication here is that firms would innovate more if they had more resources (including time) to do so. The third set of 'other factors' includes firms feeling regulations inhibit innovation; innovations are too easily copied; and the costs and risks of innovation are too high. It is notable that the top factor was customers' unwillingness or inability to pay for innovations, whilst the factor least likely to be identified as an important impediment to innovation was a lack of required technologies.

The old innovation theories, the researchers say, are flawed because they have focused almost solely on products and have ignored service offerings. They've also recognized firm-level innovation - the work of R&D departments, for example - while ignoring the value-added contributions of customers. In a new paper that challenges some long-standing theories about both what innovation is and how it's achieved, Stephen Brown and co-authors Stefan Michel, and Andrew Gallan, argue that the time has come for companies to rethink the ways they approach the innovation process. Innovation, according to Brown, Michel and Gallan, is no longer solely the domain of techniques or engineers working in isolation in a lab. Innovation now includes the collaboration of creative customers, who find ways to address their own wants and needs in the product or service. Customers are not just the receivers of value, they are the ones co-

creating the value in what companies and firms offer. They are not passive recipients of value [1].

The role of clients in the co-production of services and service innovations needs to be examined and conceptualized. The client is often especially critical in services innovation, so questions arise about: How to understand and assess the role of clients in innovation processes, to measure the co-production of innovations, the exchange and fusion of knowledge that goes on here? How to understand and assess the "impact" of innovation on service firm, client, and the service-client relationship? How to understand changing division of labor between the client and provider (as exemplified by self-service and user-driven innovation strategies, and as confronted in make-vs. -buy choices)?

Management and decision-making issues do not solely arise in the service organization, in many of these cases. This means that further questions arise concerning client decisions as to evaluating service propositions (especially given the difficulty of assessing services in advance of their production), and estimating the inputs required from the client (how is risk assessed and shared? How is trust established in innovation contexts?) How do customer perceptions of project success vary during the course of one or more services engagement (and associated learning effects)?

## **2. Towards innovation and competitive advantage with the Science of Service Systems**

Driven by today's new business environment that includes advanced telecommunications, accelerated business globalization, increased automation, and rapid technology innovations, emphasis in the service sector has evolved from a traditional labor-based business to sources of innovations, collaboration, and value co-creation, driving the emergence of service-value networks at a pace never before seen in history. It is obviously a trend that leading and competitive services are all remarkably delineated with information-driven, customer-centric, e-oriented, and satisfaction-focused characteristics.

A variety of services enabled through service-value networks in the high value areas have been emerging recently, such as online information and knowledge service, IT

outsourcing to post-sales training, on demand innovations consulting (e.g., work helping customers reengineer products, automate business processes, improve goods and services delivery efficiency, and design and deploy supportive IT systems). By all means the networks must be built carefully, by developing adequate infrastructure based on workers and partners engagement. The partnerships – based on utility exchange – are developing in connection with organization's capabilities, with its valuable propositions, offered through appropriate channels, as solutions in relation with its target market. The success implies action capacity based on connections that allow these effective co-operation arrangements.

The competency of service providers to deliver superior outcome to the end user inevitably relies on the capability of engineering, performing, and managing quality of services throughout the entire service-value network. No matter what service is provided for whom, an entity of individuals or businesses, whether the need is fully met and the customer completely satisfied relies on the efficient and effective operations of the service-value network. Entities in the service-value network are service providers and clients; they could be individuals or businesses (e.g., companies, institutions, governmental agencies). It is widely recognized that competitive service systems are value coproduction configurations of people, technology, internal and external service systems connected by value propositions, shared interest and information (languages, customs, regulations, and metrics)[6].

With the help of on-going "industrialization" of the information technologies, enterprises must aggregate products and services into total solutions by implementing integrated and complete value chains to deliver their service-oriented solutions. The essential goal of applying total solutions to service-value networks is to enable the discovery, design, deployment, execution, operation, monitoring, optimization, analysis, transformation and creation of coordinated business processes across the whole value network. Ultimately, the profit across the whole service-value network can be maximized as it becomes the top business objective in today's global business environment [6].

Services specialists consider that the key to creating optimal service-value networks and

measuring service productivity, quality, compliance, operations, and innovations to gain competitive advantages is Service Science. Despite the recognition of the importance of service research, the shift to focus on disparate and global-scale services in the information era has created a research gap due to the overwhelming complexity of interdisciplinary issues across service marketing, service-oriented business modeling, information technologies, and workforce management. Filling the gap is essential. It is required to move the field forward not only by understanding and serving the customer but also by designing efficient systems of service delivery; training and motivating service providers; using new service technologies; and understanding how service affects the marketplace, the economy, and government policy.

A service system is a system that consists of people, technology, infrastructures, and processes of performance, which must be people-centric, IT-powered, and market-driven. The success of establishing service systems capable of delivering competitive and satisfactory services substantially relies on the following factors:

1. Service demand/marketing: varieties, market acceptance, penetration, and potentials, competitiveness and economic benefits - not just revenue (cost, price, inventory), but also beneficial opportunities in the long run.
2. Service environmental settings: service consumer's environmental setting (customs, languages, cultures, and regional regulations); service provider's environmental setting (workforce management, human behavior, skills training, knowledge transfer); human interfaces and interactions (psychological and physiological).
3. Adaptable and sustainable service engineering process: operations function and value, hybrid designed (artificially) and evolved (naturally) to meet the diverse needs of service environmental settings.
4. Large-scale information infrastructure: a complex and integrated system that can evolve over time to optimally support the defined service engineering processes, aimed at the delivery of needed data and information to the right user at the right time.
5. Effective management and efficient organization: planning, design, execution, and reengineering of the defined complex and adaptable services systems.

Science of Service Systems can be defined as a general theory of services that consists of

three bodies of knowledge: 1. Service systems and their services: understand the origins of new service systems and new services. Understand what is and is not a service system, and what services are produced and consumed. The role of people, technology, shared information, as well as the role of customer input in production processes and the application of competences to benefit others must be defined as well. 2. Service system improvements: Understand the ways a service system improves or can be improved over time through investments, including improving efficiency, effectiveness, and sustainability. 3. Service system scaling: Understand the ways improvements (new competencies) in one service system can be spread (scale out and scale up) to other service systems, both within and between types of service systems. Because of the nature of customer input in the production process, scaling the distribution of competences is a challenge in service systems. Unless the new competence can be reduced to a simple list of instructions that the receiving service system can implement through self-service, a more complex transformation service is required to spread the competence. [4]

Innovations are the key to stay a step or two ahead of competitors. New service delivery models are essentially derived by working closely with customers to co-create innovative and unique solutions best meeting customer inevitably changing needs. According to some specialists, a service innovation framework is critical for service businesses to stay outperform. "The framework can guide the creation of customer value and demand, and the processes and organizations that deliver services successfully - all of it catalyzed by emerging technologies." [5]

In summary, to help service providers maximize the profit across the whole service value network with a competent configuration by employing materialized and concrete service innovation framework, Services Science should be comprehensively studied, aimed at scientifically facilitating crafting and measuring service productivity, quality, compliance, operations, and innovations. As we mentioned before, Services Science is the key to creating optimal service-value networks and measuring service productivity, quality, compliance, operations, and innovations to gain competitive advantages.

### **3. Creativity, as a key component of service innovation**

The service industry demands innovation in the coming decades; this innovation will come from companies that foster creativity and communication. Service innovation has many inherent risks from both customers and competitors, but wise management of these risks can lead to increased profits and a stronger long-term position. Creativity is a term that gets thrown around a lot but is sometimes difficult to define. Specialists consider that creativity is: "the habit of continually doing things in new ways to make a positive difference to our working lives". The following trend was mentioned in Business Week: "The Knowledge Economy as we know it is being eclipsed by something new - call it the Creativity Economy" [2].

While creativity shouldn't be limited to a few elites at a company, some discipline is required in order to make creativity useful and valuable for a business. Specialists consider that creativity and innovation are distinct entities, but the two words are often interchanged in the business world. Creativity plays a role in all the aspects of innovation, beginning with the generation of ideas. "You have to be creative in where you go to get your insight", appreciates Dave Lewis. If a firm consults the same research all the time, it comes up with the same insight.

Businesses need to give employees the skills and structure to bring change to marketplace. Creativity in the business world is a habit that can be practiced and honed. The practice of creativity in business should not be limited to so-called "creative types". Everybody in the company has the ability to be creative and should be encouraged.

We consider that Vaillant is an outstanding example of performing service innovation based on creativity. Today, Vaillant provides heating, air conditioning and ventilation in a perfectly coordinated system. They offer tailor-made room climate systems for the most demanding applications. The Vaillant success story started more than 110 years ago with a fundamental innovation (they introduced hygienic hot water convenience to the home with his gas bath boiler as a closed system). Since then the Vaillant brand has influenced global heating technology by a large number of innovations as today new visions are required. Their innovation is implemented in three directions: comfort, intelligent service

and design. Comfort innovation: their aim is to offer a perfect room climate - pleasant temperature, comfortable humidity levels and optimum air quality: a heating/air conditioning system that produces the ideal climate, a perfectly coordinated room climate that adjusts itself automatically. Intelligent service: the Vaillant Service Partner keeps his eye on the heating system – with the internet technology of vnetDIALOG. The technician is not on site but still keeps an eye on the heating system. Design innovation: their aim about design is to create user-friendly, perfect technology. Good design makes performance and quality noticeable. Vaillant understands that design is not just a means of making products attractive to touch and look at. Vaillant combines intuitive operation, good ergonomics and the consideration of future customer requirements with new product concepts, which means that the customer can feel the high quality in every sense. Vaillant is working with universities to develop concepts which look a long way into the future of modern domestic comfort. Young designers and architects develop a personal image of how customer requirements could change and what customers will consider to be domestic comfort in the future, and how products will meet these requirements. Customer can therefore enjoy an optimum level of safety and energy efficiency, combined with the highest level of comfort. This is the future of service at Vaillant, and it is already available today. [9]

A performing management of innovation requires finding answers to the following questions:

- How do service organizations (of different types) manage innovation processes in practice?
- How do these organizations capture intelligence on innovation so as to make it more reproducible (this may be referred to as "knowledge management") and why is this apparently often lacking? How can matters be improved?
- What is the role in services of traditional innovation activities (R&D, design, sourcing information from professional networks and from contract research and universities, acquiring equipment and software, training)? What other mechanisms and practices are involved?
- How are these activities planned, implemented, monitored, evaluated? Are there roles for better policy support, better metrics, etc?

In the 1990s, innovation was about technology and control of quality and cost. Today innovation is more about reinventing business processes, collaborating and integrating within the firm, and creating entirely new markets to meet various customer needs. Increasing globalization, the growth of the Internet, and more demanding customers are forcing marketers to find innovative ways of conducting service business. Understanding the connectedness of the external environment is vital to enhanced innovation in all domains.

#### 4. Conclusions

Innovation has always been important to companies, especially with respect to developing new products. What has changed, however, is the focus of innovation in most companies. The twentieth-century model of innovation was about quality control, cost reducing and operational efficiency. Today, innovation is about taking corporate organizations built for efficiency and rewiring them for creativity and growth.

Through increased growth, better collaboration, and a broader product mix, the most innovative companies can pull their products out of commodity status and increase their profit margins. It is clear that innovation has become a source of revenues and profits and also a key driver of competitive advantage and success in today's uncertain economy.

And let's not forget one of Jon Spolestra main themes from his famous book - "Ice to the Eskimos" - telling us that the companies have to innovate, innovate, and when they get tired they have to innovate some more so their success is certain.

#### 5. References

- [1] S. Brown, S. Michel, A. Gallan, "The Customer: An Overlooked Component of the Innovation Process", September 27, 2007
- [2] D. Lewis, "Creating the Creativity Economy", December 3, 2008, <http://knowledge.wpcarey.asu.edu/article.cfm?articleid=1714>.
- [3] I. Miles, "Services innovation: coming of age in the knowledge-based economy", *International Journal of Innovation Management*, Vol 4. No.4, 2000, p. 371-389
- [4] M.P. Rațiu, I. Purcărea, "Facing Knowledge Economy Challenges through Service Innovation", *Romanian Economic and Business Review*, Spring 2010, volume 5, Number 1, p. 231-237

- [5] Th. Purcărea, M.P. Rațiu, H. Gorski, „Innovating through Adequate Marketing Strategies to Face the Service Era Challenges”, Conferința cu participare internațională „Inovare, Competitivitate și Etică în Afaceri”, Editura Universitară, București, 2008, p. 43-54
- [6] R. Rust, „A Call for a Wider Range of Service Research”, Journal of Service Research, Vol. 6, 2004, p. 211.
- [7] J. Spohrer, P. Maglio, J. Bailey, D. Gruhl, „Steps Toward a Science of Service Systems”, IEEE Computer Magazine, January 2007, p.71-77
- [8] B.S. Tether, “Do services innovate (differently)?” Insights from the European Innobarometer survey, Industry and Innovation, 12, 153-184, 2005.
- [9] <http://www.vaillant.com/innovation/>



# The Firewall and Security of Information Systems

Răduț Carmen  
Albici Mihaela

Tenovici Cristina Otilia

“Constantin Brancoveanu” University of Pitesti

*c\_radut@yahoo.com*

*mturmacu@yahoo.com*

*cris2001vl@yahoo.com*

## Abstract

Information security is a broader concept which refers to ensuring the integrity, confidentiality and availability of information. The dynamics of information technology to induce new risks to which organizations must implement new measures of control. Technological development has been accompanied by security solutions, equipment manufacturers and applications including technical methods of protection performance. However, while in information technology change is exponential, the human component remains unchanged. Information security can not be achieved solely by technical measures, is primarily a human problem. Most security incidents are caused by inadequate management and organization, rather than because of deficiencies in security mechanisms. This paper presents the use of firewall security systems.

**Key words:** security, information, technology, development;

**JEL Classification:** Q32;

## 1. Introduction

Dependence on increasingly large information systems increase the vulnerabilities typology which organizations must face. Moreover, the issue of protection should consider private networks often interconnect with public services. If this issue add to the problem of information sharing is shaping a rather complicated picture in which the implementation of effective controls is a difficult task for the specialist IT & C.

Many of the systems on the market were designed as structured methodology but did not have as primary objective and ensure a degree of security because at that time technology was not nearly as developed nor as accessible to beginners. With the proliferation of the Internet but as important means of modern communication mechanisms need proactive security became a certainty. In practice note that many institutions turn to external technical solutions to solve their security problems without seeking to identify specific needs and requirements. Identification of internal controls to ensure an appropriate degree of security of an institution's information assets requires a thorough planning and precise identification of the objectives of this institution.

Financial institutions, industry, defense, aerospace, information technology industry, electronics industry sectors with the greatest risk in terms of information security. Also in this category of risk within government institutions, which is why the adoption of an organizational culture based on ISO / IEC 17799 is key.

It is important that each organization could to identify their security requirements. To do this it must appeal to three main sources:

- risk analysis;
- existing legislation;
- standards and procedures.

Using an appropriate methodology to analyze the risks the organization can identify its own requirements relating to security. Such a process generally involves four main steps:

- Identification of assets to be protected;
- identifying risks / threats specific to each asset;
- Risk ranking;
- identify checks that are removed / reduced the risks.

In this respect, ISO / IEC 17799 offers a number of security objectives and controls from which professionals can select those that match

the operating business. Furthermore this standard should not be considered a panacea of information security as long as it only provides advice to those responsible for implementing and managing a security system within an organization. A control mechanism should not cost more than good organization to be protected.

The security of a company shall be subject to the constituent elements, namely: making software security structure, defining security policies, standards, rules and procedures. Without stringent policies, security programs will be close without support, inefficient and will not align strategy and organization objectives. Policies, standards, rules and procedures are the foundation of the organization's security program. Effective, clear out, will serve the process of auditing and potential litigation. Combining elements specified, an entity may implement specific controls, processes, awareness programs and more, just to bring a touch of tranquility.

## 2. Use firewalls on intranets

A firewall is a hardware or a permanent filter that monitors and data transmissions made between your PC and Internet or local network, to implement a filtering policy. This policy could mean:

- protect network resources from other users of other similar networks - the Internet.
- Control resources they will access local users.

A firewall, working closely with a routing program, examines each data packet network (either the local or the view) that will pass through the gateway server to determine if it is sent on to destination. A firewall also includes or works with a proxy server which calls the package on behalf of workstation users. The most common protective cases these programs are installed on computers that meet only that function and are installed in the routers.

Firewall solutions fall into two broad categories: first is the professional hardware and software solutions dedicated to protecting all the traffic between an enterprise network and the Internet, and the second category is the personal firewalls on personal computers dedicated to traffic monitoring.

Although not a very proper distinction, firewalls can be divided into two main

categories according to the mode of implementation:

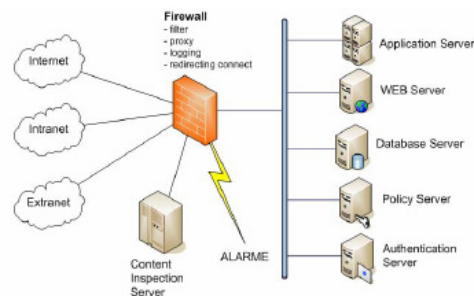
- dedicated device running the filtering software is dedicated to this operation and is virtually inserted into the network (usually even after the router). It has the advantage of increased security.
- combined with other networking facilities.

For example, the router can serve as a firewall, and for small networks the same computer can play at the same time the role of firewall, router, file / print server, etc.

The walls of protection plays a significant role in security management of an intranet. A shield is a device or application that controls the communication between the internal network and an external network such as the Internet. A shield (Figure 1) serves several purposes:

- acting as input filter for Internet traffic to the servers of the organization, preventing unauthorized reaching package of Web servers and applications;
- provide connections to the Internet via proxy maintaining internal user authentication;
- traffic logs, providing audit support, reporting, as for planning.

Figure 1. Location Firewall.



Firewalls do not work without risk. They are generally difficult penetrated, but it has been exceeded, the internal network is open to intruders. In addition, a firewall can not resolve internal network compromise. Approximately 70% of security breaches occur within the company, that are created by people across the wall of protection. An example may be using a modem and a dial-up connections.

In practice the following risks were observed on firewalls:

- ports - filter rules are based on source and destination ports. A machine that uses TCP / IP has 65,535 virtual ports, some of which are used by certain services;
- routing - this option allows users to define how IP routing package.

- SOCK - is a library of application proxies used to allow certain services to be used to keep intruders out;

- Scanning direct PRC – port-mapping is a service that allows users to identify ports that reside on remote procedure calls ;

- scan hidden - not an intruder tries to establish a connection but use package at an interface. These packages give us different answers, depending on the quality of the port (open or not).

- connectionless protocols - firewalls have difficulty in detecting packages used in services that do not require establishing a connection, and UDP, for intranets is necessary to have a intrusion detection system in order to protect the network perimeter attacks.

Intrusion detection systems can be installed as probes or agents. Probes are more efficient in terms of intrusion detection because it minimizes the impact on existing systems by passive hearing and reporting to the central console, without interruption.

Intrusion detection services running on a network device following functions:

- inspect string of data that passes through the network, identifying signatures of unauthorized activities and working procedures of defense;

- generates alarms when detecting events, notifying appropriate personnel security;

- activates an automatic response to certain problems.

In addition to intrusion detection can be considered a proxy for TCP aggregator that will improve security by restricting firewall ports exposed.

Tunneling and encryption are used to create point-to-point networks generally being used protocols and Layer 2 Tunneling Protocol (L2TP), Point-to-Point Tunneling

Protocol (PPTP), IPSec and encryption standards such as DES, MD5, Triple DES, etc..

Mobile code such as Java and ActiveX program creates a growing threat. Applications to inspect the content must:

- provide control over Java mobile code, ActiveX or another;

- prevent attacks by mobile code;

- enable the safe navigation using both Java and ActiveX features.

### 3. Conclusions

Finally, security management is a necessity in the increasingly high, both in intranet network type and other types of networks together, because the multitude of network access points. At the same time need new tools and techniques and a combination thereof to provide maximum safety possible.

### 4. References

- [1]. Anderson R. – Security Engineering : A Guide to Building Dependable Distributed System s, NY 2001;
- [2]. Address, M. – *Surviving Security: How to Integrate People, Process and Technology*, SAMS, Indianapolis, 2002, pp. 59-63.
- [3]. Davis D. – " *The Problems Catch Up With The Solution*", in *Card Technology*, April 2003;
- [4]. Denning D.E. – *Information Warfare and Security*, Addison-Wesley, Reading, Massachusetts, 1999;
- [5]. King, C.M., Dalton, C.E., Os Managlu, T.E. – *Security Arhitecture: Design, Deployment& Operations*, Osborne/McGraw-Hill, New York, 2001, pp.18-26
- [6]. Krutz R.L, Vines R.D. – *The CISSP Prep Guide – Mastering the Ten Domains of Computer Security*, Wiley & Sons, Inc. New York, 2001;
- [7]. Schwartan W. – *Information Warfare*, 2nd Edition , Thu nder 's Mouth Press, New York, 1996;

## An Overview of Systems Development

Roșca Doina

University of Craiova  
doina.rosca@gmail.com

Bănică Logica

“Constantin Brancoveanu” University of Pitești  
olga\_banica@yahoo.com

Sîrbu Mirela

University of Craiova  
mirsirbu@yahoo.com

### Abstract

The core activities in systems development are system analysis, system design, programming, testing, conversion, and production and maintenance. Systems analysis is the study and analysis of problems of existing systems and the identification of requirements for their solution. Requirements must consider economic, technical, and temporal constraints, as well as the goals, procedures, and decision processes of the organization. There are various systems-building alternatives: the traditional systems life cycle, prototyping, application software packages, end-user development, and outsourcing.

**Key words:** *systems development, users, data planning and modeling methodology, database technology and management, data administration;*

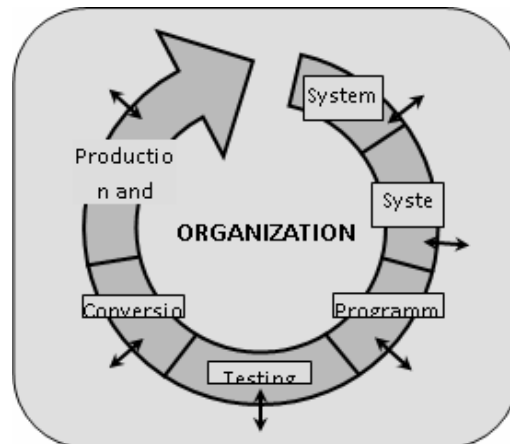
**JEL:** O10;

### 1. Introduction

Wherever their origin, new information systems are an outgrowth of a process of organizational problem solving. A new information system is built as a solution to some type of problem or set of problems that organization perceives it is facing.

The resulting information systems is the product of a series of activities called **systems development**. Systems development is a structured kind of problem solving with distinct activities, as is illustrated in Figure 1 [3]. Each activity involves interaction with the organization.

Figure 1. The systems development process



### 2. Database Trends

Recent database trends include the growth of distributed databases and the emergence of object-oriented and hypermedia databases.

Beginning in the early 1970s, information processing became more distributed with the growth of powerful telecommunications networks and the decline in computer hardware costs.

The dispersion and use of computers among multiple geographically or functionally separate locations so that local computers handle local processing needs is called *distributed processing*. Although early distributed systems worked with a single centralized, over time the smaller local

systems began to store local databases as well. A *distributed database* is one that is stored in more than one physical location.

There are several ways of distributing a database:

a. the central database can be partitioned so that each remote processor has the necessary data on customers to serve its own local needs; changes in local files can be justified with the central database on a batch basis, often at night;

b. the central database can be duplicated at all remote locations; also require updating of the central database after hours;

c. another possibility is to maintain only a central index distributed database and to store complete records locally; a query to the central name index identifies where the full record can be found; there are no central database and no updating costs.

d. an "ask-the-network" distributed database, the network polls its remote processors to locate a record and transfers the complete record to whatever processor requests it.

Distributed systems have *benefits*: reduce the vulnerability of a single, massive central site; permit increases in systems power by purchasing smaller, less expensive minicomputers; they increase service and responsiveness to local users; and *drawbacks*: are dependent on high-quality telecommunications lines, which themselves are vulnerable; local databases can sometimes depart from central data standards and definitions and pose security problems by widely distributing access to sensitive data.

For large national organizations working in several regions, the question is no longer whether to distribute but *how* to distribute in such way to minimize costs and improve responsiveness without sacrificing data and system integrity.

*Conventional database* management systems (DBMS) were designed for homogeneous data that can be easily structured into predefined data fields and records. Conventional DBMS are not well suited to handling graphics-based or multimedia applications. An *object-oriented database*, on the other hand, stores both data and procedures as objects that can be automatically retrieved and shared. The *hypermedia database* approach to information management transcends some of the

limitations of traditional database methods by storing chunks of information in the form of nodes connected by links established by the user. The nodes can contain text, graphics, sound, full-motion video, or executable computer programs. Searching for information does not have to follow a predetermined scheme; the user can choose his own path to move from node to node. For each node displayed on the screen is shown the links between the node depicted and other nodes in the database.

### 3. Management Requirements for Database Systems

Perhaps the most difficult task of the systems analyst is to define the specific information requirements that must be met by system solution selected. Requirements analysis carefully defines the objectives of the new or modified systems and develops a detailed description of the functions that the new system must perform. Requirements must consider economic, technical, and temporal constraints, as well as the goals, procedures, and decision processes of the organization.

Much more is required for the development database systems than simply selecting a logical database model: the database is an organizational discipline, a method, rather than a tool or technology. It requires organizational and conceptual change.

The critical elements [3] in management requirements for a database environment are:

a. *data administration*: data planning, information policy, maintenance of data dictionaries, data quality standards;

b. *data planning and modeling methodology*: enterprise analysis, which addresses the information requirements of the entire organization is needed to develop databases; the purpose is to identify the key entities, attributes, and relationships that constitute the organization's data;

c. *database technology and management* refers to the more technical and operational aspects of managing data, including physical database design and maintenance; these functions are performed by **database administration**;

d. *users*: a database serves a wider community of users than traditional systems; more resources must be allocated to training end users.

Techniques used in requirements determination have involved over time to become more structured and increasingly rely on computer support. The more traditional requirements determination methods include interviewing, observing users in their work environment, and collecting procedures and other written documents. One of the current method is Joint Application Design (JAD); CASE (Computer-aided software engineering) tools are useful in requirements determination; prototyping has become a key tool for some requirements determination efforts.

#### 4. Different Approaches to Improving Development

In the continuing effort to improve the systems analysis and design process, several different approaches have been developed. Attempts to make systems development less of an art and more of a science are usually referred to as system engineering or software engineering. As names indicate, rigorous engineering techniques have been applied to systems development.

The *system life cycle* is the oldest method for building information systems and is still used today for medium or large complex systems projects. This methodology assumes that an information system has a life cycle similar to that of any living organism, with a beginning, middle, and end. The life cycle methodology has a very formal division of labor between end users and information systems specialists. Technical specialists such as systems analysts and programmers are responsible for much of systems analysis, design and implementation work; end users are limited to providing information requirements and reviewing the work of technical staff.

The systems life cycle is still used for building large transaction processing systems and management information systems where requirements are highly structured and well defined. However, it is costly, time-consuming and inflexible. Volumes of new documents must be generated and steps repeated if requirements and specifications have to be revised.

CASE Tools is software that provide automated support for a wide variety Systems Development Life Cycle (SDLC) activities. An integrated and standard database called a

repository is the common method for providing product and tool integration, and has been a key factor in enabling CASE to more easily manage larger, more complex projects and to integrate data across various tools and products.

The term CASE is now extended to includes all types of computer tools from business modeling and requirements capture to implementation tools.

The general types of CASE tools are:

- diagramming tools enable system process, data and control structures to be represented graphically;

- form (computer display) and report generators that make it easier for the systems analyst to identify data requirements and relationships;

- automatically check for incomplete, inconsistent, or incorrect specifications in diagrams, forms, and reports;

- a central repository enables the integrated storage of specifications, diagrams, reports, and projects management information;

- documentation generators produce technical and user documentation in standard formats.

Joint Application Design is a process for collecting information system requirements and reviewing system designs. The basic idea is to bring structure to the requirements-determination phase of analysis to the reviews that occur as part of design. Users, managers, and system developers are brought together for structured meeting run by a JAD session leader. By gathering all the people directly affected by an information system to agree on system requirements and design details, time and organizational resources are better managed.

In many organizations, end users are developing a growing percentage of information systems with little or no formal assistance from technical specialists. This phenomenon, called end-user development, has been made possible by fourth-generation software tools: query languages, report generators, graphics languages, application generators, application software packages, very-high-level programming languages, and microcomputers tools (general-purpose application packages that have been developed for microcomputers).

*Prototyping* is less formal than the life cycle method. Instead of generating volumes of detailed specifications and documents,

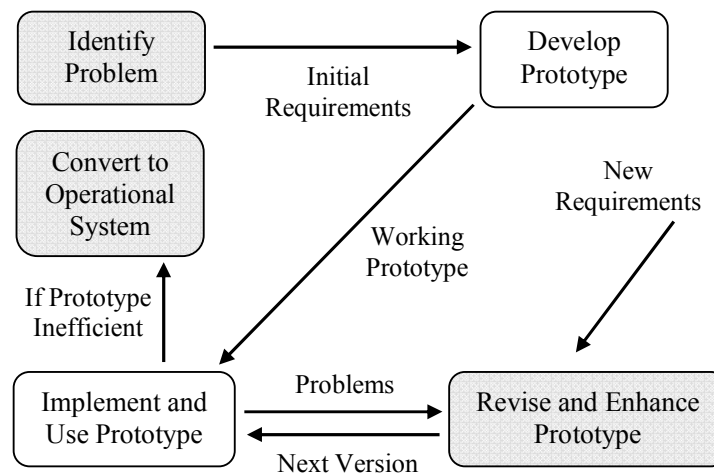
prototyping rapidly generates an experimental working model of a system for end users to evaluate. This method is most useful when some uncertainty exists about requirements or design solutions; it is especially valuable for the design of the *end-user interface* of an information system. Prototyping is best suited for smaller applications - large systems would have to be subdivided so that prototypes can be built one part at a time.

Prototyping consists in designing and building a scale-down but functional version of a desired system. A prototype can be built with any computer language or development

tool, with query screen and report design tools of a database management, and CASE tools.

Using prototyping as a development technique, the analyst works with users to determine the initial or basic requirements for the system; once the prototype is completed, the users work with it and produce feedback to improve the prototype; this iterative process continues until the users are satisfied with it. The advantage of this technique is that involves the user in analysis and design and its ability to capture requirements in concrete, rather than verbal or abstract form.

Figure 2. The prototyping methodology [6]



If one organization develops or runs a computer application for another organization, that practice is called outsourcing: a firm develop and run your application on its computers, so all you do is supply input and take output.

## 5. Sources of software

The specialists group the sources of software into six major categories: information technology services firms, packaged software producers, enterprise-wide solutions, application service providers, open source software, and in-house developers.

Information technology (IT) services firms help companies to develop custom information systems for internal use, or they develop, host, and run applications for customers.

On the top of global software companies is IBM who has been moving away from a

reliance on hardware development towards services and consulting: middleware software and application server, Web server, system integration services, IT consulting. Some of the largest computer companies in the world produce software exclusively, like Microsoft, the top in operating systems and its personal productivity software (Microsoft Office Suite).

Software companies develop what are sometimes called prepackaged software or off-the-shelf systems: Microsoft's Project is popular example of such software. The packaged software development industry serves many market segments.

Some off-the-shelf software systems cannot be modified to meet the specific, individuals needs of a particular organization. Such application systems are sometimes called turnkey systems. The producer of a turnkey system will only make changes to the software when a substantial number of users ask for a

specific change. Even though many organizations perform similar functions, no two organization do the same thing in quite the same way. A turnkey system may be good enough for a certain level of performance, but it will never perfectly match the way a given organization does business.

More and more organizations are choosing complete software solutions, called enterprise solutions or enterprise resource planning (ERP) systems, to support their operations and business processes. Each module supports an individual, traditional business function, such as accounting, distribution, manufacturing, human resources. The difference between the modules and traditional approaches is that the modules are integrated to focus on business processes rather than on business functional areas. Using enterprise software solutions, a firm can integrate all parts of a business process in a unified information system. The benefits include a single repository of data for all aspects of a business process and the flexibility of the modules. a single repository ensures more consistent and accurate data, as well as less maintenance; the modules are flexible because additional modules can be added as needed once the basic system is in place.

Another method for organization to obtain applications is to rent them or license them from third-party providers who run the applications at remote sites. Users have access to the applications through the Internet or through virtual private networks. The companies that host the applications are called application service providers (ASP). As a business grows or changes, using an application through an ASP becomes limiting. Responding to the need for growth and flexibility is a new generation of providers called managed service providers (MSP). An MSP can offer customized applications and also include business processes, engineering, security and maintenance.

Although exist several different types of external sources of software, in-house development remains an option, when resources and staff are available and system must be built from scratch.

## **6. Paradoxes of information systems development methods**

Despite the efforts in method development and research, the question "are methods actually used in practice" is more often raised. It is a contradiction between the great efforts made to promote text-books methods and their surprisingly low use in practice. The companies still use empirical researches, or develop their own variants. Thus, there is a paradox between the claimed advantages of methods, which should indicate high use, and the empirical observations revealing low acceptance of methods.

It was identified some major benefits and drawbacks of method use [4].

Major benefits include enhanced documentation, systematized information systems development process, meeting requirements better, and increased user involvement.

Organization which do not use methods consider that these are labor-intensive, difficult to use and learn, and as having poorly defined and ambiguous concepts. The methods are also seen as limiting and slowing down development, generating more bureaucracy and being unsuitable. Most methods are proposed as universal, therefore the methods is not to apply them as given.

The local methods are more popular than their commercial counterparts; this explains the low acceptance of CASE tools which normally necessitate the use of fixed methods.

To sum up, many of the organizations which apply methods do not use totally the methods propose by other: commercial methods are modified, simplified or combined them with other methods, or organizations develop their own methods.

The development of the local method is relatively high costs and requires significant expenditure of resources, but they consider more applicable for the organization.



## 7. References

- [1.] David M. Kroenke, Kathleen A. Dolan, "Business Computer Systems - An introduction", Mc Graw-Hill, USA, 1990
- [2.] Ralph M. Stair, "Principles of Information Systems - A managerial Approach", South-Western Publishing Company, Boston, USA, 1992
- [3.] Kenneth C. Laudon, Jane P. Laudon, "Essentials of Management Information Systems: Organization and Technology", Prentice-Hall International, UK, 1995
- [4.] Juha-Pekka Tolvanen, "Incremental Method Engineering with Modeling Tools: Theoretical Principles and Empirical Evidence", Jyväskylä University Printing House, Finland, 1998
- [5.] David Avison, Guy Fitzgerald, "Information Systems Development: methodologies, techniques and tools", McGraw Hill, UK, 2003
- [6.] Jeffrey A. Hoffer, Joey F. George, Joseph S. Valacich, "Modern Systems Analysis and Design", Pearson Prentice Hall, 2008

## Managing Operational Risk

Stanciu Victoria  
Ali Eden  
Ivancenco Veronica Constanta  
*Academy of Economic Studies, Bucharest*  
*stanciu victoria58@hotmail.com*  
*vivancenco@yahoo.de*

### Abstract

Managing risks become a very challenging task for any organization and one of its priorities. The rising complexity of modern business processes, the globalization and the IT business perspective determined important changes in making business approach bringing opportunities but also increasing risks. Recent years have emphasized concern and focus on risk, and it became increasingly clear that a need exists for a robust framework to effectively identify, assess, and manage risk. COSO response to this need was materialized in its Enterprise Risk Management – Integrated Framework providing key principles and concepts, a clear direction and guidance in managing risks. The financial and economic crisis showed the importance of a strong risk management process and the need of important changes in order to improve the risk management process in each organization. Romanian companies were strongly affected by the crisis. One of the most important reasons is the ineffective risk management system in the company.

Operational risk is complex and its impact on companies' activity and financial results is high. Its complexity makes more difficult the effort to define dedicated models for its measurement. Modeling and better managing the operational risk is one of the priorities in all big organizations.

The present paper focuses on the main issues on operational risk management implementation and presents the authors' research results regarding operational risk management as an important part of the risk management process.

**Key words:** risk management, operational risk, financial and economic crisis

**JEL Classification:** D03, D81, G01, L20, M19

### 1. Introduction

Managing a multitude of internal and external risks is one of the most significant challenges facing global organizations today. Minimizing losses, maximizing organizational efficiencies and increasing incomes have always been high priorities for executive management and boards of directors. Increasing transaction volumes and the globalization of business, together with a larger reliance on IT, have induced high risks to organizations. In order to maintain a competitive advantage and to improve overall performance, organizations are seeking a way to understand and proactively manage the risks that can impact the business. The risks must be managed in a holistic approach and their independence action must be understood and treated accordingly. The banking industry is the most advanced in risk management as a result of a strict regulatory environment and supervision. This accumulated experience together with COSO recommendations must be valorized in any industry.

### 2. Risk Management Process

According with the governance principles, risk management and internal control system design and implementation are two linked and very important attributions of senior management. Risk management represents a process directed towards the assessing, mitigating (to an acceptable level) and monitoring of risks.

In COSO definition, internal control "system is a process, affected by an entity's board of directors, management and other

*personnel, designed to provide reasonable assurance regarding the achievement of objectives” [3]. Control activities include also the policies and procedures maintained by an organization to address risk areas. The organizations’ objectives can not be achieved if the risks are not identified, assess, control and monitor in an appropriate manner.*

The risk management goal is to maximize the operational capability of the organization, ensuring an efficient use of resources, valuating the existing opportunities in order to maximize the gain. To reach this goal it is necessary to have a good and profound understanding of the existing risks, to implement an efficient internal control system in order to prevent or mitigate the risks.

The management must focus on two issues: risks and opportunities emphasize COSO document [3]:

- Identifying and assessing risks in order to implement adequate controls over the processes and activities so that to obtain the risks’ mitigation;

- Identifying and evaluate the opportunities ensures the needed framework to optimize gain.

Risk management must accomplish the following tasks [9]:

- Identify risks
- Evaluate the risks as to likelihood and consequences
- Assess the options for accommodating the risks
- Prioritize the risk management efforts
- Develop risk management plans
- Authorize the implementation of the risk management plans
- Track the risk management efforts and manage accordingly

The process starts with risks identification. The significant risks must be identified and then assessed. Knowing the impact and likelihood for each risk, management must decide which are the unacceptable risks, the acceptable risks and their acceptance level (in other words the risk appetite must be established). In order to maintain the risks at the accepted level, management must decide the measures to control and monitor risks. The priorities are established and the risk management plan is prepared. It is very important for the management to monitor the

results of its risk management policies and plan.

Risk assessment is an ongoing process that includes identifying risks to achieving organization objectives, analyzing the risks, and deciding how to respond to the risks. External risks arise from activities outside the organization. These external risks may not be directly controllable by the organization or they may constrain the way in which the organization is permitted to take or address risk. Technological developments, changing public expectations, changes in the legislative and regulatory framework, natural catastrophes, extreme natural phenomena and economic changes all have the potential for creating external risks in an organization. Internal risks arise from activities inside the organization. No matter of the nature of risk (internal or external) the process of identifying risks should consider the following characteristics and attributes: type of risk, source of risk, areas the risk impacts, and level of ability to control the risk.

### **3. How to Manage Operational Risk?**

Operational risk is not new, but the oldest risk which organizations face. Operational risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" [2]. In Basel Committee approach, this definition includes legal risk, but excludes strategic and reputational risk.

Each organization’s operational risk profile is unique and requires a tailored risk management approach appropriate for the scale and materiality of the present risks, and the size of the organization. Each organization will need to consider its complexity, range of products and services, organizational structure, and risk management culture as it develops its operational risk management.

The operational risks can be generated by different causes as for example: business disruption and systems failures, processes failure, compliance gaps, failing controls, people behavior, damage to physical assets, employment practices and workplace safety, internal and external frauds, clients, products and business practices. The definition of operational risk incorporates the risks

stemming from people, processes, systems and external events.

Each company is a dynamic organism, knowing permanent growth, developing new products and services more and more complex and using more sophisticated IT infrastructure, operating in a dynamic regulatory, financial and economic environment. All these elements are source of potential operational risks. In this respect there can be identified some areas where operational risks are emerging:

- Extend use of automated technology mapping the potential of manual processing errors into system failure risks. It is also necessary to emphasize the great reliance placed on globally integrated systems;
- Proliferation of new and complex products;
- Extend of e-business and e-government transactions needing related business applications exposing the companies to potential new risks (internal and external fraud and system security issues);
- Need for continual improvement of internal controls and back-up systems;
- Usage of risk mitigation techniques;
- Outsourcing arrangements of all kinds. It is important to emphasize that the management remains responsible for risk management even for outsourced activities.

To make operational risk management effective in the business units it is essential to understand that operational risk is integrated to all other risk types and to understand the overlaps that occurred in particular with credit and market risk for example.

When working effectively, operational risk processes can provide coherent approach to managing risk and control, ensuring the embedding of operational risk into managing the business.

The implemented policies, processes and procedures should include principles for how operational risk is to be identified, measured, monitored, and controlled across the organization. It is important to mention that line of business management is responsible for the day-to-day management of operational risk within each business unit. Business lines' management must ensure that internal controls and practices within their line of business are consistent with the organization policies and procedures to support the

management and measurement of the organization's operational risk. But the awareness of the risks in general and operational risk in particular, must characterize each member of the staff. Implementation of the operational risk framework within each line of business should reflect the scope of that business and its inherent operational complexity and operational risk profile. It also must facilitate the collection of data on operational risk events.

We can conclude that the key elements in the operational risk management process include:

- Appropriate policies and procedures;
- A strong knowledge of the implemented processes in the organization and the existing weakness;
- Efforts to identify and measure operational risk;
- Effective monitoring and reporting the operational risk events and their impact;
- A sound system of internal controls ensuring the limitation of the operational risk events. This implies periodical review of the existing controls in order to ensure their effectiveness;
- Adequate testing and verification of the operational risk framework and continuous improvement of the operational risk framework.

In the authors' opinion, these elements can be put in practice by:

- Creating a system for collecting data related to incidents;
- Establishing a set of key operational risk indicators;
- Establishing the potential operational risk that can occur;
- Analyzing relevant external loss data to understand industry experience with respect to large losses;
- Designing and implementing adequate controls for the potential operational risk;
- Periodical test on the implemented controls, reporting controls' failure and taking measure for controls' improvement.

As figure no. 1 shows in all risk models is important to imbed relevant experience and knowledge and to value the existing information on potential loss events. All these operational events must be reported and retained in dedicated databases. All this

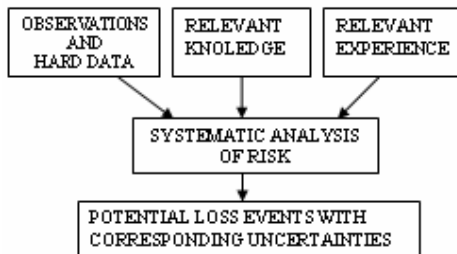
information will be analyzed and the response action will be decided accordingly.

Information related on operational risk must be summarize and reported periodically. Events with high financial impact will be reported at the moment of discovery. Being part of the risk management process it is also object of the internal audit assessment.

Operational risk management reports should summarize:

- Operational risk loss experience at the organization level, business lines, and event-type basis;
- Operational risk exposure;
- Changes in relevant risk and control assessments;
- Management assessment of early warning factors signaling an increased risk of future losses;
- Exception reporting;
- Operational risk causal factors.

Figure no. 1 Incorporating all available knowledge in risk model [6]



Sound internal controls will reduce the possibility of significant human errors and irregularities in internal processes and systems, and will assist in their timely detection when they do occur. Operational risk inputs play a significant role in both the management and measurement of operational risk. Operational risk inputs help the organization in identifying the level and trend of operational risk, determining the effectiveness of risk management. That's why each organization must define and implement its policy that identifies when an operational risk loss becomes a loss event and must be added to the loss event database. The organization must be able to capture and aggregate internal losses that cross multiple business lines or event types. In this respect, creating and implementing application that can be accessed by all the staff in order to input the loss events is critical. In the same

time, the employees must be encouraged to report this kind of events. This is also a corporate governance issue that must be put in practice.

The information input in the loss event database refers to the followings:

- Loss amount;
- Description of loss event;
- Where the loss is reported;
- Loss event type category;
- Date of the loss;
- Discovery date of the loss;
- Event end date.

The authors consider that, in designing operational risk process, can be used AMA approaches defined for the banking institutions, consisting in ensuring [7]:

- An independent operational risk management function.
- An operational risk measurement system that is closely integrated into the day-to-day risk management processes of the bank.
- Regular reporting of operational risk exposures to business units, senior management, and the Board, with procedures for appropriate action.
- The operational risk management system must be well documented.
- Regular reviews of the operational risk management processes/systems by internal and/or external auditors.

#### 4. Conclusions

Risk management is a challenge for all the organizations. The organization, being a dynamic organism and operating in a changing environment is exposed to increasing and diversified risks. To reach the established objectives it is compulsory to ensure an efficient use of resources and monitor the risks. There is no predefined solution for risk management in general and operational risk management (ORM) in particular. Each organization must tailor and permanent improve its risk management process. What is essential is to make all employees aware on risk issues. Risk management must be understood and perform as an ongoing process.

## 5. References

- [1] A. McNeil , R. Frey , P. Embrechts, Quantitative Risk Management: Concepts, Techniques, and Tools (Princeton Series in Finance), 2008.
- [2] Basel Committee on Banking Supervision Supervisory, “Guidance on Operational Risk Advanced Measurement Approaches for Regulatory Capital”. 2003. Available online at [www.bis.org](http://www.bis.org)
- [3] COSO, “Enterprise Risk Management — Integrated Framework. Executive summary”. 2004. Available online at [www.coso.org](http://www.coso.org)
- [4] FAA, FAA System Safety Handbook, Chapter 15: Operational Risk Management December 30, 2000.
- [5] IIA, “Putting COSO’s Theory into Practice. Tone at the top”. Nr.28/2005 [www.theiia.org](http://www.theiia.org)
- [6] A. Larse “Objectivity and the Measurement of Operational Risk” , available online at [http://www.fi.se/Templates/Page\\_\\_\\_11946.aspx](http://www.fi.se/Templates/Page___11946.aspx)
- [7] P. Mc Connell, “Measuring Operational Risk Management Systems under Basel II”, available online at <http://www.continuitycentral.com/feature0197.htm>
- [8]PricewaterhouseCoopers. “Operational risk management. Embedding operational risk management: the real use test”. [www.pwhc.com](http://www.pwhc.com)
- [9] C. Simmons, “Risk management”. Available online at [http://sparc.airtime.co.uk/users/wysywig/risk\\_1.htm](http://sparc.airtime.co.uk/users/wysywig/risk_1.htm)
- [10] <http://www.erstegroup.com>
- [11] <http://www.pwc.com/extweb/pwcpublications.nsf>

## Managing IT Risks

Stanciu Victoria  
*Academy of Economic Studies, Bucharest*  
*stanciu victoria58@hotmail.com*  
Bran Florin Paul Ph.D  
*BCR Erste*

### Abstract

At a time when the importance of information and technology is obvious in every aspect of business, the need to manage more appropriate the IT risks has never been so important. IT is not just widely present in all organizations but complexly interconnected inside and outside the organization. As organizations' dependence and interdependence on IT have increased, the consequences of IT risk have increased as well. Technology has increased the amount of data and information being processed and it has significantly impacted the control environment and business itself. IT is now a key component of the business activities in any organization. In the same time IT risk management became a key component of the corporate governance. More and more organizations are aware that an effective and efficient IT risk management is vital to their success and reputation. Securing and operating today's complex systems is challenging and demanding. The increase of the cybercrime imposes more complex security solutions and higher costs.

The present paper presents the authors research results regarding IT risk management underlying the impact of the inadequate IT risk management on the organizations' activity, the necessity to build a global IT risk solution and manage all the risks, no matter of their nature, in a holistic approach.

**Key words:** IT risk management, technology, cybercrime, security;

**JEL Classification:** M15;

### 1. Introduction

The risk management process must take into consideration the fact that risks action is interrelated and their consequences must be evaluated in a holistic approach. Risk travels through the organization in an interdependent and connected way.

Risks must be recognized and managed holistically across the entire organization. Risks of all kind exists by the organization activity its self. IT risk always exists, whether or not it is detected or recognized by an organization. Not long ago, IT risk occupied a small corner of operational risk. Now, it is time to change this approach and treat IT risk as a significant risk and manage it accordingly. Due to the importance of IT to the overall business, the IT specific risks can induce failure to achieve strategic objectives.

In their work the authors opt for a mixed research methodology, including deductive positive research, as well as inductive critical interpretative research. These two approaches are able, in the authors' opinion, to offer a strong interconnection of theory and research work, merging quantitative and qualitative research methods.

The methodological approach was mostly positive and required the following steps:

- The selection of the research area.
- Research area literature review: The main source of information was represented by IT Governance Institute and ISACA documents.
- Delimitation of the conceptual framework boundaries which included the specialists' points of view regarding fundamental concepts and the relationships arising among these concepts. At this level,

descriptive, exploratory and evaluative research techniques were used.

- Decisions regarding key questions/areas.
- Defining the starting hypotheses to be verified through empirical research.
- Performing the research: carrying out interviews with IT managers and specialists, documentation on risk management processes implemented in Romanian organizations and conducting analysis on these IT risk management solutions.

- Final conclusions formulation.

The authors started their research from the requirements of the IT governance principles and IT security standards and intended to emphasize the impact of the IT risks the organization is exposed to if there are not implemented adequate IT security strategies and policies. The research outcomes were materialized in authors' recommendations regarding approaches to be used in IT risk management and means of correlation of IT, business and risk strategy.

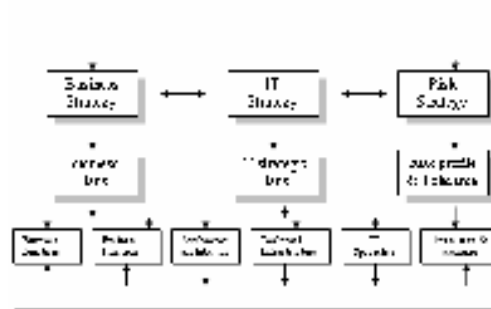
## 2. Needing a holistic approach in risk management

IT has become an integral part of the business. With IT so intrinsic and pervasive within organizations, governance needs to pay special attention to IT. In this respect, IT governance became an integral part of organization governance. In this new approach, the business strategy and the IT strategy become interrelated. Risk strategy is also built in correlation with business and IT strategies. Now, more than ever, the executives understood how strongly the enterprise relies on IT and how critical IT is for the execution of the business strategy. As a result, the sets of objectives for business and IT strategies are interconnected and the monitor over the objectives fulfillment must be done for both sets - business and IT.

The figure no. 1 emphasizes the linkage between business, IT and risk strategies. The business strategy can't be established without taking into consideration the risks involved by the organization processes, products and its operating environment. The business objectives must be based on the defined risk profile (the present one and the targeted one) and the organization tolerance at risk. In order to accomplish the business strategy objectives

IT strategy will provide the frame and requirements for IT developments so that the technical solutions (hardware, software and communication) to support the business lines ensuring in the same time the needed security.

Figure no. 1. The interconnection between business strategy, IT strategy and risk strategy



Based on the IT strategy, the IT plans will be drawn ensuring the IT solutions' implementation. A key to successful IT performance is the optimal investment, use and allocation of IT resources (applications, technology, facilities, data, and people). In this respect, the IT strategy and plans must be tailored based on the business plans and projects and their schedule must be aligned to the business plans and deadlines.

The value that IT adds to the business is a function of the degree to which the IT organization is aligned with the business and meets the expectations of the business. These expectations can be reflected in some indicators and requirements as for example:

- Meeting business requirements
- Flexibility to adopt future requirements and ensuring permanent compliance with legal requirements
- Time response
- Ease of use and security
- Integrity, accuracy and disponibility of information
- Limits regarding downtime caused by IT dysfunctions
- Limits regarding the number IT events/losses from IT events
- Number of users.

But how IT can support risk management and why risk strategy is linked with IT strategy? Risk management process needs consistent databases and dedicated applications in order to offer accurate and



consistent risk information. As a result, based on the risk models, risk scenarios and stress tests designed by chief risk officer (CRO), the organization will develop/acquire the IT dedicated solutions so that in day-to-day activity to be implemented the risk strategy. It is also necessary to notice that IT risks are subject of risk management assessment, monitor and reporting. In this respect, risk limits must be established for IT risks too so that their control to be effective. This IT risk acceptance levels imposes adequate IT solution, security solution inclusively. In this respect, IT strategy will be tailored based on this IT approved risk profile.

### 3. IT risks and consequences

Today, the success of organizations may hinge on mastering a broad landscape of IT risks. According with IT Governance Institute documents “**IT risk** is the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise. IT risk consists of IT-related events that could potentially impact the business. It includes both uncertain frequency and magnitude, and it creates challenges in meeting strategic goals and objectives as well as uncertainty in the pursuit of opportunities” [8]. IT risk encompasses the full spectrum of risks that may affect or result from IT operations: natural disasters or changes in government and/or supervision bodies’ regulation, internal processes that affect product or service quality, IT organizational and datacenter performance, loss of intellectual property, supervisory or legal controls, and much more.

In the authors’ opinion, many managers do not yet understand the full implications of IT risks. IT risk, in many organizations, is still approached as a technical issue and is not approached linked to other specific risks. That is why IT risks are considered to be just on IT specialists’ responsibility and there is no adequate implication of other senior executives.

Our research emphasize that most IT risks arise not from technical or low-level people issues but mainly from the failure of the organization’s oversight and IT governance processes. IT risk results from decision-making processes that ignore the full range of potential business consequences of IT risk.

Such failures produce a series of inadequate decisions, inadequate structured IT assets that are manifested as ineffective IT governance. Best practice recommends integrating the management of IT risk into the overall enterprise risk management (ERM). IT risk must be managed as any other significant risk. In this respect the organization must prepare and approve:

- Clear strategy and policies. The IT strategy must be correlated with the business strategy. The IT assets and support can potentate the business and create new opportunities, can improve the organization image and reputation.
- The risk profile and the processes for its monitor, IT risk being part of them.
- Procedures for risk response.

Because IT risk is now a business risk, with business consequences, enterprises must change the way they manage it. They must replace technology-driven approaches and fragmented views of IT risk with an integrated view that starts with an understanding of the business risks and consequences that generated by IT decisions.

We must understand IT in a dual approach: risk and opportunities. IT demonstrated that it is a progress vector for any organization: enables the use of the business opportunities and enhances values through optimal use of IT resources. At the same time IT, by all its components, can induce vulnerabilities and expose the organization to adverse events. In this respect, the dedicated processes for IT risk identification, assessment, monitor and report need periodically review and improvement.

IT environment is very dynamic. It is characterized by permanent changes and developments. As a consequence, new vulnerabilities and threats can occur. In this respect, the IT risk identification and monitor is an ongoing process.

Every organization has a unique IT risk profile that can register changes in time. These changes are determined by the new risks tolerance and IT infrastructure and components. The organization security strategy and policies must be tailored on its characteristics, complexity and demands.

#### 4. Responsibilities on IT risks

While risks like market, credit, liquidity and other operational risks than IT risk have long been incorporated into corporate decision-making processes, many executives tend to relegate IT risk to technical specialists. According with IT Governance Institute (ITGI) document on IT risk framework, “responsibility belongs to those who must ensure that the activities are completed successfully. Accountability applies to those who own the required resources and have the authority to approve the execution and/or accept the outcome of an activity within specific risk IT processes”. In this respect ITGI presented its recommendations on the attributions and responsibilities related to risks, IT risks inclusively [9]:

- Board has the accountability on common risk view and integrating with Enterprise Risk Management (ERM).
- Chief executive officer will have both responsibilities and accountability on common risk view and integrating with ERM.
- Chief risk officer will have responsibilities and accountability on all ERM areas: risk governance, risk assessment, risk response.
- Chief financial officer will have responsibilities on common risk view.

It is the first time when an organization as ITGI is providing such detailed requirements on this subject. All these recommendations aim at ensuring a strengthen governance and risk management by clarifying main responsibilities on risk area.

It is important to emphasize the place of business management and business process owners in this matrix of responsibilities and accountability related to risk. Business management is responsible on: common risk view, integration with ERM, risk analyze, maintaining risk profile, managing risk and risk response. The business process owners get responsibilities on all risk governance, risk assessment, risk response issues.

In risk management process are implied risk committees being responsible on common risk views, risk-aware decisions and risk analysis. As best practice requires (ITGI), “for larger enterprises, it is necessary an IT executive committee (often referred to as the IT strategy committee) acting on behalf of the board and

chaired by a board member. This committee is a very effective mechanism for evaluating, directing and monitoring the use of IT in the enterprise and for advising the board on critical IT issues”. [9]

A strong internal control system implies three functions: risk control, compliance and internal audit. All these three functions present responsibilities on risks:

- Risk control function gets responsibilities on all risk governance, risk assessment, risk response issues;
- Compliance and internal audit are in charge with common risk view and event response issues.

The common users, accidentally or not, can induce IT risk events. In this respect there are required several response actions from the organization part:

- enforce a risk culture, and place IT risk in the appropriate place. A risk-aware culture starts at the top with business executives who set direction. The goal is a culture in which risk is discussed openly across the organization and actively managed to tolerable levels.
- ensure continuous training on risks’ procedures, IT inclusively;
- implement adequate controls and perform their periodically review.

Having an excellent IT staff is not enough to control IT risk. Managing IT risk requires everybody involved to think differently. The CIO must make the business consequences of IT risk clear to business executives and provide a decision-making environment in which those executives can discuss and make decisions about IT risk in business terms. Business executives must ensure that the CIO has implemented risk management and must actively participate in the decisions and culture changes that IT risk management entails.

Many of the risk factors are generated by ineffective IT governance. It is important to notice that inadequate IT governance is characterized by the absence of appropriate structures and processes for business involvement in IT investments and decisions.

#### 5. Risk mitigation action points

In order to mitigate risks, it must be identified the systems’ vulnerabilities and their threats source. Each identified risk must be

analyzed from likelihood and impact points of view and delimited to acceptable risks from those considered unacceptable. The IT risk “appetite”, mining IT risk levels assumed by the management decision, is used in the acceptable and unacceptable risks delimitation. Risk mitigation activities imply several steps to be followed [3]:

- Actions prioritize: in this stage the risk levels established in the risk assessment activity are used. The result of this step is the actions ranking (the ranking levels are: high, medium, low);
- Evaluation of the recommended control options: the starting point is the risk assessment. The step result is the list of possible controls;
- Cost-Benefit analysis. This step ensures the assessment of the impact of implementing and not implementing the controls and the associated costs. In accordance with the risk appetite a certain level of risk is accepted by the management. All IT risk solutions will have to ensure this risk acceptance and face with an agreed cost;
- Selecting the needed controls. The implemented controls must be permanently assessed so that their effectiveness is ensured. In time, the existing controls can impose improvements or new controls can be added so that the risks to be mitigated.
- Responsibilities assign;
- Develop safeguard implementation program which include: risks and associated levels, actions prioritization, recommended controls, selected controls, responsible persons, timings, maintenance requirements.

The organization must establish the needed controls for the IT risks. According with Symantec IT risk report the key controls for managing IT risk are [5]:

1.Strategic controls implying:

- IT policy, strategy, and architecture
- Organizational structure, roles, and responsibilities
- Governance, compliance and continuous improvement
- Data lifecycle management

2.Support controls

- Asset inventory classification and management
- Physical and environmental management
- Configuration, change and release management

- Incident, response and problem management.

The effectiveness of the implemented controls must be permanently checked, and if needed additional controls must be implemented. The IT environment and systems are in a permanent change and development in the effort of better sustain the organization needs. All these changes can be source of new vulnerabilities. This is why risk identification and assessment process must be considered as an ongoing process. Independent opinion on IT security and IT risk management is needed on periodically bases. This is why IT audits are periodically performed.

## 6.Conclusion

IT risk management is more than using technology to solve security problems. Implementing an adequate IT function and ensuring a strong IT risk management the organizations can gain competitive advantage from its competitors. But IT must be understood and managed in its dual approach: risk and opportunities.

Adopting an integrated view of IT risk represents a milestone of the risk management process. All senior managers must be aware of the importance of an adequate IT risk management and allocate the needed resources for the IT function and security solutions in order to keep IT risk at an acceptable level.

The business strategy must be designed in correlation with risk strategy and IT strategy. Without these correlations, the strategic goals can't be accomplished under a consistent risk control.

IT risk management must be an ongoing process, starting with risk assessment, paying an important attention to the cultural and training issues and addressing long-time improvements.

Risks, of all kind, must be managed in a holistic approach being known their interrelation. The board must approve an appropriate risk profile. An early warning system must be put in place so that the organization reacts in time in case of registering increasing levels of risks.

Responsibilities on risk management must be clearly assigned and ensured in day-to-day

activity impaling all senior managers and process managers.

## 7. Bibliography

- [1] Ali E., Stanciu V., Auditul sistemelor informatice. Ed. Dual Tech, Bucuresti, 2004.
- [2] Nastase P. et al., Auditul si controlul sistemelor informationale, Editura Economica, Bucuresti, 2007.
- [3] G. Stoneburner, A. Goguen, A. Feringa, Technology Systems. NIST Special Publication 800-30. 2002.
- [4] G. Westerman , R. Hunter, IT Risk. Turning business threats in competitive advantage. Harvard Business School Press. Boston, Massachusetts. 2007.
- [5] SYMANTEC: "IT Risk Management Report 2: Myths and Realities". Volume 2, Published January, 2008.<http://www.systemsalliance.com>
- [6] IT Governance Institute, Board Briefing on IT governance. Second edition. <http://www.isaca.org/ContentManagement>
- [7] IIA. "Managing and auditing IT vulnerabilities. Professional guidance". [www.theia.org](http://www.theia.org)
- [8] IT Governance Institute, "Understanding How Business Goals Drive IT Goals". 2008. [www.itge.org](http://www.itge.org)
- [9] IT Governance Institute, Enterprise risk: Identify, Govern and Manage IT Risk. The risk IT framework. 2009.[www.itge.org](http://www.itge.org)
- [10] [www.ISACA.org](http://www.ISACA.org)

## Data and Information Exchange via the Internet

Stancu Ana-Maria Ramona  
Academy of Economic Studies, Bucharest  
ana\_maria\_ramona@yahoo.com

### Abstract

In connection with the exchange of data and information on the Internet talking about EDI, XML and UDDI. I can say that EDI is international standard for exchanging documents and computerized and appeared through the years 1960 and can be considered the ancestor Electronic Commerce and also talk about the benefits of it. Descendant of SGML and XML was developed for the construction of languages of any domeniului. Vorbește și caracteristicile și avantajele și poate spune că formatul este flexibil, open standard care poate fi accesat de multe aplicații pe multiple platforme, și UDDI oferă un mecanism pentru înregistrarea și clasificarea serviciilor web pe care oferiți și pe care doriți să oferiți.

UDDI este în sine un serviciu web și utilizatorii comunică cu UDDI SOAP mesajele utilizate. Un registru UDDI conține informații despre afaceri și servicii pe care oferiți. UDDI poate fi utilizat pentru a înregistra orice tip de serviciu nu numai servicii web.

**Key words:** EDI, XML, UDDI

**JEL Classification:** A12, C88, O33

### 1. EDI (Electronic Data Interchange)

EDI reprezintă norma internațională pentru schimbul computerizat de documente (date). Acronimul EDI provine din limba engleză: Electronic Data Interchange, care înseamnă „Schimb de date electronice”. EDI este definit ca: „*the exchange of computerized information from one application to another, in a structured data format, through a telecommunications network*”. Standardul EDI aprobat de ONU este numit EDIFACT, înseamnă: EDI for Administration, Commerce and Transport. În esență, EDI

permite schimbul de documente electronice eliminând imprimarea și manipularea hârtiei. Acest schimb nu este practic limitat în timp și spațiu.

EDI – Electronic Data Interchange) a apărut în anii 60 și poate fi considerat strămoșul Electronic Commerce – EC. EDI oferă companiilor comerciale oportunitatea de a schimba documente de afaceri într-un format standard utilizând mijloace electronice pentru procesare și transmitere.

În sfârșitul anilor 70 a apărut un nou model legat de afaceri computerizate – *the reciprocal exchange of Electronic Data* (EDI - Electronic Data Interchange).<sup>1</sup>

EDI se referă în mod specific la mesaje structurate. Mesajele nestructurate pot fi trimise în diferite moduri, de exemplu, prin e-mail electronic.

EDI a redus costurile pentru producători și furnizori (wholesale sau retail). De asemenea, a dus la îmbunătățirea proceselor de achiziție (optimizarea stocurilor și corelația cu cererea). Cu toate acestea, din cauza costurilor de implementare și incompatibilităților între diferite versiuni de EDI, puterea de penetrație estimată pe piață nu a fost niciodată atinsă.

Utilizarea EDI la nivel internațional a fost impusă de cerințele schimbului de documente comerciale și de relațiile sofisticate dintre companii.

Avantajele oferite de EDI sunt următoarele:

- Creșterea competitivității;
- Creșterea numărului de clienți;
- Creșterea fiabilității informațiilor;
- Acces ușor la date statistice computerizate;
- Creșterea eficienței personalului.

<sup>1</sup> <http://www.ledisource.com/information/beginner>

## 2. XML eXtensible Markup Language

XML (eXtensible Markup Language), descendant of SGML (Standard Generalized Markup Language) is a meta-language used in the activity for structural marking of documents whose specification has been developed beginning with 1996 within the Consortium entitled World Wide Web (W3C), by a research group led by Jon Bosak from Sun Microsystems, to which subsequently adhered a series of expert groups from academic (Text Encoding Initiative, NCSA, James Clark) and industrial communities (SUN, IBM, Netscape, Oracle, Adobe etc.). The first XML version was standardized in February 1998; this standard has been subsequently revised twice in October 2000 and February 2004 respectively.

The functions designed for XML range as follows:

XML should be easy to use on Internet.

- XML should be compatible with a wide range of applications.
- XML should be compatible with SGML.
- It should provide facile programs which will further process XML documents should be written.
- The number of optional facilities from XML is reduced to a minimum, ideally to zero.
- The XML documents should be readable by users and clear in realistic terms.
- The XML design should be prepared fast.
- The XML design should be formal and concise
- The XML documents should be easy to create.
- The lapidary character from XML markings should bear minimum importance.

XML has been elaborated in order to:

- Separate the syntax from semantics in order to provide a common framework for structuring the information
- Elaborate mark-up languages for application in any field
- Ensure the future structuring of information
- Provide the independence from platform and support for internationalisation

Ever since its appearance, the XML language has enjoyed sustained popularity, even greater than Java and HTML languages, being considered the most advanced web technology. The increased level of flexibility and its simplicity are the two characteristics which make it so wanted. XML gained ground when Internet Explorer 5 and Netscape 6 browsers were launched and quickly became the solution for companies which intend to automate and connect their systems and data basis.<sup>2</sup>

A XML document is an ordered labelled tree:

- **character data** – leaf nodes containing data
- **elements** nodes tagged by
  - a name (often call the element type) and
  - a multitude of attributes each having a name and a value; these might contain one or several children.

**Main characteristics of XML** are:

- it is a markup extended language, similar to HTML;
- it has been designed for data writing;
- XML tags are not predefined but they could be created by the user on the basis of some predefined rules;
- XML contains a reference to a Document Type Definition (DTD) in order to describe the way in which data are being formatted;
- XML is used in conjunction with a DTD in order to be auto-descriptive.

**XML advantages**

- XML describes the contents and the display modality of the respective contents;
- The information is easier to find and handle in XML-based format;
- XML provides multiple facilities which are improved by presentation (for instance by using browsers)
- XML supplements HTML: XML data could be used within HTML pages.

XML provides the ideal methodology for electronic business as it permits the makers of type messages to clearly identify the role and syntax of each element related to variable data

---

<sup>2</sup> PC Romania Journal,  
[http://www.pcmagazine.ro/pcmag3-3/timpul\\_liber3.shtml](http://www.pcmagazine.ro/pcmag3-3/timpul_liber3.shtml)

using a definition which is both automatically workable and automatically interpretable.

XML could extend existing EDI applications as it permits the creators to add data specific to the application.

The XML language represents a flexible format, an open standard which could be accessed by numerous applications on multiple platforms. This means that applications could be conceived faster and could be solidly-built and easier to service.

### 3. UDDI (Universal Discovery, Description and Integration)

In order to solve the issue related to the discovery of Web services and to the ways communication is achieved with them the technologies developers and the business leaders gathered their efforts and coordinated with a view to develop the UDDI [17] specification. UDDI represent a common effort for the integration of business-to-business transactions so as to reach industrial proportions. This Web service defines a set of standard interfaces for accessing data bases by creating an open framework, independent from the platform which gives the companies the opportunity to accomplish several objectives at the same time.

Currently, **UDDI** specifications reached version 3 which tries to constitute **UDDI** as a huge „meta service” intended for searching web services.

**UDDI** allows the companies operating via the Internet two things:

- To discover one another;
- To define their interaction modality via the Internet.

### 4. Conclusions

International standard for electronic document exchange, EDI contains functions necessary to carry out specific electronic data interchange. Software establishes connection with computer communications partner, and receives transfer data confirms and completes the connection, according to communication protocol. Need to communicate with all devices connected via Internet required to create a universal language. This language is XML, which facilitates the exchange of data

between different devices: computers, cell phones, PDAs, etc.. By combining EDI with XML to create a powerful new tool Internet applications. UDDI is a directory that is intended to be complete all companies that have presence on the Internet, and Web services that provide them. Through UDDI creates a standard interoperable platform and applications that enable businesses to quickly find and use the dynamic Web services provided by the Internet.

### 5. References

- [1]. Axam R., Jerome D., (2003), A Guide to ERP Success, Webpage, <http://www.army.mil/escc/docs/robbinsgioiaerp.pdf>;
- [2]. ERP Overview, (2004), Website, <http://guide.darwinmag.com/technology/enterprise/erp/index.html>;
- [3]. Hanganu C., (2005), Business Intelligence cu viteza gândului la un „qlik” distanță, Website, [www.agora.ro](http://www.agora.ro);
- [4]. Koch C., (2006), Senior Editor CIO.com, The ABCs of ERP, Website, <http://www.cio.com/research/erp/edit/erpbasics.html>;
- [5]. Năstase F., Năstase P., (2002), Tehnologia aplicațiilor web XML, DOM, ASP, Ed. Economică;
- [6]. Marchand R., Agnoux H., (1999), Applications EDI sur l’Internet, Ed. Eyrolles;

## Support provided by SQL Server for XML language

Stancu Ana-Maria Ramona  
*Academy of Economic Studies, Bucharest*  
*ana\_maria\_ramona@yahoo.com*

### Abstract

This paper aims to provide support offered by SQL Server for XML. languages run server-side scripting (ASP, ASP.Net, PHP or JSP), are already mature technology today, providing an opportunity to develop complex applications for Web ului.Necesitatea can communicate with all connected devices via the Internet has required the creation of a universal language that is understood by all devices and applications located on the server must be able to prepare data for transmission. XML makes its presence felt in this area mainly because of its flexibility in WML (Wireless Markup Language), an XML application for mobile dizpositive.

**Key words:** information exchange, Internet, XML, server, WEB, ASP, ASP.Net, PHP, JSP;

**JEL Classification:** O33, A12, C88

The very fast development of the Internet has helped the main trend related to the development of applications after the 90s to consist in the provision of support and accessibility for clients connected to the Internet, either via computers or through some other devices (intelligent mobile phones, PDA, etc.) which could be connected to the Internet. The large number of languages and technologies which permit the facile development of applications related to the exploitation of existing databases by means of a simple Web browser. To this end, the scripting languages run on server-side (ASP and its successor ASP.Net, as well as PHP or JSP) are presently mature technologies which represent a further opportunity to develop some complex Web-dedicated applications.

Bearing in mind the need to be able to communicate with all devices connected through Internet the creation of a universal language understandable by all equipment, no matter how various, has been imposed. XML

proved to be the response to all these needs, forming a new period – a superior stage from all points of view – during the evolution of informational era and facilitating the exchange of data between various equipments. XML also emerged as a consequence of the limitations of the Hypertext Mark-Up Language (HTML). The latter could not provide the necessary flexibility for using data within other applications.

Taking into account all these considerations I shall present bellow some of the facilities provided by the *SQL Server* environment for the *XML* technology and the modality it integrates with the Web Server - Microsoft Internet Information Server (IIS), explaining at the same time the most significant among the most recent options, specific for the SQL language and capable to provide support for *XML*.

The server-side applications should be able to prepare data for transmission. These applications should provide XML documents with extended or fixed DTD validation pointers and towards one or several styles specifications. We need to convert the XML to server-side objects in order to publish certain information, in order to create services and to improve the manner in which businesses are being managed via the Internet.

There are several server-side technologies which cannot be divided as easy as the Client Technologies. The HTTP protocol is being used by the client browser with a view to transport data processed on the server-side before these are sent from HTTP to the client. The procedure involved for transferring and processing of data is very simple: the client browser requests an URL from the server. The DNS (Domain Name Server) determines the IP server address and redirects the Web server request which carries out a new session for the client.

The electronic publishing for the purposes of direct marketing is one of the most usual forms of promoting businesses through the Web and companies could obtain significant sales increases only by using it.



Web Servers could provide information to users in two different ways: static files and dynamic-generated files.

The first situation refers to the use of existing XML files which one can create by extracting information from within a database and by generating the XML file which will be stored on the server.

Its displaying is performed by means of XSL-extensible Style sheet Language.

The second possibility is constituted by the dynamic generation of XML files due to server-side languages - JSP, ASP, CGI, PHP, etc.

The configuration of the support for XML as far as SQL Server is concerned supposes the following operations:

**A.** By means of the *SQL XML Support* application in IIS the option *New – Virtual Directory* is being selected. Subsequent to the carrying out of this operation an assistant (wizard) will be available who will facilitate the determination of interaction between the data base server and the Web server.

**B.** *The creation of the virtual directory*, establishing its name (which shall be used within the URL component module for selecting the Web pages) and of the physical directory where Web pages or other specific elements will be stored. Supposing that the virtual directory has been called *XML*, the Web pages or SQL interrogations based on XML technology could be accessed through the browser, using the following address: [http://nume\\_server\\_web/XML](http://nume_server_web/XML).

**C.** By means of the *Security section*, a user name and a valid password are being introduced in order to access the SQL Server and the data base which we intend to operate through the XML technology. Moreover, in the event we determined the mixed authentication mode we could access the data base both through an SQL Server user account and by using a standard user account of the Windows operating system.

**D.** The *Data Source* section allows for the determination of SQL server to be accessed and of the data base to be used. In the event the server is accessed within the local network the appropriate IP address needs to be specified; if these settings are intended for testing at a local level, the identifier (*local*) shall be specified for the SQL Server field.

**E.** By means of the *Settings* the way in which the interaction between the data base server and the Web server would be made is therefore set, through XML technology.

Therefore, two important options could be established:

- *Allow URL Queries* – through this option SQLXML interrogations might be performed directly through the introduction of the SQL interrogation as an additional parameter to the URL address. *Allow Template Query* – through this option interrogations might be performed while using a series of predefined XML templates.

Also, configuration options are accessible allowing the setting of directories where the templates and configuration schemes of XSL files would be stored.

The advantages of using the XML-XSL combination are as follows:<sup>1</sup>

- It is easier in terms of site management
- XML separates the formatting contents
- XML represents an open standard

The advantages of using XML within the electronic business are the following:<sup>2</sup>

- *Simplicity*–it could be easily understood by computers and by people

- *Extensibility* –it gives us the opportunity to create our own tags closely related to the business specificity

- *Maturity* – the XML specification appeared in February 1998 but this language represents a simplification of SGML – a language which made its appearance long before and which proved its usability in business environment.

A new business pattern is mentioned, that is mobile businesses which in fact represent an extension of businesses for wireless devices.

The XML currently emerges in this area due to its flexibility especially through WML (Wireless Markup Language), an XML application for mobile devices.

## Conclusion

The most convenient practice management databases is provided by modern DBMS SQL Server 2005, which was created by Microsoft and the company integrates advanced analysis tools and security in conditions of high reliability. Every copy of SQL Server 2005 comes with a suite of Business Intelligence services and facilitățile autooptimizare dynamic, self and allow administrators database to focus on strategic business

<sup>1</sup> <http://www.106.ibm.com/developworks/library/>

<sup>2</sup> xml and b2b

requirements. User access Internet require collaboration between database server and web server, leading to exploitation of centralized database of customers that are provided only data they require aceștia.Platforma. NET technologies together with other host applications designed to be run Web - Microsoft Internet Information Server - and management system database SQL Server 2005 is the most modern, fast and efficient way for a firm to be a good presence on the web.

## References

- [1] Malos G. - - Ingineria sistemelor în managementul programelor si proiectelor, Website, <http://old.pm.org.ro/>;
- [2] Năstase F., Năstase P., (2002), Tehnologia aplicatiilor web XML, DOM, ASP, Ed. Economică;
- [3] Oprea D., (1999), Analiza si proiectarea sistemelor informationale economice, Ed. Polirom;
- [4] Website, [W3C \(World Wide Web Consortium\) XML Web site](#);

# A Risk Correlation Model for an European Emerging Country and its Integration in a Global Macroeconometric Model

Stoenescu Cimpoeru Smaranda  
*Academy of Economic Studies, Bucharest*  
*smarandacimpoeru@yahoo.com*

## Abstract

In this paper we construct and estimate a country-specific macroeconometric risk driver engine which is compatible to the GVAR model and framework developed by Pesaran, Schuermann and Weiner, methodology that makes use of cointegration techniques to link the cyclical or systematic components of firm credit risk with the firm's own idiosyncratic credit risk. As the general framework in PSW, 2004 lacks a Central-Eastern European component, we propose an extension of the model in order to incorporate a Romanian element. We adapt the Romanian variables and data to the particularities of an emerging economy. The results show that the new estimated component can be use as a theoretically consistent correlation model within a Romanian specific credit portfolio management tool.

**Key words:** GVAR model, emerging economy, Central-Eastern European component.

**JEL Classification:** C51, O40

## 1. Introduction

The recent challenge in the credit risk modeling refer to the linkage of the the cyclical or systematic components of firm credit risk with the firm's own credit risk. Credit risk refers to risk due to unexpected changes in the credit quality of a counter party or issuer and its quantification is one of the major frontiers in modern finance. Credit risk is a key element in portfolio management, bank capital regulation and credit derivatives pricing. Recent years have witnessed significant advances in the techniques,

design, calibration, implementation of models for assessing credit risk.

Considering its important place in the country specific and world economy, we can view the credit risk as one of the causes and the effects of the economy's status. In order to sustain this comment, we argue that the economical environment has a major influence on the asset value of companies (the "effect" implication), but also that the credit activity of banks, based on their assessment of credit risk is a lead factor in the development/drawback of an economy (the "cause" implication)

The "cause" implication is also stated by Carpenter et al. (2001): "the credit supply behavior of banks may affect the cyclical of economic activity for a variety of reasons, including factors that are unrelated to capital requirements, such as time-varying perceptions and aversions to risk among loan officers." The latter part of the statement refers to the judgemental assessing of credit risk, which is indeed a subjective component of lots of rating models of banks in Romania. In the same paper, Carpenter explains the feedback effect between capital requirements and business cycle: in case the general economic climate deteriorates to a certain level, a significant number of loans would have to be reallocated to a higher risk category, which means that capital requirements could rise noticeably. As issuing new equity is rather difficult on short term, banks will not choose to raise capital, but instead will opt for shifting assets away from the higher-risk loan categories or reducing the growth of their overall balance sheet. Therefore, credit supply conditions might become more restrictive as an economy is falling into recession, especially considering the new capital requirements under Basel II. As the purpose of the paper is not to

assess the effect of credit supplies on the business cycle, we will not go further with this analyze and focus on the influence of macro-economical context in the credit risk modeling.

Commercial banks would largely benefit from a global macroeconometric model capable of generating forecasts for a core set of macroeconomic variables taken for a set of region and countries, thus considering the interdependencies that exist between worlds' economies – all put together in a consistent, cohesive methodology.

This idea was developed by Rae and Turner (2001) – they constructed a small forecasting model covering the US, the Euro area and Japan; another model structure across OECD countries, China and other regional blocks was incorporated in the NiGEM model (National Institute's Global Econometric Model). However, although these models provide significant contributions to the inter-linkages that exist among major world economies and proved good forecasting results, they are difficult to use for risk management (due to their size and lack of financial inter-between world's economies).

The methodology proposed by Pesaran, Schuermann and Weiner (2004 – PSW) and Pesaran, Schuermann, Treutler and Weiener (2006) has the advantage of linking an adjusted structural default model to a structural global macroeconometric model (global vector autoregressive – GVAR model), thus providing the context for estimating the conditional credit risk. The PSW methodology is comprised of two steps: first – a macroeconomic simulation engine is estimate and then the specific default firm models are estimated in order to translate the macroeconomic conditions into credit risk outcomes.

The paper has the following structure: the first three sections are dedicated to the methodology and framework proposed by PSW (2004), followed by Section 5 where we propose a methodology for constructing a vector error correcting Romanian model which can be linked to the original model.

## 2. The PSW GVAR model

The macroeconomic risk-driver model (GVAR) used in PSW (2004) is comprised of 7 developed economies, USA, Germany, France, Italy, U.K., Japan, China and 20 other countries aggregated in 4 regions: Western Europe, South East Asia, Middle East, Latin America. The output for these countries accounts for 70% of world GDP. They were chosen based on the size of their GDP, basically G-7 countries – considering that major banks have most of their exposure in these set of countries. In the case of Romania, the GVAR model lack applicability since it does not include an east European region. However, the approach is general enough so that country-specific cointegration models can be linked into the global and already established GVAR model, as already did by Wet et al. (feb.2009), which successfully included a South African component into the model. In this section of the paper we present the core elements of the GVAR models, as stated in PSW (2004).

The N+1 countries/regions considered in the global economy, are indexed by  $i = 0 \dots N$ , country "0" taken as referenced country. The country specific variables are related to the global economy through the vector of foreign variables (constructed with inter-country trade weights), the "starred" variables. The equation for the vector of specific variables can be written as a VARX(1,1) :

$$x_{it} = a_0 + a_{1t} + \phi_{11}x_{it-1} + A_{10}x_{it}^* + A_{11}x_{it-1}^* + \varepsilon_{it}, t = 1, \dots, T; i = 0, \dots, N \quad (1)$$

Where  $x_{it}$  is a  $(k_i \times 1)$  vector,  $x_{it}^*$  -  $(k_i^* \times 1)$ ,  $\Phi_i$  -  $(k_i \times k_i)$  matrix,  $A_{i0}$ ,  $A_{i1}$  -  $(k_i \times k_i^*)$  matrix. Please note that if  $A_{i0} = A_{i1} = 0$ , the model reduces to simple VAR(1).

We make the following notation:  $\Sigma_{it} = (\sigma_{it,ls})$  the covariance matrix of the residuals,  $\varepsilon_{it} \sim i.i.d. (0, \Sigma_{it})$ , where  $\sigma_{it,ls} = COV(\varepsilon_{ilt}, \varepsilon_{ist})$ , thus only lag dependent, time invariant.

The global variables used in the model can be summarised as follows:

$$y_{it} = \ln\left(\frac{GDP_{it}}{CPI_{it}}\right), \quad p_{it} = \ln(CPI_{it}), \quad q_{it} = \ln\left(\frac{EQ_{it}}{CPI_{it}}\right),$$

$$m_{it} = \ln\left(\frac{M_{it}}{CPI_{it}}\right), \quad q_{it} = 0.25 \ln\left(1 + \frac{R_{it}}{100}\right) \quad (2)$$

Where “i” stands for the index country and the variables are: nominal gross domestic product (GDP), consumer price index (CPI), nominal money supply (M), nominal equity price index (EQ), nominal rate of interest per annum in % (R).

### 3. Solution of the GVAR model

In order to solve the GVAR model, we define the vector:

$$z_{it} = \begin{pmatrix} x_{it} \\ x_{it}^* \end{pmatrix}, \text{ of dimensions } (k_i + k_i^*) \times 1 \quad (3)$$

By using (3) in (1), we get:

$$A_i z_{it} = a_{i0} + a_{i1}t + B_i z_{i,t-1} + \varepsilon_{it} \quad (4)$$

Where  $A_i = (I_{k_i} - A_{i0})$ ,  $B_i = (\Phi_{i1}, A_{i1})$ , both  $A_i, B_i$  are matrixes of  $k_i \times (k_i + k_i^*)$  an rank  $k_i$ .

We collect all variables in a global vector:

$$x_t = (x_{0t}, x_{1t}, \dots, x_{Nt}) \text{ of dimensions } (k \times 1),$$

where  $k = \sum_{i=0}^N k_i$

thus, we will have:

$$z_{it} = W_i x_t, i = 0, \dots, N \quad (5)$$

where  $W_i$  is a  $(k_i + k_i^*) \times k_i$  dimensions matrix of fixed (known) constants defined in terms of the country specific weights  $w_{ij}^y, w_{ij}^p, w_{ij}^q, w_{ij}^e, w_{ij}^r$  and  $w_{ij}^m$ .  $W_i$  can be viewed as the “link” matrix that allows the country-specific models to be written in terms of the global variable vector,  $x_t$ .

Replacing (5) in (4) we obtain:

$$A_i W_i x_t = a_{i0} + a_{i1}t + B_i W_i x_{t-1} + \varepsilon_{it}$$

where  $A_i W_i, B_i W_i$  are  $k_i \times k$  dimensional matrices. The above equation can be written as:

$$G x_t = a_0 + a_1 t + H x_{t-1} + \varepsilon_t \quad (6)$$

both G, H are  $(k \times k)$  dimensional matrices. Then, we find the solution of the GVAR model by multiplying (6) with  $G^{-1}$ :

$$x_t = G^{-1} a_0 + G^{-1} a_1 t + G^{-1} H x_{t-1} + G^{-1} \varepsilon_t \quad (7)$$

### 4. Estimation of the GVAR model

So far, we have presented the solution for the GVAR model, a very elegant and natural

solution proposed by PSW (2004). As it has been observed, the general model allows for interaction amongst countries and economies through three channels: contemporaneous dependence between the endogenous (domestic and foreign) variables and their own lagged values; dependence of country-specific variables on common global effects (oil prices were chosen in the GVAR model); weak cross-sectional dependence of the idiosyncratic shocks between countries.

These particularities provide a complete system of N+1 country-specific variables which can be estimated simultaneously. However, the number of parameters that need to be estimated in such a global model is often higher than the number of data available. In order that the model wouldn't become unusable, PSW (2004) make a significant enhancement to the framework and prove that the model can indeed be estimated by estimating step-by-step the country models, rather than simultaneously, thus making it feasible for large values of N.

Under weak exogeneity conditions the parameters of the country specific models can be estimated using the reduced-rank regression approach introduced by Johansen (1989, 1995). As such, one allows for the possibility that the levels of the macroeconomic variables might be cointegrated in the long run, this being one of the main reasons for choosing the reduced-rank regression instead of ordinary least squares. Although a simpler technique, OLS wouldn't have allowed for the fact that one or more of the six factors used in the model might have unit roots, or that the variables might be cointegrated (e.g. the levels of the variables might be “tied” together in the long-run). As the method developed by Johansen assumes that all variables are endogenously determined and of order I(1), a modified method for estimating reduced rank regression is used, method that permits weakly exogenous regressors, which has been developed by Harbo, Johansen, Nielsen and Rahbek (1998) and Pesaran, Shin and Smith (2000).

Therefore to estimate the country-specific models subject to reduced rank, we shall firstly consider a generalized version of the global model that allows for “common global

variables” such as oil prices. The augmented VARX\* model in this case is given by:

$$x_{it} = a_{i0} + a_{i1}t + \phi_i x_{it-1} + \lambda_{i0} x_{it}^* + \lambda_{i1} x_{it-1}^* + \psi_{i0} d_t + \psi_{i1} d_{t-1} + \varepsilon_{it} \quad (8)$$

For  $t=1,2,\dots,T$  and  $i=0,1,2,\dots,N$ , where  $d_t$  is an  $s \times 1$  vector of common global variables assumed to be weakly exogenous to the global economy. The error-correction equation for the above model is written as follows:

$$\Delta x_{it} = a_{i0} + a_{i1}t - \Pi_i v_{i,t-1} + \lambda_{i0} \Delta x_{it}^* + \psi_{i0} \Delta d_t + \varepsilon_{it} \quad (9)$$

where:

$$\Pi_i = (A_i - B_i, -\Psi_{i0} - \Psi_{i1})$$

$A_i, B_i$  as defined in equation (4) and:

$$v_{i,t-1} = \begin{pmatrix} z_{i,t-1} \\ d_{t-1} \end{pmatrix}$$

$\Pi_i$  is a  $k_i \times (k_i + k^* + s)$  matrix and provides information of the long-run level relationship that may exist amongst the variables of the model. In the case where all the variables,  $z_{it}$  and  $d_t$ , are I(1) and are not cointegrated, then  $\Pi_i$  will be equal to zero and equation (9) becomes a first differenced model:

$$\Delta x_{it} = a_{i0} + \lambda_{i0} \Delta x_{it}^* + \psi_{i0} \Delta d_t + \varepsilon_{it} \quad (10)$$

Where  $a_{i1}t$  is no longer part of the model, as in order to avoid the problem of quadratic trend, a supplementary restriction was imposed, that is:

$$a_{i1} = \Pi_i \kappa_i.$$

If  $\Pi_i = 0$ , then we will have random walk models (augmented by oil price changes) for the global variables,  $z_t$ . If we use the solution technique presented in the previous section, we get the following form for the GVARX\* model:

$$G \Delta z_t = a_0 + \Psi_0 \Delta d_t + \varepsilon_t \Leftrightarrow \Delta z_t = G^{-1} a_0 + G^{-1} \Psi_0 \Delta d_t + G^{-1} \varepsilon_t$$

The important conclusion one can draw from the above equation is that if in the regional models there are no long-run relationships (e.g. no cointegration), then there will be no long-run relationship in the global model.

But, as outlined by PSW (2004), “in general due to long-term inter-linkages that exist between domestic and foreign variables themselves one would expect  $\Pi_i$  to be non-zero but rank deficient”. We note that the rank of  $\Pi_i$  equals the number of cointegrating relationships between variables in country  $i$ . The rank deficiencies appears when  $rank(\Pi_i) = r_i < k_i$ . In case where  $\Pi_i$  is non-zero but could be rank deficient, the error-correction form of the country-specific

model will be estimated considering the reduced rank restriction:

$$H_{r_i} : rank(\Pi_i) = r_i < k_i$$

If  $rank(\Pi_i) = r_i$ , we can write:

$$\Pi_i = \alpha_i \beta_i'$$

Where  $\alpha_i$  is a  $k_i \times r_i$  matrix of rank  $r_i$ ,  $\beta_i$  a  $(k_i + k^* + s) \times r_i$  matrix of rank  $r_i$

Identification and estimation of  $\beta_i$  and other parameters, is carried out in two steps: first the rank of  $\Pi_i$  is determined (using the maximum eigenvalue or the trace statistics). Then,  $\beta_i$  is estimated by imposing the suitable exact or possibly over-identifying restrictions on the elements of  $\beta_i$ .

## 5. Extending the original model with a Romanian component

Using the methodology outlined above, the original GVAR model incorporates seven country-specific and four region-specific models, capturing the dynamics of 25 countries' macroeconomic developments. However, since the GVAR model lacks an East-European, emerging country model, in this section we begin the challenging task of adding a East-European component to the GVAR model, which is believed to be compatible to the general model.

Firstly, we will argue the need to incorporate a East-European component in the general model. As also stated before, the original GVAR models (PSW, 2004), is comprised only of developed countries/regions. However, considering the expansion of the European Union towards Central and East Europe in 2004 and 2007, we believe that including the mentioned component is a natural and necessary development of the model. We note that in 2004 a large group of 10 countries were included in UE, out of which: Poland, Slovenia, Hungary, Czech Republic, Slovakia and others; in 2007 Romania and Bulgaria were also accepted in UE. All mentioned countries come from the communist regime that shadowed Europe after World War II until the early 1990. After 1989, year of violent changes of power, all countries



faced the problem of turning to a market economy, after over 40 years of command controlled economy. The transition period was not an easy one, phenomena like hyper inflation, privatization, high volatility of exchange and interest rates were problems that had to be overcome in order to implement the principles of capitalism. In the last 10 years, all mentioned countries tried to “grow” from emerging countries to developed ones. However, if 2007 was a promising year for all Europe, the effects of the global economic crisis cut the rapid pace of growth of these economies. Even so, the Central and East European economies remain an important component of the World economy that cannot be neglected in a GVAR model.

The second issue was to choose between a country specific model (Romania would seem an obvious choice as we could use the results to further develop the model into risk correlation matters) or a regional model that would incorporate several central and eastern European economies. We have opted for the first version because the degree of development in the chosen region varies very much from one economy to the other. For instance, based on the GDP in 2008, the emerging economies have dispersed ranks: Poland is rated best on 18, followed by Czech Republic (40), Romania (43), Slovakia (57), Bulgaria on 72. This is an empirical prove of the different stages of development for these countries and an argument that supports our option of estimating a country rather than a regional specific model for the Central-Eastern side of Europe. The somewhat middle position owned by Romania between similar economies leads us to think that it is a reasonable choice and a good exponent for the selected region.

The third issue we have to deal with is the choice of the variables and the construction of the data series. Since this paper is focused on adding a Romanian component to the PSW (2004) GVAR model, it is advisable to use, as far as possible, the same underlying data during construction so that one could link this model to the outcomes generated by the original PSW (2004) model in a dynamic global simulation and forecasting framework. Therefore, in order to construct the global macroeconomic data, we have tried to use the same variables and time

interval for the data series, but we have come across some difficulties. First, we will not include two variables: interest rate and equity price index, thus for the Romanian component we will have  $k_t = 4$ . The reasons are basically data unavailability: for the interest rate, the treasury bill reference rate is available starting with 2002, while for the equity index, the Bucharest Exchange Trading Index (BET) was first listed in 1997, and in the first years of operation, the capital market was very volatile and its stabilization occurred somewhere in 2004-2005. In this case, the variables we use are:  $GDP_{Rt}$  the nominal gross domestic product for Romania,  $CPI_{Rt}$  the consumer price index,  $M_{Rt}$  the money supply (M2), and  $E_{Rt}$  the domestic currency/USD exchange rate

From here on one can construct the foreign/starred variables and test the integration properties of the series. The results of the unit root tests are in line with the a priori expectation and the general results found in the literature. Given the unit root results, we acknowledge that the VECM approach is appropriate within the Romanian context.

## 6. Conclusions

Based on the methodology proposed by PSW (2004) this paper proposes a new component that could be linked to the original model proposed by PSW, component that represents a group of European countries that are not represented in the current form of the GVAR model. We propose the framework for constructing a Romanian-specific credit-market correlation model based on a Vector error-correction model which includes both domestic and global economic variables. The challenge of the estimation process is the construction of the variables and data sets for an emerging economy. As results obtained from estimates are in line with the ones delivered by PSW (2004), one can argue that the correlation model could be employed as a stand-alone model within a Romanian-specific credit portfolio management tool.

*This paper is a result of the project „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by European Social Fund through The Sectorial Operational Program for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies.*

## 7. References

- [1] Carpenter, S., Whitesell, W., Zakrajsek, E., 2001. Capital requirements, business loans and business cycles: an empirical analysis of the standardized approach in the new Basel Accord. Federal Reserve Board, Finance and Economics Discussion series, pp. 2001-2048.
- [2] De Wet, A.H., Van Eyden, R., Gupta, R., 2009. Linking global economic dynamics to a South African-specific credit risk correlation model. *Economic Modeling* 26 (2009), 1000-1011.
- [3] Elizalde, A., 2005. Do we need to worry about credit risk correlation? *Journal of fixed Income* 15 (3), pp. 42-59.
- [4] Gordy, M.B., 2000. A comparative anatomy of credit risk models. *Journal of Banking and Finance* 24, 119-149.
- [5] Johansen, S., 1989. Statistical analysis of cointegration vectors. *J. Econ. Dyn. Control* 12, 231-254.
- [6] Johansen, S., 1992. Cointegration in partial systems and the efficiency of single-equation analysis. *J. Econom.* 52, 389-402
- [7] Pesaran, M.H., Schuermann, T., Treutler, B., Weiner, S.M., 2006. Macroeconomic dynamics and credit risk: a global perspective . *J. Money, Credit Bank.* 38 (5), 1211-1261.
- [8] Pesaran, M.H., Schuermann, T., Wiener, S.M., 2004. Modeling regional interdependencies using a global error correcting macroeconometric model. *J. Bus. Econ. Stat.* 22 (2), 129-169.
- [9] Rae, D., Turner, D., 2001. A small global forecasting model, OECD Economics Department, Working Paper, No. 286.
- [10] Ruxanda, G., Stoenescu, S., 2009. Bivariate and multivariate cointegration and their application in stock markets, *Economic computation and economic cybernetics studies and research* 43 (4/2009), 17-33



## Dynamic Model for Evaluation the Economical-Ecological Equilibrium for an Investment Project

Szentesi Silviu Gabriel  
Crişan Simona  
„Aurel Vlaicu” University of Arad  
silviuszentesi@yahoo.com  
simo\_crisan@yahoo.com  
Frăntescu Marius  
National Administration of Meteorology  
frantesco\_marius@yahoo.com

### Abstract

*Evolving of models for realizing an economical-ecological balance for accepting or rejecting investment projects should be increasingly from practical viewpoint, implying a more elaborate theoretical approach and scientific fundamented. Even if we have pertain to an economical approach and aim a level of updated real net income fairly high for each accepted project, the model also includes ecological component monetary tackled, but fundamented from welfare viewpoint. Proposed model proves practical utility and has the ability to generate individual and social welfare.*

**Key words:** investment project, economic value, ecologic criteria

**JEL Classification:** L19, Q57

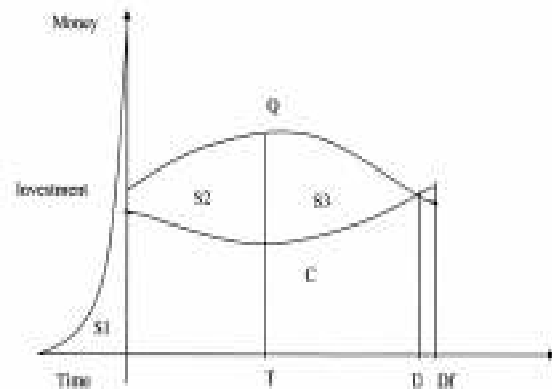
### 1. Investment projects and pollution

Investments represent an important factor of economic and social development. There are many situations when investments and investment projects with major environmental impact especially, such as those from energetic field, chemical industry, mining or ferrous metallurgy, besides bringing about benefits they lead to appearance of externalities pollution likeness or significant deterioration of environment, even if it is not felt directly and actively as a high pollution. How much

deterioration of environment is, for investment projects represents a problem which neither theory, nor economical practice or policy-makers can neglect anymore. Lasting development involves efficient and responsible decisions, in order to achieve a dynamic economical-ecological equilibrium.

When taking decisions on an investment object is important to compare the investment (project cost), net profit (gain) and total economic value which is lost because of the project.

Figure 1 The evolution of investment process and pollution



These are shown in Figure 1 where the following symbols were used:

- C - Cost of production during objective operation;
- Q - Output value during objective operation;
- D - Objective economic lifetime;

$D_f$  - Objective physical lifetime;  
 $T$  - Duration of investment recovering;  
 $S_1$  - Total investment value;  
 $S_2$  - Value of benefit for investment recovery ( $S_2 = S_1$ );  
 $S_3$  - Amount of net profit (gain) obtained by objective operation during economic lifetime  
Based on presented relations can be established:  
1. If  $S_3 - B_c > 0$  investment project is realized or modernized  
2. If  $S_3 - B_c < 0$  investment project is not realized or modernized

where:

$B_c$  - Benefit obtained as a result of environment preservation and therefore of investment project unfulfilment or area development

Total economic value represents actually measurement unit for preservation benefit  $B_c$ , meaning of total amount for asset remained as natural environment.

Benefits and costs of the project can be measured relatively easily because they are presented as data based on market prices. This is not the case for total economic value and so it is necessary to investigate ways for measuring the components of total economic value.

Such an assessment represents a practical and theoretical particularly complex problem which has not been fully clarified till present. Importance of techniques' elucidation for establishing the total economic value is that decisions for investment or function maintenance of various economical objectives are based on it.

Total economic value of natural environment is the main element also for both benefit measurement of environment improvements and measurement of environment damages.

If consider one development project whose total economic value lost due to this project or gained because of its unfulfilment must be calculated (Fig. 1), it can be concluded that losses and benefits are opposite sides of the same concept.

## 2. Environmental issues

Nature and living creatures (including humans), considered from their interdependence perspective, are driven by distinct laws ensuring a natural dynamic balance between different ecosystems.

Along with the development of economic activities, the natural balance of different ecosystems was affected.

We can affirm that nature regenerates itself or has the ability to create a new balance between ecosystems and economic activities, but this ability is constrained, and economic activities determine a constantly growing accumulation of polluting factors in the environment, making impossible their annihilation. Finally, the environmental balance is affected, with undetermined extraeconomic and economic effects, influencing even the human race existence. Starting from this statements, Dansereau formulated in 1957 a series of rules for interaction between man and environment. Reversion law – the environment tends to regain the lost positions right after the ceising of humn economic activities. The cultivated land, abandoned from various reasons, is spontaneously reintegrated in the nature; Irreversibility law – certain renewable natural resources becomes unrenueable when humans, through irrational economic measures, interrupt them or the conditions in which the cycle takes place; Reversed action law – Any environmental change as a result of human economic activities has consequential effects on economy, social life and even health. Massively cutting forests in ancient Italy had fatal consequences on agriculture.

Summarizing, the human action on the environment results are: disturbance of bio-geo-chemical cycles – through removing materials from the cycle and transforming cyclical processes in acyclical ones; change of environment's chemical composition – through discharging waste on rivers; replacement of natural interaction systems – with human social-economic activity determined interaction systems; replacement of environment's natural

components with artificial ones (for example: earth crust completely human controlled).

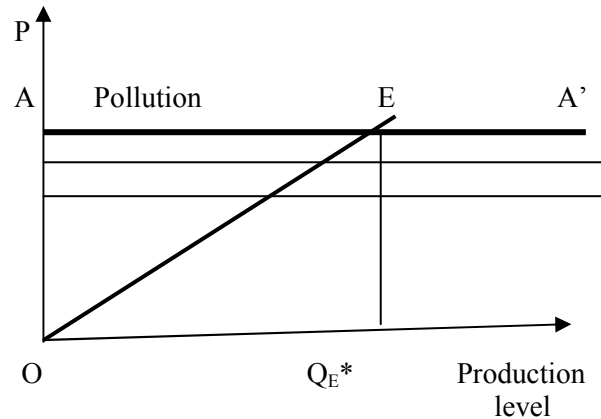
Regarding the interaction between humans and nature, Vemadski and Teilhard de Chardin introduced the concept of noosphere (deriving from the greek noos = brain, intelligence, intellect). Noosphere means human rational, conscious control of the environment, based on ecological principles. This is a necessity for ensuring the existence of future generations. One of the basic conditions to be met is to control and maintain the environment pollution in acceptable limits in order to ensure the conditions for sustainable functioning and development of the society.

These concerns regarding the human rational, conscious control of the environment (ambient) materialized in the 80s and 90s in a new interdisciplinary science, environmental economics, that intends to identify the relationship and the methods for rational environmental management, condiered an economic resource, on the basis of the hedonistic principle of achieving maximum social satisfaction with a minimum of insatisfactions.

Returning to ecology, we can say that pollution has a totaly different meaning than the economic one, in any ecosystem pollution being a shock that detonates a growing imbalance as the polluters quantity increases. The balance is decisively broken when the polluters quantity exceeds the environment's capacity of absorption.

In figure 2 the horizontal line AA' is the environment's absorption capacity; the line OP is the pollution level. The balance is broken when pollution exceeds E.

Figure 2 – Pollution and environment's absorption capacity



We can say that  $Q_E^*$  is the „optimal” level of activity from an ecological point of view, of course if the absorption capacity is not exceeded but for an activity level above  $Q_E^*$ . In reality we cannot speak of an optimal  $Q_E^*$  representing the maximum flow of activity accepted by the receiving environment during a certain period of time. We notice that curve AA is just an approximate representation; it is not easy to precisely determine the extreme environment capacity, we can identify an undetermination area (the drawing area).

We cannot state that pollution is present only from a starting point. It is obvious that as soon as it becomes positive, it generates imbalances in ecosystems, and when it reaches the maximum tolerable ecological level (E), it becomes harmful and implies a social cost from the economic point of view. The point E in figure 2 is an ecological ceiling, and an economic doorstep.

### 3. Comparative analysis of economic and ecologic criteria

The comparative analysis of economic and ecologic criteria allows us to state that ecology and economics are two different and antinomic fields. The analysis purpose is not to determine which of these two fields must prevail, but to identify guidelines for solving the economic-

ecologic balance. As the society will have a certain protection of the environment as a goal, it must accept that only the economic criteria are not sufficient for adopting decisions.

Finally, the problem regards the environment's absorption capacity, including the capacity to recycle the waste, the crowding limits, the ecological processes and space covering.

We cannot conclude that economic activity must be ceased or limited, it would be a nonsense, but if the society decides that environmental protection is important, it must limit certain activities to a level that does not exceed the environment's absorption capacity. The cost-benefit analysis itself cannot identify such a purpose. Usually, a „good” analysis must involve a proper cooperation between the involved factors: public administration (government), companies and community members. This means to get over the fact that economic analysis is not capable of measuring everything in monetary units, and accepting the fact the cost-benefit analysis is unable to evaluate ecological phenomena and the risks associated. This perception deficiency makes the existing generation to undertake risks for the future generations, and from this must come at least the carefulness, if not the thoughtfulness. More than ever, the environmental issues remind us that economics cannot manage everything and that J. St. Mille's statement - „he is a poor economist who is just an economist” is more actual than ever.

#### 4. Updated total net income - decision criteria

For accomplishing economical-ecological equilibrium for an investment project it can be used a model based on estimation of updated total net income. This model requires a comparison of incomes total amount in their updated form and costs and damages produced by investment objective during conception, operation and sometimes after its closing. Main income categories on the one hand and losses, damages on the other hand are:

##### A. REVENUES

1. Updated net incomes obtained as a result of investment objective operation - VNA
2. Updated net wage incomes - VSNA;
3. Updated state incomes - taxes, social insurances, etc. - VASTA;
4. Incomes involved by investment objective existence and operation - VAA;
5. Incomes resulted from residual sale - VRA.

##### B. LOSSES, DAMAGES, COSTS

1. Environmental damages produced by objective accomplishing - DMA;
2. Pollution produced during lifetime - PDVA;
3. Pollution generated by manufactured and sold products, performed services; updated - CHDPA (updated remediation costs);
4. Updated costs for natural environment restoration after economical activity - CRMA.

One first model which can cause updated total real net income without taking into account the social component and state incomes would be possible starting with all previous indicators. Updating can be done when making an investment decision or at the time of objective commissioning.

$$Vn_{rta} = \sum_{h=1}^T Vn_{ah} - \sum_{h=1}^{T_1} Pn_{ah} - \sum_{h=1}^d Dn_{ah} + Vn_r$$

where:

T = lifetime of investment objective;

$P_{nah}$  = updated net losses since "h" year produced by environment deterioration because of objective operation, which can be determined by impact studies;

$V_{nah}$  = updated net income since "h" year obtained through objective operation;

$D_{nah}$  = updated losses produced by environment deteriorations during "h" year due to environment damages during objective construction;

$Vn_r$  = residual net income obtained by removing the use of objective;

$V_r$  = residual income obtained from the goal out of service;

$Vn_{rta}$  = total real net income, which represents the total real benefit of the community obtained as result of objective operation.

second model involves an extension of the calculation and financial analysis to an economic analysis, according to a model similar to World Bank where in addition to issues strictly related to company's cost-benefit analysis there are quantified also private social benefits and state incomes. Such a model also based on updated total actual net income is:

$$Vn_{rta}=VNA+VSNA+VASTA+VAA+VRA- \\ -DMA-PDVA-CHDPA-CRMA$$

Measurement and monetary assessment of pollution and damages caused to natural environment come under the concept of total economic value, of finding a market value for environment resources and measurement of losses due pollution generated by investment objective or investment project variant, respectively. It represents a permanent research field, but also the reason of many controversies among economists and ecologists. From economical viewpoint, one project is realizable if updated total real net income is positive and large enough and minimum benefit principle is applied. In this case, minimum benefit represents an opportunity cost.

## 5. Conclusions

The economic-ecologic balance is a major concern of our days for a sustainable development. The issue of this challenge can start from the investments projects and the decisions makers how can except or reject a harmful project or less useful for the society or community.

To put together economic criteria with economic criteria is not an easy task from many points of view. According to this objective a theoretical and practical proposal is to be use for decision the indicator named real net present value. This indicator aggregates in general and practical way the economic and ecologic criteria the benefit on a project end the losses for the environment caused by the realization of the investment project. This method is also acceptable from accounting and banking perspective and generated if is necessary a hierarchy of the project and their alternatives.

## 6. References

- [1] C. Florescu, P. Mâlcomete, N al. Pop Szentesi Silviu *Marketing co. Explanatory Dictionary*, Economic Publishing House, 2003.
- [2] M. Blaug, *Economic Theory in Retrospect*, Didactic and Pedagogic Publishing House, Bucharest, 1992.
- [3] S. Szentesi, *Investment decisions in the process*, UAV Publishing House, Arad, 1999.
- [4] S. Szentesi, *Economy and the environment*, Servo-Sat Publishing House, Arad, 1998.
- [5] S. Szentesi, R. Cureteanu, *Management and analysis of investment projects*, Mirton Publishing House, Timisoara, 2004.
- [6] S. Szentesi, S. Rusu, R. Cureteanu, *Statistics economic activity*, Mirton Publishing House, Timisoara, 2005.
- [7] R. D. Simpson, M. A. Toman, R. U. Ayres, *Natural Resources and the Environment in the New Millennium*, Lamson Library and Learning Commons, 2005.
- [8] <http://www.mmediu.ro> (is hosted by the Ministry of ENVIRONMENT of Romania).

# Implementation of Best Sustainable Practices in the Hospitality Industry

Sztruten (Lefter) Gina Gilet  
*Academy of Economic Studies, Bucharest and  
Romanian- American University, Bucharest  
lefter\_gina@yahoo.com*

## Abstract

Following passage through times of global economic crisis, also called "resource crisis", and due to the extremely advanced level of development of hotel industry globally, it is becoming appropriate and necessary to implement ecomanagement systems for the hotel business, as currently there are no alternative economic recovery plans. Subordinating under the requirements of sustainable development planning, hotel development and management activities must be conducted only in terms of environmental compatibility.

**Key words:** global economic crisis, "resource crisis", hotel industry, eco-management systems

**JEL Classification:** L83, M19, Q01, Q57

## 1. Introduction

Hotel ecomanagement process comprises several stages (initial, interim and final) and implies a certain order in actions taking place in space and time, mainly aimed at increasing economic efficiency, environmental, social and cultural rights of all activities taking place within the hotel unit.

In the practice of firms and institutions, the concept of sustainable development is correlated with the concept of ecomanagement (environmental management). The concept of hotel ecomanagement applies all rules, beliefs and values operating in any successful environmental organization.

## 2. The Hotel Eco-management System

Hotel eco-management is still widely regarded as a special hotel species that requires a whole set of measures more or less charged with marketing messages. But someone who seeks global trends, notices that major international chains are very seriously concerned about this issue and announces an entire series of measures to limit the polluting effects of the existence of their hotels.

Taking into account the resources needed to develop eco-hotel business, as pillars of the ecomanagement hotel system, we can still speak of certain raging necessary measures to implement, which must become part of the hospitality industry best practices. These measures should cover the location, architecture, energy, water materials, noise, air quality and carbon emissions, design and performance measurement.

**Location as a ground element for new projects.** For exclusively natural environments it is very important the development of a study of environmental impact to identify solutions and how the development will fit in that location. A study correctly done, in order to identify the most appropriate measures, means something else than getting a merely formal environmental notice.

**Architecture and its role in reducing environmental impact.** The aim of sustainable design lies in finding constructive solutions, which is reflected in hotel construction characteristics, ensuring first the well-being and second the coexistence of three groups making up the overall ecosystem (inorganic elements, living organisms and humans).

**Energy - global urgency of the third millennium.** Energy is used in the processes of heating, cooling, lighting, water movement

within the building and indoor comfort. But its use has environmental impact.

Natural gas, are preferable to any other fossil resources due to lower emissions of CO<sub>2</sub> and lack of other toxic fumes arising from burning other fuels such as LPG, diesel oil, etc..

Whenever it is financially feasible it should be used a building management system BMS (Building Management System). Another important element in the building's energy efficiency are the heating, ventilation and air conditioning systems (HVAC - Heating Ventilation and Air conditioning). By careful design it can get higher efficiency.

**Water - main wealth of the planet.** Widely used devices can reduce water flow in high consumption places such as shower heads, flow aeration devices for water in sinks batteries, low volume toilet tanks, batteries and sensors in baths urinals, rainwater collection systems and moisture sensors for irrigation systems. In areas where water is a precious resource, can be used waste water recycling systems, so-called gray water (Grey-Water).

**Waste - the result of a consumer society.** A "green" management requires effective staff training and implementing best practices such as selective waste collection and maximize the use of retail potential to recycling systems available in the area. The most common categories are: white glass, colored glass, metal, office paper and newspapers, cardboard, plastic, cooking oils, organic waste.

**Materials used - careful selection in a hotel ecomanagement.** It is recommended to reduced the use of materials that cannot be reused (ex: marble) and promoting producers with environmental consistent policies. Main construction materials used are adhesives, aluminum, cement, concrete, flooring, glass, insulation, masonry, metal, plaster, paint, steel, finishes, wood, wiring, removing toxic substances (acrylic, asbestos, epoxy resins, lead, etc.).

**Noise - the comfort factor of influence.** Noise is a factor that must be controlled inside the hotel in order to grant hotel guests the comfort desired. The architect, the installations designer and the manufacturer must work together to fit in the standards generally accepted for hotel industry in the following

areas: windows, room-room, bathroom-bathroom, bathroom-room, room-corridor, fans, divisions, kitchen- restaurant, kitchen-halls, partitions- halls, equipment.

**The carbon footprint of a hotel and air quality in eco-hotel spaces.** Hotels must have non-smoking rooms. A smoking room is harder to clean in terms of clean air having a negative impact on people suffering from allergies or asthma.

Desirable emission levels and solutions shall be developed after a study of environmental impact. Another aspect to be considered in a Green Hotel is the use of substances that endanger the ozone layer. CFCs and HCFCs are no longer acceptable substances. HFCs do not endanger the ozone layer, but contribute to global warming effect. They are in the process of substitution with ecologic refrigerants (ammonia, propane, butane, etc.). Indoor air quality is an equally important issue pertaining to the quality of building design.

**Ecological interiors aided by appropriate design.** The choice of options for wall finishes, floors and ceilings, modern solutions are preferably involving recycled materials. Therefore a green room must begin with motion detectors for lighting in the corridor / entrance saver, energy-efficient lighting, appropriate colors, a heating system, ventilation and efficient air-conditioning, ecological materials, TV and mini bar must be efficient and meet the ozone layer requirements, in the bathroom should be mounted cosmetics dispenser and water consumption control systems, noise must be controlled and why not guests are taught to sort themselves the garbage in categories.

**Ecomanagement measured performances.** Applies to each hotel management system, it is to plan, to implement and also to continuously monitor the implementation plan. It is indicated to permanent report to indicators that are used to relate (benchmarks), such as: kWh/m<sup>2</sup>, CO<sub>2</sub>/yr tons, liters water/m<sup>2</sup>, tons waste per year, amount recycled waste, etc.

### 3. Case study: NH HOTELES SA

NH Hoteles Group ranks 8 in the top 10 hotel groups in Europe and ranks 22 in the Top 300

Corporate - global hotel group with 347 hotels in 22 countries. NH Hoteles offer high quality services and facilities, boasting a great setting to receive guests. Provides high technology to enable customers to communicate, work and relax.

Briefly, NH Hoteles aims to maintain the status of European leader in hotels specialized on the business travel segment, satisfying guests, having locations in Latin America and Europe. The hotel group organizes many charitable events and launched a program with a strong impact on the public, namely environmental protection and promoting healthy tourism. By this program NH Hoteles will implement ecomanagement modern systems.

Environmental Strategic Plan 2008-2012 was launched in 2008. It is based on a thorough environmental impact of groups businesses in terms of energy and water consumption, CO<sub>2</sub> emissions and reduced waste. Targets have been set to achieve overall reduction of these indicators, based on measurements taken in 2007 and were designed, of course, policies and procedures to reduce them. Thus, NH Hoteles has established a set of ecomanagement objectives for 2012:

- Reduce energy consumption by 20%,
- Reduce water consumption by 20%,
- Reduce CO<sub>2</sub> emissions by 20% ,
- Reduce waste by 20%.

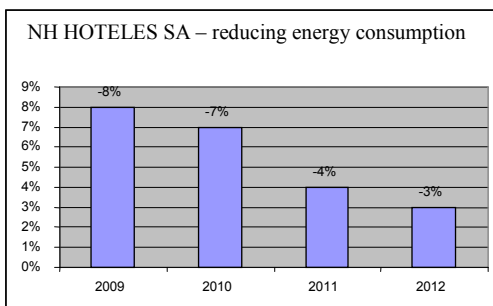


Figure 1.1. Reducing energy consumption

With the launch in 2008 of the Sustainable Development Strategy following the implementation of new methods of management at central level, 2009 meant the first big leap in reducing consumption. Thus, energy consumption decreased by 8%, because

percentages thereafter referred to diminish from year to year and 7%, 4%, 3%.

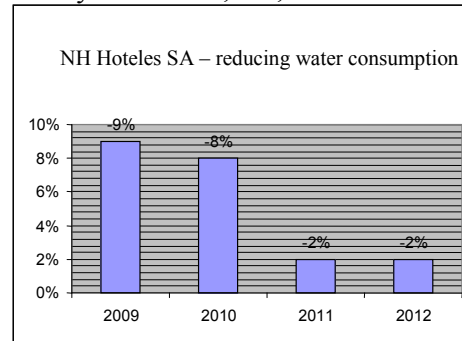


Figure 1.2. Reducing water consumption

Refurbishment, a judicious maintenance, customers and employees co-participation in this program led to savings in water consumption during the first year after launching the program with more than 9%. Target site be dropped from 8% in 2010 to 2% in 2012.

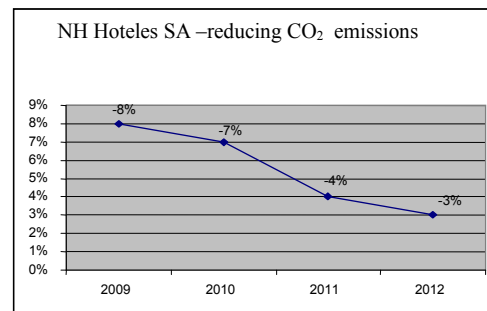


Figure 1.3. Reducing CO<sub>2</sub> emissions

Regarding the CO<sub>2</sub> emissions, while carbon footprint is relatively small compared to other companies, in NH Hotels a room produces on average 12 kg of CO<sub>2</sub>, the program targets a reduction of over 7% in 2010 to reduce by 4% in 2011 and the 2012 target is 3% in CO<sub>2</sub> emissions reduction.

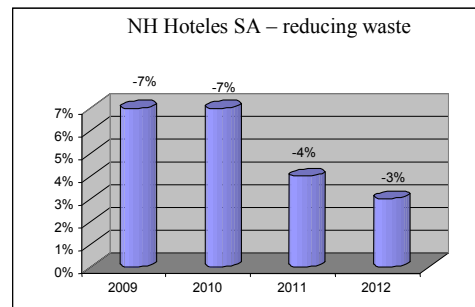


Figure 1.4. Reducing waste



Over the life time of a hotel, international experts say that the hotel produces large quantities of waste for construction, during the whole life cycle activity, and for the closure or recovery. Because of these large quantities, waste has become an important indicator and easily measurable. For the first 2 years after the launch of the sustainable strategy, NH Hotels have proposed to reduce by 7% the amount of waste, so that for the next two years to reduce to about 4%.

#### 4. Conclusions

In hotels departments procedures and processes can be achieved with immediate actions and activities on one hand, with minimum cost, but also with activities that require changes, reorganizations and new technologies involving large expenditure on a larger time horizon.

As long-term actions, equipment with minimal energy consumption can be acquired, eliminating carpet surfaces, painting with organic materials, furniture made from recycled materials, solar panels, drainage systems and waste water purification, etc., considered interdepartmental investments.

All these elements form the basis for a sustainable development strategy in a hotel. In other words, a strategy is not "a great project, nor a set of plans, but rather a set of tools and actions that are reflected in a coherent and dynamic way the challenges of sustainable development.

#### 5. References<sup>1</sup>

- [1] Capon Claire, "Understanding the Business environment", Third edition, Pearson Education, S.U.A., 2009
- [2] Panagiotis Delimatsis, "International Trade in Services and Domestic Regulations", Oxford University Press, 2007
- [3] Rîşnoveanu G., Teodorescu I., "Solutions to the ecological crisis", Biodiesel Magazin, nr.3, 2007
- [4] Walker John R., "Introduction to hospitality", Fifth edition, Editura Pearson Education International, New Jersey, 2009
- [5] Sztruten (Lefter) G., Andrei R., Voicu O.L., "The Ecological Component of Quality", Performance, trends and risks in world tourism, International Symposium, 2008, ISBN - 978-973-129-326-4, pp. 135-139.
- [6] [www.nh-hotels.com](http://www.nh-hotels.com)

---

<sup>1</sup> This article is a result of the project „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies.

## Budgetary Procedures in the Administrative-Territorial Units

Teliceanu Claudiu  
Bujdoveanu Aurica  
"Dunarea de Jos" University of Galati  
Mihailescu Emil Raul  
Academy of Economic Studies of Moldova, Chisinau

### Abstract

According to Law no. 273 of June 29, 2006 on local public finances, the elaboration of local budgets projects pertains to credit officers. They must however take into account the main macroeconomic and social forecasts for both the budget year for which the budget project is elaborated and for the next 3 years, those being developed by the empowered bodies and fiscal and budgetary policies that are both national and local. There should be also taken into consideration provisions of concluded internal or external loan agreements, memoranda of funding or other international agreements that are signed and/or ratified.

**Key words:** budget structures, financial indicators, shares, transfers.

**JEL classification:** H60

### 1. Advance details

In terms of content and structure of public budgets, thus including local budgets as well, we stress that revenue and expenditures are grouped (into budget) based on approved budgetary classification of MPF. Therefore revenue will be divided into chapters and subchapters, while expenditures will be divided into parts, chapters, subchapters, titles, articles, as well as into paragraphs. Obviously, as it is known, this was stipulated in previous regulations as well. What is now precisely and distinctly stated refers to the tax payers that have stable working places with minimum 5 employees working in that particular place, and who are obliged to require these employees' tax registration, as taxable income from wages, at

the fiscal body where the working point exists. The request should be made within 15 days of its foundation for the newly established offices and the fiscal body is required within 5 days from the tax registration to make a written notice of this to the mayor.

The above mentioned tax payers are required to hold the corresponding accounting in order to determine income tax from wages that is calculated, withheld and paid, while the mayor, through specialized bodies, can check at fiscal authorities the tax registration of payers from both the main headquarters and secondary offices. We underline that the mayor is required to bring any deficiencies to fiscal authority of the Ministry of Public Finance.

### 2. Regulation of local budgetary procedures

Article 26 of Law no. 273 of June 29, 2006 on local public finances stipulates that all expenditures found in chapters and articles have a targeted and limited destination, while the permanent and temporary staff number, as well as the basic wages fund is approved separately by the annex to each public institution's budget.

The operating and development sections are used to substantiate the local budgets and are approved as annexes to them respectively:

- The operating section includes current expenditures for the functioning of responsibilities and competences approved by law, which are specific to each administrative-territorial unit;
- The development section includes capital expenditures.

Non-reimbursable external funds and domestic and foreign loans are included in

annexes to local budgets and are approved at the same time.

Competences regulation in setting local taxes requires that they be approved by the local and county councils, as well as by the General Council of Bucharest.

A special aspect is given by the regime of amounts resulted from the assessment of fixed assets and some material goods, as well as revenues resulted from leasing or rental of several goods or the recovery of confiscated properties. The amounts received from sales or from the exploitation of materials resulted from demolition, dismantling or decommissioning as provided by law, from assets or sale of material assets belonging to public institutions, financed entirely by the local government, constitute local budget revenues.

The same sort of amounts received by other public institutions stands for their budget, while revenues resulted from leasing or rental of property owned by the private or public domains of the administrative-territorial units are local budget revenues.

**Note:** The proceeds of confiscated goods are turning to local budget revenue, according to the subordination of the institutions that have ordered their seizure. Under law, proceeds of sale of goods belonging to the private domain of administrative-territorial units are full local budget revenues.

New rule (Article 30) refers to special taxes for the operation of some local public services, as follows. Thus, for the operation of local public services created in the interests of individuals and legal persons, local and county councils and the General Council of Bucharest approve special taxes. The amount is determined annually, while the incomes derived there from are wholly used to cover expenses paid for setting up local public services and to fund ongoing maintenance and operating costs of these services.

Through regulation approved by deliberative authorities are established the activity areas and the conditions under which special taxes can be introduced, as well as the organization and functioning way of local public services for which that particular taxes are proposed.

Special fees shall be collected only from individuals and legal persons who use the local

public services for which that particular taxes were imposed, in a separate account opened outside the local budget, being used for the purposes for which they were created while their execution account is approved by deliberative authorities.

**Note:** According to law, local public services performing economic activities are required to calculate, record and recover the physical and moral wear of fixed assets related to these activities by tariff or price. The depreciation amounts for these assets are collected in a separate account opened at State Treasury units, are used exclusively for investments in that area and are distinctly highlighted in the investment program as their funding source, with exceptions regulated under loan or security agreements made with international financial institutions.

### 3. Mechanism of income tax shares

Public (territorial) financial practice implies that out of the income tax charged to the state budget in each administrative-territorial units, to allocate monthly within 5 working days from the end of the month when this tax was collected, a rate of 47 % to local budgets of villages, cities and municipalities on whose territory the taxpayer operate; a 13% share at the county's local budget and a share of 22% in a separate account at the Treasury, opened on account of general directions of the county public finances.

The execution rate of 22% is allocated by the General Directorates of the county public finances in the period mentioned within, for balancing the local budgets of villages, towns, municipalities and county, being proportional to the amounts allocated and approved for this purpose in the respective budgets.

82% share of income tax for Bucharest is distributed as follows: 23.5% to local budgets of the sectors of Bucharest, 47.5% to the local budget of Bucharest and 11% in a separate account opened on behalf of the Public Finances General Directorate of Bucharest to the Bucharest Treasury for balancing sectors of Bucharest's local budgets.

11% quota is allocated by the Public Finances General Directorate of Bucharest to

balance local budgets of sectors and municipality of Bucharest, in proportion to the amounts allocated and approved in the respective budgets.

The practice of consolidated transfers to local budgets include amounts' movement from the state budget to the local budgets for investments financed from external loans, the Government contributing to its accomplishment, and it is approved annually at a global level through the state budget law.

Out of the state budget, through the budgets of some credit officers, as well as out of other budgets, there can be granted transfers to local budgets for financing some development of social programs of national, county or local interest.

Deliberative authorities may approve collaboration or association for carrying out local public works and services. Collaboration or association shall be based on contracts of association in which are stipulated the funding sources, representing the contribution of each local government authority involved, the contracts being concluded by the credit officers under mandates approved by each local council involved in cooperation or association.

The same authorities may decide on participation with capital or assets in the name and on behalf of the interest of local communities they represent, on the formation of companies or on the establishment under the law of local or county public services as appropriate.

They may also decide to purchase, on behalf of local interests they represent, the shares in the companies in which they participated with a share of capital and they can increase or decrease their social capital under the law.

The above mentioned normative act stipulates that the associations of communitarian development are financed by contributions from local budgets of territorial-administrative member units, from other project based sources and from loans or public-private partnerships, under the law.

#### 4. Final provisions

Government run national development programs to stimulate the association of

administrative territorial units and the increase of their administrative capacity; these programs being annually funded by the state budget through the Ministry of Administration and Interior.

In all cases the financial obligations arising from agreements of cooperation, twinning or accession of the administrative-territorial units to internal associations organized at national level or to international organizations with legal personality, determined by deliberative authorities under the law, are paid from their local budgets.

We also stress that part of local budgets is the budget reserve fund available for the local and county council and for the General Council of Bucharest and its sectors, representing a share of 5% of the total amount. This is used on the credit officers' proposal, based on the respective councils' decisions to finance urgent or unforeseen expenditures rising during the year, to eliminate the effects of natural disasters, as well as to grant aid to other administrative-territorial units in situations of extreme difficulty at the request of the mayors of these units or on own initiative.

#### 5. References

- [1] Ionel Bostan, *Drept financiar public*, Dacia Publisher, Cluj Napoca, 2006.
- [2] Dan Saguna, *Drept Financiar fiscal*, (tax Financial Law), All Beck Publisher, Bucharest, 2006.
- [3] \*\*\* Law. 273 of June 29, 2006 on local government finances.
- [4] [www.mfinante.ro](http://www.mfinante.ro)
- [5] [www.rcc.ro](http://www.rcc.ro)
- [6] [www.guvernare.ro](http://www.guvernare.ro)

## Integrating in the EU or in the World?

Urziceanu Ramona-Mihaela  
"Agora" University of Oradea  
ramona.urziceanu@univagora.ro

### Abstract

Economic theory suggests that the degree of cyclical synchronisation is related to the degree of economic integration and structural similarity between countries. In gauging changes in the synchronisation of countries' business cycles and the underlying driving factors, it is important to distinguish EU-specific developments from worldwide integration tendencies, i.e. globalisation.

The effects of goods and capital market integration on business cycle synchronisation are theoretically ambiguous. The net effect is composed of a synchronisation-enhancing effect on the demand side of the economy, and a synchronisation-diminishing effect on the supply side resulting from increased incentives for specialisation.

**Key words:** economic integration, business cycles, synchronisation-enhancing effect, synchronisation-diminishing effect

**JEL Classification:** E00, E32, E39, O47, P52

### 1. Economic integration, structural similarity and specialisation

Openness to trade is a key element in measuring the degree of integration of the new Member States in the EU. The higher the degree of openness, the more any changes in international prices of tradable goods are transmitted to domestic prices and the cost of living. Furthermore, as indicated by Frankel and Rose (1998, 2000) [1], a high degree of trade openness is likely to lead to more synchronous business cycles via a symmetric propagation of common demand shocks. Yet, as argued by Krugman (1993) [2], this is to be expected only to the extent that trade is dominated by intra-industry trade, whereas inter-industry trade would favour sectoral specialisation, and thus a

desynchronisation of cycles.

*Trade integration.* The new Member States are characterised by a high and rising degree of trade openness. Measured by the average of exports and imports as a percentage of GDP, openness in the EU-12 has increased from 42% in 1999 to 58% in 2007. Looking specifically at new Member States' exports to EU-15 countries, the share in total exports was fairly stable at around 68% between 1999 and 2003, but has decreased since then to just below 60% in 2007. Exports between new Member States have gained in importance since 2004, with their share in total new Member States' exports rising from around 14% in the pre-accession period to close to 20% in 2007. The share of exports to former USSR countries (CIS) has increased since 2004, while the rest of the world has slightly lost ground as a trading partner.

Overall, it appears that while new Member States' trade openness has increased over time, the share of exports going to the old Member States, though still high, has been falling. The rest of the world, including the US, does not play a big role. Looking at flows from the old Member States, however, the share in total exports going to the new Member States has risen steadily over the past decade (to 7.5% in 2007).

*Structural similarity.* The similarity of economic structures has a direct and an indirect link to cyclical synchronisation. The direct effect works through the symmetric impact of common shocks and the decreasing likelihood of idiosyncratic shocks in the case of structurally homogeneous countries. The indirect effect operates through trade relationships, where the degree of cross-country specialisation is decisive for whether trade can be expected to foster or reduce business cycle synchronisation.

The composition of output tends to be closely related to the stage of economic

development. Empirically, a higher level of development can be associated with a smaller share of agriculture in aggregate output and a larger share of services, whereas the share of industry typically has an inverted U-shaped relationship to per capita output, increasing first and declining later.

Distinguishing between agriculture, construction, manufacturing, energy/water and services, the shares of the five activities in total value added (VA) at current prices reveal a significant difference in output composition between old and new Member States. Agriculture accounts for a significantly larger share in the new Member States, and services represent a much smaller share. Manufacturing and construction are somewhat larger in the new Member States, and more significantly so the energy and water sector. At the same time, while there are no dramatic changes in the structure of output over the observed twelve-year period, there is nonetheless a trend of convergence of the new towards the old Member States. While the shares of agriculture and manufacturing declined between 1995 and 2006, the services sector increased. However, since around 2003/4, these trends appear to have come to a halt or even been partly reversed in the services and manufacturing sectors.

The distance indicator points to a diminishing distance between new and old Member States between 1995 and 2002, but to a renewed pick-up around 2003/4 and a stabilisation thereafter. A broadly similar picture emerges for the comparison with the US. Owing in particular to the significantly larger services sector in the US (above 78%), the structural distance between the new Member States and the US is appreciably larger than with the EU-15-countries. While the distance measure declined steadily until around 2000, there is a stabilisation thereafter.

To examine whether the movements as described are due to real output redistribution, changes in relative prices or both, the same measures can be computed on a real basis, i.e. using value added data at constant (2000) prices. In principle, one would expect both price and quantity changes to occur. Productivity growth in the tradable sector should raise the relative prices of (less traded) services in the new Member States via the Balassa-Samuelson effect. Changes in consumption patterns linked to an increase in living standards should also drive up prices of services and lower demand for

agricultural products. At the same time, real output redistribution would imply real resources flowing from the stagnant activities to the growing activities, i.e. presumably services and to some extent industry.

In real terms, the changes in output composition point to slight structural divergence rather than convergence. While the real distance index is rather stable between 1995 and 2002, the measure points to mounting structural differences since around 2004. The picture is again similar for the US, but slightly less pronounced. The main reason for the pick-up in structural difference in real terms seems to be a rising share of the manufacturing sector and an again falling share of services activities, contrary to movements in both the old Member States and the US. These trends point to the significance of changes in relative prices rather than real output redistribution in the new Member States (Balassa-Samuelson effect).

*Product and trade specialisation.* The analysis has so far described developments in broad sectoral composition rather than in actual product specialisation. An analysis using a deeper industrial breakdown into 56 industries broadly confirms the above results for Poland, the Czech Republic, Hungary and Slovakia for the period up to 2003. Comparing export shares for 99 and 158 product categories (CN 2digit and STIC 3-digit breakdown) between old export composition emerges over time, indicative of more homogeneous trade patterns, i.e. increasing intra-industry trade.

*Summing up.* The analysis sends mixed signals as to the likely impact of trade developments on business cycle synchronisation. Looking at export structure by destination, the share of old in new Member States' total exports has decreased over the last decade on account of stronger intra-EU-12 trade and trade with CIS countries. On the other hand, the share of the new in old Member States' total exports has increased. Measured by output composition in real terms, the structure of new Member States' economies still seems to be significantly different from that of old EU Member States, pointing to further need for structural convergence. However, the quality

of trade flows in goods between new and old Member States seems to have become more homogeneous. Despite remaining differences in non-merchandise sectoral composition, the apparent gain in importance of intra-industry trade would speak in favour of an increasingly homogeneous effect of sector-specific shocks on the two groups of countries, thus fostering the synchronisation of their business cycles.

## **2. Business cycle synchronisation between new and old member states: the empirical picture**

Subsequent to the indirect, theoretically-founded approach of the previous section, this section looks directly at empirical measures of business cycle synchronisation. Cross-country correlations of output fluctuations, measured by de-trended GDP, and other measures of synchronisation are used. To gauge which components of output have the highest degree of synchronisation, a separate analysis is carried out for expenditure and sectoral GDP components.

### **2.1. Overview of previous findings**

Owing to the relatively short data samples and the wide variety of business cycle indicators and de-trending methods used, the literature on business cycle synchronisation of the new Member States has arrived at highly variable conclusions. One rather general result is that synchronisation with the old Member States seems to be present, but at a lower average level than for individual old Member States. Similar conclusions emerge concerning inflation. The results differ considerably across countries, reflecting the heterogeneity of the new Member States and making general conclusions hard to draw. Lastly, most contributions target the degree of synchronisation with the euro area rather than the old Member States with a view to gauging the new Member States' preparedness for EMU enlargement. Analysing synchronisation between the EMU and the eight Central and Eastern European countries, Darvas and Szapary (2008) [3] find that Hungary, Poland and Slovenia have achieved a high degree of synchronisation with the EMU for GDP, industrial production and exports, but not for consumption and services. For the other countries, they find less or no synchronisation. Using impulse response analysis, Slovenia and

Poland are found to be most sensitive to euroarea shocks. Eickmeier and Breitung (2006) [4] use a large-scale structural factor model to analyse the variance shares of output and inflation explained by common euro-area factors. The proliferation of euro-area shocks appears rather similar for new and old Member States, masking, however, a considerable degree of heterogeneity across the new Member States. Covering all twelve countries, Afonso and Furceri (2007) [5] find Cyprus, Hungary and Malta to be highly synchronised with EMU countries. At the same time, synchronisation seems to have increased over time overall. On a sectoral level, their results suggest that the industry, building and agricultural sectors are the main driving forces of synchronisation, while the services sector is characterised by a low level of synchronisation. Artis, Marcellino and Proietti (2004) [6] find that cyclical synchronisation with Germany is large for Poland, Slovenia, Estonia, Hungary and the Czech Republic. In a meta study, Fidrmuc and Korhonen (2006) provide a comprehensive overview of the literature on business cycle synchronisation and the (a)symmetry of macroeconomic shocks between new Member States and the euro area. Analysing 35 studies, the highest average estimates of business cycle correlation with the euro area are found for Hungary (0.36), followed by Slovenia (0.26) and Poland (0.25). In several studies, the cycles of one or more new Member States are found to be correlated more closely with the Euro area than one or more peripheral Euro area economies (Portugal, Ireland and Finland). It has to be noted, though, that the study summarises findings that are based on data samples typically ending in or before 2002, i.e. not covering developments over the latest six years.

### **2.2. Empirical analysis**

#### **2.2.1. GDP-based synchronisation**

Following established practice in the literature, filtered GDP series are used to measure countries' business cycles. Four measures of synchronisation are calculated on the basis of the derived series. Given the interest in the temporal development of

business cycle synchronisation, the measures are calculated for sub-periods and, in the case of the correlation measure, also using a four-year rolling window. Given that in the early 1990s several new Member States were in "transitional recession", the analysis excludes pre-1995 data. The total sample from 1995 to 2008 is divided into the sub-periods 1995 to 2001 and 2002 to 2008. The slight deviation from the natural division into pre- and post-2004 data is warranted by the need for robust estimation results in the sub-periods, where five years of quarterly data would constitute an unreasonably small data sample. Moreover, given that economic agents are forward-looking, it can be argued that the synchronisation-enhancing effects of EU accession were already largely contained in the data two years before actual accession took place. Apart from old and new Member State data, OEE and US data are examined with a view to separating European integration from broader globalisation trends.

*Correlation.* The first measure of synchronisation is the contemporaneous correlation between the EU-15 and new Member States' cycles. This measure is widely used in the literature, providing a simple, robust and intuitive measure of cyclical comovement. Over the full sample, only Cyprus, Latvia and Slovenia display a bilateral correlation with the EU-15 aggregate in excess of 50%, with Poland and Bulgaria scoring just below that threshold. On average across countries, correlation is at 0.30 over the full sample, and has risen significantly from 0.23 in the first to 0.51 in the second sub-period. To put this into perspective, the average correlation of individual old Member States with the EU-15 aggregate is as high as 0.77 over the full sample, with a minimum value of 0.61 attained for the peripheral countries Finland and Portugal. The rather steep increase in correlation of the new Member States on average in the second sub-period is due to increases in all countries but Poland and Hungary, where correlations decreased from above-average values in the first sub-period. In the post 2002 sample, correlation is clearly above average for Bulgaria, Cyprus, the Czech Republic, Estonia, Latvia and Slovenia, average for Malta, and below average for Lithuania and Slovakia, but also Poland and Hungary. The development of average synchronisation over time demonstrates that the message depends

crucially on whether individual correlations are weighted with countries' GDP shares. While the un-weighted average displays a clear upward trend, with a temporary dip in 2003/4, the case for increased synchronisation is less clear when looking at the weighted average of individual correlations. This mainly reflects the high degree of EU-15 correlation of the Polish cycle before 2002, followed by the temporary decline in 2003-2004. Looking at very recent developments, upward trends in synchronisation are evident for all three Baltic countries, Malta, Poland, Slovakia and, to some extent, Slovenia. Cyprus clearly shows the highest and most stable level of correlation with the EU-15 cycle. Taking the US cycle as a reference for the world cycle, average correlation of the new Member States with global cyclical conditions proves to be significantly lower than with the EU-15. Over the 2002-08 period, average correlation with the US cycle is at 21 %, up from 8% in the 1995-99 period, but markedly lower than the 51 % EU-15 benchmark. In contrast to the EU-15 results, Hungary and Poland (with Cyprus) stand out as countries with the highest bilateral correlations with the global cycle measure.

*Leads and lags.* The second synchronisation measure is based on the lead or lag for which the correlation between two cycles is maximised. Thus, a value of zero indicates that correlation is highest for contemporaneous relationship, while negative values indicate a lead and positive values a lag of new Member States' cycles with respect to the EU benchmark.

On average, new Member States' cycles appear to be in sync with the EU-15 cycle, particularly in the more recent sub-period since 2002. Focusing on this latter period, significant time shifts (more than two quarters) are perceivable only for Hungary (leading the EU cycle), Lithuania, Malta and Slovakia (lagging). With respect to the US cycle, the countries are on average lagging slightly behind, increasingly so in the second sub-period. This indirectly confirms the common finding that the US is leading the EU cycle. Together, the analysis of leads and lags provides further evidence of a stronger business cycle synchronisation with the old



Member States than with global developments.

*Volatility of cycles.* Business cycle volatility is measured by standard deviations, expressed in relative terms to the EU15 aggregate. A decrease in the relative volatility can be interpreted as a diminishing role of country-specific disturbances. In line with global and European trends, there has been a trend towards less volatility in the majority of countries, with the average volatility measure declining from 275 in 1995-2001 to 199 in 2002-08. Over the full sample, relatively low volatility is observable for Cyprus, Hungary, Poland and Slovenia. Over the more recent sub-period, Bulgaria, the Czech Republic and Malta likewise display below-average volatility. In interpreting the magnitude of the values, it has to be borne in mind that a single cycle is (almost) necessarily more volatile than an aggregate of several country cycles. Looking at some individual old Member States for comparison, the relative standard deviation of Germany to the EU-15 is 136, while for Belgium it is 272 over the full sample. On average across all EU-15 countries, it is 159. Between the first and the second sub-period, the distance between old and new Member States' cyclical volatility has shrunken, indicative of a diminished role of country-specific shocks. While, since 2002, the volatility of many new Member States' cycles is about the same as in EU-15 countries (Cyprus, the Czech Republic, Malta, Poland, Slovenia), it remains significantly higher on average.

*Persistence of cycles.* The last measure is the first-order autocorrelation coefficient of business cycles, used as a rough but straightforward summary measure of their persistence (OECD, 2002). The rationale for this measure is that the dynamic effect of any shock depends on the degree of persistence of the series, with shocks having a longer-lasting effect on highly persistent series. Consequently, a similar degree of persistence is important from the perspective of business cycle synchronization. Furthermore, noisy series tend to show lower autocorrelation. Therefore, low persistence compared to other countries can also point to the relative importance of country-specific shocks. The persistence measures of new Member States' business cycles shows that from 1995-2001 to 2002-2008, cyclical persistence appears to have increased slightly on average. While average persistence across new Member States was slightly lower than across EU-15 countries in the first sub-period, it rose to the average EU-15

level (of 0.89) thereafter, implying that the aggregate effect of symmetric shocks and their transmission has become more similar. Given that the degree of persistence in a given economy is linked to underlying structural features such as size and openness, it is difficult to draw country-specific conclusions from the table. One remarkable development seems to be the significant increase in persistence of the Polish business cycle in the second sub-period, indicative of the diminished importance of country-specific disturbances.

### **3. Estimating the relationship between synchronisation and economic integration**

Following the seminal paper by Frankel and Rose (1998), many studies have confirmed the finding that countries with more intense trade ties have more similar business cycles. However, to disentangle the effect of inter-industry trade from that of intraindustry trade, a measure of specialisation has to be added to the equation. Imbs (2004a) concludes that the overall effect of trade on synchronisation is strong, but a sizeable part is found to work through intra-industry trade. Moreover, similar specialisation patterns are found to have a sizeable direct effect on business cycle correlation. Fidrmuc (2004) finds that the link between cyclical synchronisation and trade intensity becomes insignificant once regressions are augmented by additional structural variables. In a similar vein, Inklaar, Jong-A-Pin and De Haan (2008) [7] find that the effect of trade intensity on synchronisation is much smaller than previously reported, with other structural variables such as trade similarity, similarity of monetary and fiscal policies and degree of financial integration having an effect at least as strong. Artis, Fidrmuc and Scharler (2008) conclude that, while trade and financial flows tend to increase business cycle co-movements between countries, divergent fiscal policies and labour market rigidities delay the synchronization of business cycles. Most of the literature analyses the determinants of business cycle synchronisation using a crosssection of

OECD or euro-area countries. Traistaru (2004) [8] analyses the transmission channels of synchronisation in a hypothetical euro area, enlarged by the eight Central/Eastern European countries. She finds structural similarity and bilateral trade intensity to be significantly and positively related to business cycle synchronisation. However, these results apply to country pairs including within-euro area and within new Member States combinations. The explicit determinants of synchronisation between old EU Member States on the one hand and the new Member States on the other have not yet been sufficiently addressed. The estimation results are based on 165 crosssection observations of bilateral correlation coefficients between new and old Member States. Bilateral trade intensity turns out to be insignificant in explaining pair-wise output correlations. The results suggest that the Ordinary Least Square estimation is consistent and close to the Instrumental variables results *Co*). The trade specialisation measure is significant at the 10% level in the Instrumental Variables estimation approach. Differences in monetary policy appear to have a significantly negative impact on synchronisation, even after correcting for the markedly lower level of synchronisation of Lithuania and Slovakia with ED-15 countries via a dummy variable. While financial integration likewise seems to be significantly (positively) related to output correlation, this result is not robust to the inclusion of the dummy for the two least synchronised countries. Finally, differences in fiscal policy are estimated to have a significant negative impact on output synchronisation, at least after correcting for the low level of synchronisation of Lithuania and Slovakia.

#### 4. References

- [1] Frankel, J.A. and Rose, A.K., "The endogeneity of the optimum currency area criteria", *Economic Journal*, 108, 1998, pp.1009-1025, and "Estimating the effect of currency unions on trade and output", CEPR Discussion Paper, No. 2631.
- [2] Krugman, P. "Lessons from Massachusetts for EMU", in Torres, F. and F. Giavazzi (eds.): *Adjustment and Growth in the European Monetary Union*, Cambridge: Cambridge University Press, 1993, pp. 241-261.
- [3] Darvas, Z. and G. Szapary, "Business cycle synchronisation in the enlarged EU", *Open Economics Review*, vol. 19, No. 1, 2008, pp. 1-19.
- [4] Eickmeier, S. and J. Breitung, "How synchronized are new EU member states with the euro area ? Evidence from a structural factor model", *Journal of Comparative Economics*, vol. 34, No. 3, 2006, pp. 538-563.
- [5] Afonso, A. and D. Furceri, "Sectoral business cycle synchronization in the European Union", Working Papers, No. 2007/02, Department of Economics at the School of Economics and Management (ISEG), Technical University of Lisbon, 2007.
- [6] Artis, M., M. Marcellino and T. Proietti, "Characterising the business cycles for accession countries", CEPR Discussion Paper, No. 4457, 2004.
- [7] Inklaar, R., R. Jong -A-Pin and J. De Haan, "Trade and business cycle synchronization in OECD countries: a reexamination", *European Economic Review*, Vol. 52, No. 4, 2008, p.646.
- [8] Traistaru, J., "Transmission channels of business cycles synchronization in an enlarged EMU", Working Paper, Center for European Integration Studies, No. B18, ZEI Bonn, 2004.

## The Concept of Intellectual Capital in Maritime Transport

Utureanu Simona  
“Ovidius” University of Constantza  
Nistor Cristina  
Maritime University of Constantza  
simona\_utureanu@yahoo.com

### Abstract

In the Knowledge-Based Society, not financial assets, but knowledge and competencies have become the most important resources for most companies. This paper objective is to make an initial critical exploration of the essential condition of intellectual capital in maritime transport and it starts with defining what intellectual capital is. In this paper there are also discussed means of stimulation of intellectual capital within the maritime company.

**Key words:** maritime transport, intellectual capital, strategy

**JEL classification:** K11, F41

### 1. Defining Intellectual capital

We currently live in a period when knowledge and competencies have become strategic resources that brings a company's success. The company's ability to use intellectual capital and proper technologies is what makes it competitive on market and makes it able to develop innovative integrated solutions that create value for customers.

Intellectual capital in maritime transport represents the knowledge and brain-power capital that makes a maritime company benefit. Intellectual capital includes essential skills and strategic knowledge that a maritime company has developed and the needs to make successful transport of cargo or passengers. It also referees to documents about transport processes, customers, research results, harbour activity and other information that gives competitive advantage.

Examples of intellectual capital are the following: knowledge, competent employees, reputation, brands, customers, R&D,

innovation, patents, IT, workplace organisation and management systems, networks and relationships.

The term “intellectual capital” was firstly mentioned by John Kenneth Galbraith, in 1969 in a letter to Michael Kalecki, a Polish economist with contributions to macroeconomics. In 1980, the Japanese specialist Hiroyuki Itarni studied the effect of *invisible assets* on the management of Japanese corporations. After that, Thomas A. Stewart, Editor-in-Chief of Harvard Business Review, approached intellectual capital to products, processes and people in order to obtain and manage profit. In 1991 in the article *Brain Power - How Intellectual Capital Is Becoming America's Most Valuable Asset*, published in Fortune magazine, he defines intellectual capital as “the sum of everything everybody in your company knows that gives you a competitive edge in the market place”. In 2001, he considers that today's companies are applying the concept of intellectual capital into day-to-day operations to dramatically increase their success.[1] Nick Bontis of McMaster University in several academic papers considers that intellectual capital includes *human capital, structural capital and relational capital*. Human capital refers to the skills and knowledge that make value for an organization. The origin of this concept comes from Adam Smith who defined four types of fixed capital: machines, buildings, land and human capital. The second element of the intellectual capital is structural capital and it represents formulas, information, patents, processes etc., that result from the products or systems the firm has created over time and not from the heads of the employees and remains with the organization even when they leave. Relational capital, the third component of the intellectual capital is represented by good relationships with stakeholders (clients, employees, suppliers, government agencies,

competitors and other organizations that come in contact). Leif Edvinsson, a Corporate Director of Intellectual Capital function at Skandia AFS, a Swedish insurance company, developed an intellectual capital “hidden values” management model for the firm.[2]

In European countries, a large importance is given to concepts like knowledge and intellectual capital in private and public economic sector. The Northern countries made a tradition in developing the intellectual capital concept in all the fields, including in the maritime domain. For example, the Danish Ministry of Science, Technology and Innovation republished and distributed since 2000 a guideline for the Intellectual Capital Statements [3].

An intellectual capital statement is an integrated part of a maritime company knowledge management. It identifies the company’s knowledge management strategy that refers to the identification of objectives, initiatives and results, application and development of the company’s knowledge resources. It also communicates this strategy to the company and to the external environment. Intellectual capital statements regard the improvement of the knowledge resources management.

The guideline says that intellectual capital can be understood as a relation between four elements:

(1) A knowledge strategy, which defines how knowledge can make a difference to the firm’s activities regarding its users.

(2) A business model of knowledge that identifies the relatively durable problems facing the management of the firm in order to develop the usefulness of knowledge.

(3) A set of actions, which point out how knowledge is to be managed concretely as a set of activities.

(4) A series of indicators that monitor whether the actions are implemented. Together, this model allows the institutions to appreciate how their activities develop and use knowledge are helpful to their services [4].

Several companies managed to establish a way of accounting intellectual capital, in order to establish the value of knowledge that is owned by the organisation.

Authors Garavan, Morley, Gunnigle and Collins review definitions of intellectual and human capital. They consider human capital

from individual (employability, performance and career development) and organization (investment, ownership, skills and knowledge management) perspectives and highlights the implications for human resource development, both at individual and organizational levels.

Author	Definition of Intellectual Capital
Edvinsson (1997)	Intellectual capital is structural and human capital, thinking and non-thinking assets and it requires a different management approach.
Sveiby (1997)	Intellectual capital is represented by invisible assets of an organization: employee competence (skills, education and experience) and their capacity to act in a wide variety of situations; internal structure (management, structure patents, contracts, concepts, models, research and development capability, software); and external structure (image, brands, customers and supplier relations).
Stewart (1997)	Intellectual material is intellectual material – knowledge, information, intellectual property and experience – that can be put to use to create wealth
Edvinsson and Malone (1997)	Intellectual capital consists of humans, system and market components. Employees and managers in the organisation represent human capital. Human capital refers to what people can do individually and collectively. The system component represents the knowledge in the firm which is independent of people and includes patents, contracts, data bases, and information and production technology. The market component consists of the relationship between the organization and outsiders, e.g. suppliers, distributors and customers.

Kaplan and Norton (1992)	The intellectual capital component of the balanced scorecard consists of three linked perspectives: customers, internal business processes, learning and growth.
Sullivan (1999)	Intellectual capital is knowledge that can be converted into profits. It comprises two elements: human capital and intellectual assets. Human capital consists of the firm's individual employees who possess skills, abilities, knowledge and know-how. Within each employee resides the tacit (not codified) knowledge the firm seeks to utilise. Intellectual assets are created whenever human capital is codified.
Mayo (2000)	This author focuses on a definition of human capital: a capability, knowledge, skill, experience and networking, with the ability to achieve results and the potential for growth; individual motivation in the form of aspirations, ambition, drives, work motivations and productivity; work group effectiveness in the form of supportiveness, mutual respect sharing and values; leadership in the form of clarity of vision and ability to communicate that vision; organisational climate in the form of culture particularly the freedom to innovate, openness, flexibility and respect for the individual.
Haanes and Lowendahl (1997)	A distinction is made between the intangible resources of competence and relationships. Competencies are conceptualised as the ability to perform. They are manifested at the individual and organisational levels. Relationship-type intellectual capital is manifested in the reputation if the company and customer loyalty.

Source: Garavan, Morley, Gunnigle and Collins (2001).[5]

## 2. Stimulating the intellectual capital in a maritime company

For a maritime company, the intellectual statement is to create values for its customers like making competitive shipping services, high levels of safety, health and qualifications for employees and responsible attitude towards suppliers and other stakeholders. In order to acquire such values, maritime company have to use IT to support production and knowledge management internally and externally, it must be able to retain and attract highly qualified personnel and be a permanently attractive workplace.

For stimulating the intellectual capital, the maritime company has to train employees to use IT and proper communication equipment, both at the organization quarters and on sea, it has to develop and use system supporting knowledge management by being user-friendly and accessible to all and to share knowledge internally and externally.

For a maritime company to attract, retain and develop intellectual capital and highly qualified employees, it has to make and analyze employee satisfaction surveys. The results should be noted in employee satisfaction polls. According to such surveys, the company should give a prior interest to the employees needs and to act accordingly. The management have to identify new methods for development of knowledge competencies. In order to develop the intellectual capital, the employees and the crew must be sent to technical and for personal development trainings and seminars. The working time policy should be flexible, especially for the crew members that stay a long tome on sea.

The efficiency of the simulative practices will be measured with the help of some indicators like competency development activities, number of employees who are active in experience groups/project groups externally, evaluation of workshops and professional courses, or staff turnover. After each management challenge has been reviewed, conclusions can be drawn on the objectives achieved in the current year and in the next year will be proposed other objectives and special initiatives.

A critical aspect of a maritime company that develops the intellectual capital is the open

attitude towards innovation. Innovation is a must if the company wants to deliver tailored integrated solutions and to meet the most demanding customer requirements. The company should also understand the value of win-win partnership.

In Nordika – a project on intellectual capital initiated by the Nordic Industrial Fund – in collaboration with a task force of government representatives and a round table drawn from business and professional associations in the Nordic countries it is considered that IC management and reporting is about the non-physical and non-financial resources of a maritime company, how they are built and retained, how they contribute to value creation. Knowledge, expertise, stakeholders, customer relations, brands and other intangibles are the basic factors for identifying and analysing the maritime company's key values [6].

### **3. Trends in Maritime Intellectual; Capital Development**

According to S. Mthethwa and P.C. Zandee in „Transformation in the South African Maritime Industry – a BEE Case Study” [7], maritime industry is one of the oldest industries and the community is international in flavour and very traditional. It is an industry for people who are seeking a long-term investment and appreciate the value of personal relationships. It is important to invest more time and resources in fewer investments and cultivate strong relationships than spread oneself too widely too quickly. To function effectively at board level without any maritime knowledge or insight creates a lack of ‘value-adding’. This is as much a prerogative of the established business as it is for the Board members/investors/shareholders.

In maritime transport, ships are multi-functional systems that require highly information processing and management systems.

Major changes are taking place in maritime markets and influences intellectual capital. Changes in demography and energy consumption are key factors. Global companies tend to focus on their core-business. Logistics services and transportation are likely to be increasingly outsourced. Some shipping companies, notably amongst container lines and specialised carriers, will

expand their scope of operations and develop into logistics providers, not merely delivering transport services in the logistics chain. [8]

The nowadays technologies send and receive fast and easily large quantity of information inside each maritime company or between company and ship. They will influence both the markets and the shipping industry and the organisation of the work in the companies. These kind of changes will modify the structure of intellectual capital inside shipping companies.

Recruitment of qualified officers and acquiring proper intellectual capital is a major challenge for most shipowners and maritime managers world-wide. A similar need is identified for shore-based functions. In the major labour supplying countries, the demand for officers is increasing faster than the supply and some owners are compelled to look for alternative labour supplying countries. It will take time to develop alternative labour supplying countries. An overall shortage of qualified officers in the coming decade can be anticipated and is to be addressed. Career paths must be developed in order to be attractive for the competent human capital.

### **4. Conclusions**

Intellectual capital represents a strategic asset for maritime business. Several specialists made definitions for this term and as a common characteristic of all definitions, intellectual capital consists of essential skills, knowledge, documents about transport processes, customers, research results, harbour activity and other information that can give competitive advantage. In generally, intellectual capital is formed by human capital, structural capital and relational or customer capital. Human capital refers to the skills and knowledge that make value for an organization. Structural capital represents formulas, information, patents, processes etc., that result from the products or systems the firm has created over time and remains with the organization even when employees leave. Relational capital, the third component of the intellectual capital is represented by good relationships with stakeholders (clients, employees, suppliers, government agencies, competitors and other organizations that come in contact).

For a maritime company, intellectual capital involves making value for customers. Intellectual capital is responsible of making competitive shipping services, and for taking into account the measures of safety, health and qualifications for employees. Suppliers and other stakeholders must be treated appropriately.

Technologies of today evolve so quickly and they influence markets, the shipping industry and the organisation of work in the maritime companies. These kind of changes will modify the structure of intellectual capital inside shipping companies and will accentuate its vital importance.

## 5. Resources

- [1] Stewart, T. A., *The Wealth of Knowledge Intellectual Capital and the Twenty-First Century Organization*, Nicholas Brealey, London, 2001;
- [2] Sullivan, P., H., *A Brief History of the ICM Movement*, How to convert Intangible Corporate Assets into Market Value, p.238, Wiley Ltd., 2000;
- [3] \*\*\*, *Intellectual Capital Statements – The New Guideline*, Danish Ministry of Science, Technology and Innovation , Copenhagen, Denmark, 2003;
- [4] Mouritsen, J., Bukh, P.N., et al., *Intellectual Capital Statements – The New Guideline*, Ministry of Science, Innovation and Technology, 2003;
- [5] Garavan, T. N., Morley, M., Gunnigle, P., & Collins, E., *Human capital accumulation: the role of human resource development*, Journal of European Industrial Training, vol. 25, issue 2/3/4, p. 48-68, Emerald Group Publishing Ltd., 2001;
- [6] \*\*\*, Nordika - Intellectual Capital Managing and Reporting, Nordic Industrial Fund, 2001.
- [7] Mthethwa, S., and Zandee, P.C. in „Transformation in the South African Maritime Industry – a BEE Case Study”, 2005;
- [8] \*\*\*, Maritime Industries Forum – The European Maritime Industry R&D Masterplan, Contribution to the implementation of the European Research Area in the maritime sector, R&D Strategic planning Group, 2002;
- [9] Mouritsen, J., Thorbjørnsen, S., Bukh, P. N., Johansen, M. R., *Intellectual capital and new public management -Reintroducing enterprise*, The Learning Organisation Journal, vol. 11, issue 4/5, p. 380-392, Emerald Group Publishing Ltd., 2004;
- [10] \*\*\*, *Knowledge Management and Intellectual Capital Statements in Government*, Ministry of Finance, Copenhagen, 2000;

# The Statistical Analysis of the Consumer Attitudes toward the Hospitality Services from Romania

Vasilescu Ramona

Saierli Olivia

*“Tibiscus” University Timisoara, Romania*

ramonavasilescu@yahoo.com

saierli\_olivia@yahoo.com

## Abstract

In this paper, we have statistical analyze the consumer attitudes toward the hospitality services from Romania. We have developed a questionnaire which was answered by 83 people. Based on these responses we have made a top of the hospitality services in terms of respondent. Then, we applied the Helmer univariate test to show that these results can be generalized. Also, we asked respondents to give a note for each service of hospitality from our country (for the past two years). We calculated the average of these notes for each service of hospitality separately, and we generalized the results for the entire population by computing for each the corresponding confidence interval, with a 95% of probability.

**Key words:** consumer, hospitality services, Helmer unvaried test

**JEL classification:** C32

## 1. Introduction

It is said that Romania is a beautiful country with a high tourist potential. The Carpathian Mountains are known for their unique species of animals. About 5.18% of the area of Romania has a protected status: three biosphere reserves (Danube Delta, Retezat and Rodna), thirteen national parks (Domogled-Valea Cernei, Cheile Nerei-Beuşniţa, Semenice-Cheile Caraşului and Defileul Jiului), thirteen natural parks (Porţile de Fier – Iron Gates, Grădiştea Muncelului-Cioclovina, the Ţara Haţegului dinosaur geo-park, the Mehedinţi Plateau geo-park), etc. The

mentioned examples are in the vicinity of the Banat region, where we have completed our study.

The rising of the living standards is reflected in many aspects of life; among them is also reflected on the tourism. Until the appearance of the economic crisis, the statistics have revealed that Romanians are increasingly willing to spend significant amounts of their income to travel abroad and in our country for tourism. But this economic crisis has reduced the number of trips, following the global trend.

Despite all these opportunities, tourism and hospitality in Romania have met with little success and popularity; the failures in these areas have been the subject of many debates and research. Unfortunately, the answers given so far have failed to elucidate the most common causes.

## 2. Material and Methods

To analyse the characteristics of hospitality that make the Romanian destinations attractive, we designed a questionnaire to obtain the data necessary to study the consumer attitudes toward the services of hospitality in our country. In order to determine the correct sample, we have used the data provided by the National Institute of Statistics, the 2008 Yearbook, with regard to the population of the Banat region. The sample has been computed by using the Decision Analyst STATSTM 2.0 software for a desired confidence level of 95%. Following this computation we have obtained a sample volume of 73 respondents. For one week, this questionnaire was answered by 83 people, including 32 men and 51 women aged 19-58



years. Respondents were randomly selected from the counties of Timis and Caras-Severin.

We also used data provided by the National Institute of Statistics, Statistical Yearbook 2008 – chapter 20 Tourism.

For the data obtained we used:

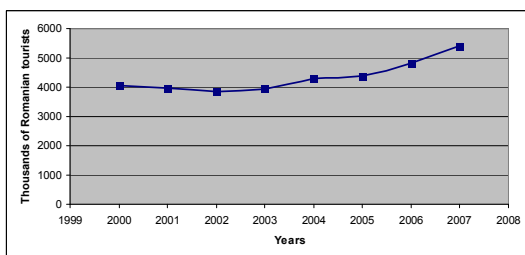
- **The ordinal scaling method** to determine the place of hospitality services (the room, the restaurant, the bar room, the recreation and the SPA center) of the accommodation units (the respondents were given a place from 1 to 5 for each of these services, 1 representing the best place).

- **The interval scaling method** to determine the overall score provided (in all the trips in the last 2 years) (respondents were given a point from 1 to 10, where 10 is the maximum score).

- **The Helmert ( $\chi^2$ ) test** to determine if the classification of the hospitality services, in terms of their importance to respondents, corresponded to the reality.

### 3. Results and Discussions

Starting from the data offered from the National Institute of Statistics, the evolution of the autochthonous tourists in Romania between 2000 and 2007 is illustrated in Figure 3.1.



**Figure 3.1.** The evolution of the autochthonous tourists in Romania according to the National Institute of Statistics

In this study, 83 people are interviewed about their attitudes relative to hospitality services. Survey results are in table 3.1. and to obtain them we used **the rank order scale** which implies that the respondent establishes a hierarchy of the hospitality services analyzed according to their importance, indicating the place occupied by each of them.

Thus, if among the respondents there isn't a particular preference for a certain hospitality service, then the survey results would be, theoretically, those of the table 3.2.

But, we can say with a 95% probability that the survey reflects the actual preferences of consumers in the market?

Table 3.1.

The classification of hospitality services by the place occupied by the respondent's view (only 75 of 83 people responded to this question)

<i>The service</i>	No. ( $O_i$ )
<i>The room</i>	40
<i>The restaurant</i>	13
<i>The bad room</i>	4
<i>The recreation</i>	13
<i>SPA Center</i>	5
<i>Total</i>	75

From Table 3.1. we can see that the room seems to be the top preference, followed by the restaurants and entertainment, then the SPA center and on the last place is situated the bar room. But who can guarantee that these results correspond to the reality and that they are not only due to the sampling fluctuations?

To answer this question we apply the Helmert unvaried ( $\chi^2$ ) test. This test compares an observed distribution (actual) with a known theoretical distribution and determines whether there are significant differences between them or not. For this we note the observed frequencies whit  $O_i$ , and the theoretical one whit  $T_i$ .

Table 3.2.

The theoretically results of the survey

<i>The service</i>	No. ( $O_i$ )
<i>The room</i>	15
<i>The restaurant</i>	15
<i>The bad room</i>	15
<i>The recreation</i>	15
<i>SPA Center</i>	15
<i>Total</i>	15

Thus, we formulate the null hypothesis ( $H_0$ ) under which the observed and real frequencies are equal (i.e.  $H_0 : O_i = T_i$ ) and the alternative hypothesis which denies the null hypothesis (i.e.  $H_1 : O_i \neq T_i$ ) and we determine the computed value of the Helmert test as

$$\chi_c^2 = \sum_{i=1}^n \frac{(O_i - T_i)^2}{T_i} = 56,93.$$

From the statistical tables relating  $\chi^2$  test for a confidence level of 95 % ( i.e.  $\alpha = 0.05$  ) and for  $n-1=5$  degrees of freedom we determined its critical value as  $\chi_t^2 = 9,488$  . As  $\chi_c^2 > \chi_t^2$  we conclude with a 95% of probability that the null hypothesis is rejected and that the survey results correspond to actual consumer preferences.

Also, the respondents had to evaluate the services of Romanian hospitality by giving each a score from 1 to 10. Of the 83 respondents to the questionnaire, only 75 have traveled in Romania in the last two years. Thus, computing an average grades for each hospitality service, we obtained the following results:

Table 3.3.

The top of the hospitality service in Romania, in terms of grades given by respondents

The service	The grade	The place
<b>The room</b>	6.93	III
<b>The restaurant</b>	7.32	I
<b>The bar room</b>	6.82	V
<b>The recreation</b>	6.85	IV
<b>SPA Center</b>	7.08	II

Still, we want to extend the results in Table 3.2. for the entire population made up of Romanian tourists. For this purpose is used most often the direct enlargement process. By applying this procedure is estimated the **confidence interval** for the general community average and the limits that will fit the characteristic of the whole community totaled.

Since the sample size is greater than 30, we apply the Laplace function. Thus, the interval in witch the average of the general community is given by the formula:

$$\bar{x} - z_\alpha \cdot \frac{s}{\sqrt{n}} \leq \mu \leq \bar{x} + z_\alpha \cdot \frac{s}{\sqrt{n}},$$

where  $\mu$  represents the average of the general population,  $\bar{x}$  represents the sample average,  $s$  represents the standard deviation of the sample and  $n$  represents the sample volume.

Table 3.4.

The confidence intervals for a confidence level test of  $\alpha = 0,5$  (i.e. with a 95% probability)

<b>The room</b>	
<b>Mean</b>	$\bar{x} = 6.93$
<b>Standard Deviation</b>	$s = 1.841$
<b>The critical value of the test</b>	$z_\alpha = 1.96$
<b>Confidence interval</b>	$6.52 \leq \mu \leq 7.35$
<b>N</b>	75
<b>The restaurant</b>	
<b>Mean</b>	$\bar{x} = 7.32$
<b>Standard Deviation</b>	$s = 1.717$
<b>The critical value of the test</b>	$z_\alpha = 1.96$
<b>Confidence interval</b>	$6.93 \leq \mu \leq 7.70$
<b>N</b>	75
<b>The bar room</b>	
<b>Mean</b>	$\bar{x} = 6.82$
<b>Standard Deviation</b>	$s = 2.238$
<b>The critical value of the test</b>	$z_\alpha = 1.96$
<b>Confidence interval</b>	$6.25 \leq \mu \leq 7.30$
<b>N</b>	70
<b>The recreation</b>	
<b>Mean</b>	$\bar{x} = 6.85$
<b>Standard Deviation</b>	$s = 2.111$
<b>The critical value of the test</b>	$z_\alpha = 1.96$
<b>Confidence interval</b>	$6.37 \leq \mu \leq 7.33$
<b>N</b>	74
<b>SPA Center</b>	
<b>Mean</b>	$\bar{x} = 7.08$
<b>Standard Deviation</b>	$s = 2.046$
<b>The critical value of the test</b>	$z_\alpha = 1.96$
<b>Confidence interval</b>	$6.60 \leq \mu \leq 7.56$
<b>N</b>	70

In conclusion, with a 95% of probability we can assume that the hospitality services in Romania are estimated between 6.25 and 7.70.

#### 4. Conclusions and Future Work

Although the five hospitality services occupy a certain place as important to respondents, however, when traveling in Romania, they prefer to receive better services for SPA center and restaurant, making small compromises in the conditions of the room hospitality. In the future, we'll do an analysis in the way of hospitality services are quoted in our country versus abroad, as current statistics reveal that most Romanians preferred to travel in the country.

#### 5. References

- [1] Andrei T., Stancu S., Pele D. T., *Statistică. Teorie și aplicații*, Ediția a II-a, Editura Economică, 2002, București;
- [2] Anghelescu C., Badea S. G., Capanu I., Wagner P., *Bazele statisticii teoretice și economice*, Editura Economică, București, 2005;
- [3] Catoiu, I., *Cercetări de marketing*, Editura Uranus, București, 2002;
- [4] Chilărescu C., Ciocîrlă O., Preda C., Șipoș C., Surulescu N., *Bazele Statisticii. Teoria Probabilităților*, Editura Universității de Vest, Timișara, 2002;
- [5] <http://www.insse.ro/cms/files/pdf/ro/cap20.pdf>
- [6] <http://www.insse.ro/cms/files/statistici/comunicate/turism/a10/turism01r10.pdf>

# Applications of the Chunking Technique in Business Communication

Zamfir Cristina-Mihaela  
„Ovidius” University of Constantza  
*cristina\_m\_zamfir@yahoo.com*

## Abstract

In Business English, the technique of chunking and its linguistic expression largely contributes to the business model of communication. Precision questions are undoubtedly one of the most powerful tools for enriching the process of communication and identifying people's language preferences. People communicate using different size chunks of information. Knowing whether to chunk up or down – or both – are the key skills in interpersonal communication.

**Key words:** Business English, technique of chunking, communication.

**JEL Classification:** M00, A12, D83

## 1. Introduction

The chunking technique resembles the Specific / General Meta program patterns. Similar to the general meta program style, in that it starts with the detail and chunks up to the big picture, the technique of *chunking up* involves moving to a larger, more general or abstract level of information.

Chunking is based on a twofold interpretation: on the one hand, meaning is given by a continuous cline of frames, from sub-atomic (micro chunks) to universal (macro chunks) and its inverse operation, i.e. from universal to sub-atomic, and, on the other hand, the cline of frames involves an interconnection between the language of the sensory-based real world and the general, vague and metaphorical concepts.

In order to chunk up or down, both wider and narrower frames of reference of the source text need to be established. For example, chunking down aids as a good strategy for componential analysis in understanding the semantic field of individual words.

Clarifying questions represent a good instrument for the chunking down strategy. In cultural mediation, apart from chunking down, the process of stepping upwards, i.e. chunking up, as well as chunking sideways, i.e. chunking laterally, is also required.

In business, we are interested in “how” one can learn to chunk, in other words *how do we acquire the ability to move attention between generalities and details?* The solution is to start asking questions that are specific to each direction of the *chunk size*. According to Katan (2004:201-202), these questions are seen as “a series of formulaic procedural questions” applied to access either general or specific frames.

## 2. Chunking up

A piece of information can be chunked up when people undertake research by means of the following questions:

- e.g. What is (x) an example of?
- What is (x) a part of?
- What is (x) a type of?

Ellerton (2006:79) enlarges this list by adding two more questions with respect to applying the chunking technique in negotiation and mediation:

- e.g. What is the intention?
- For what purpose?

He points out that far too often “in negotiation, we continue to explore solutions at the level of thought at which we do not agree. The key is to chunk up until you and the other person agree and then to chunk back down to the details only as fast as you both maintain agreement” (Ellerton 2006:81). Thus, with chunking up, we envisage those options that could match our interlocutor's needs and expectations and, more importantly, we offer those solutions that would support a mutual outcome:

- e.g. *You would like to allocate funds to the production of this clothing range – what is your intention?*

Answer: *To attract the customers we both need by opening gigantic stores in my town and in your town, with large economies of scale.*

The manager's purpose is to indicate two objectives, i.e. *to attract customers, to open gigantic stores* behind the action of allocating funds. If uttered in a rising intonation, the open question *what is your intention?* indicates interest and surprise. The use of the modal "we need" makes the other party interested in a common goal, assuming that his business interest also involves increasing market share. Operating on a higher level, the level of expanding the business, the manager establishes a common purpose and avoids possible troublesome arguments.

The chunking technique plays a crucial role in taking the lead in conversation. As Molden (1996:150) points out, "[F]lexible communication requires the ability to chunk up, down or laterally depending upon the situation". His perspective is supported by Molden and Hutchinson who strengthen the idea that people's communication is based on the use of different size chunks of information across a continuum and that one can "use this concept to pace and lead elegantly" (Molden and Hutchinson 2006:59). As a matter of fact, both Molden (1996) and Molden and Hutchinson (2006) see the technique of chunking as essential in developing rapport on different levels, and in influencing people during business relationships.

People's patterns of language place them on different levels of communication. Some prefer to talk in large information chunks, others speak more specifically in small information chunks. Yet, there are contexts in which certain businesspeople deliberately avoid a straightforward answer when confronted with a precise question. If asked, for instance,

e.g. *Have you informed all the shareholders about the disastrous financial situation of your company?*

the businessman might beat around the bush and chunk upward:

e.g. *The financial situation remains one of our primordial concerns, but looking at last year's balance sheet, we feel that our management team will supervise attentively this year's profit growth.*

In the example above, the businessman's evasive response chunks up from the *disastrous financial situation* to *attentively supervising the profit growth*.

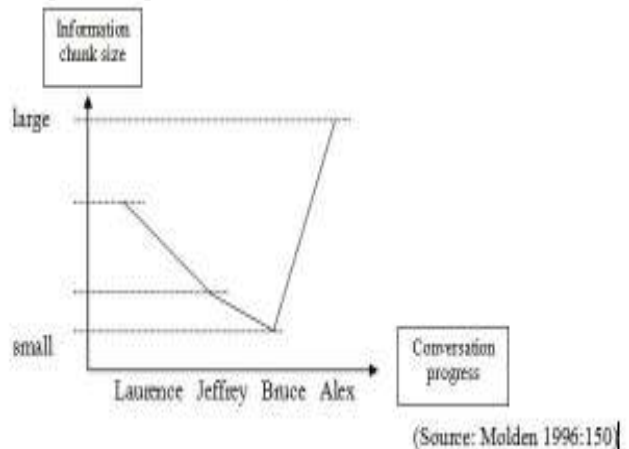
In a conversation about the overall performance of a company, a group of accountants offer the financial reporting based on the results of a strict corporate governance. One can detect different levels of communication and draw a chart of the changing levels used by the interlocutors. For example:

e.g. Laurence: *At the end of this year, the profit and loss account looks quite consolidated.*

Jeffrey: *It would look even better if we could slightly reduce marketing and distribution costs by 10%.*

Bruce: *Don't bother about marketing and distribution costs. Do you know how much retained profit will be left when the shareholders have received 50 cents per share?*

Alex: *Retained profits will be higher than expected / carried to next year make us hope for expansion and further investments.*



This chart outlines two different styles of communication. On a scale from small to large, two of the four accountants (Jeffrey and Bruce) prefer to be specific and talk in small chunks of information, whereas the other two (Laurence and Alex) think more globally and reveal a more general perspective on things. As the chart above shows, Bruce and Jeffrey's *patterns of language* include *small chunk sizes* – financial figures: *by 10%, 50 cents per share*, and economic terms: *marketing and distribution costs, retained profit, shareholders*, and avoid generalities. On the

other hand, Laurence and Alex express themselves in *global objectives*.

It appears clear that Alex sidesteps Bruce's probing question which is tied up with specific details and technicalities, and moves up to making future projects given the satisfactory economic situation: *make us hope, further investments*. Therefore, I would associate Laurence and Alex with the general (global) type of meta program, and I would integrate Bruce and Jeffrey into a more specific pattern.

### 3. Chunking down

Another strategy by means of which one can "follow through" a series of steps to accomplish something, such as a project, is called chunking down.

A very imposing goal, such as <<starting a new business>>, may be chunked into sub-goals, such as *developing a product, identifying potential clients, selecting team members, creating a business plan, seeking investment, etc.*" (Dilts and DeLozier 2000:166). The example given by Dilts and DeLozier could be represented as follows:



Moving from the general to the specifics, i.e. chunking down from whole to part, requires a detailed analysis.

From the chunking language point of view, we chunk down, going from the general to the specific. Thus, questions like the following help us descend to the parts and relate them to the whole:

- e.g. 1) *What is an/a specific example of this?*  
 2) *What is a component/part of this?*  
 3) *What are the constituent elements of this?*  
 4) *What is a specific example of the marketing mix?*

(Ellerton 2006:80; Katan 2004:201-202)

Question (4) starts from the super-ordinate expression "marketing mix" and leads to its four components: *product, price, promotion, place* which make up the mixture of marketing

activities a company uses when planning the products and services it intends to sell. Each component can be further subdivided into micro chunks or smaller constituents. Operating on the micro level is facilitated by questions like:

- e.g. *What are the constituent elements of x?*  
*What is a part of y?*



(Source: Longman Business English Dictionary 2007:344)

A person who chunks down and emphasizes details has a deductive reasoning marked by precision of language in comparison with a person who chunks up and who thinks more inductively.

### 4. Lateral Chunking

If chunking up and chunking down correspond to inductive and deductive thinking, respectively, chunking laterally ("lateral thinking") involves reasoning by analogy, metaphors and similes, relating to the abductive thinking.

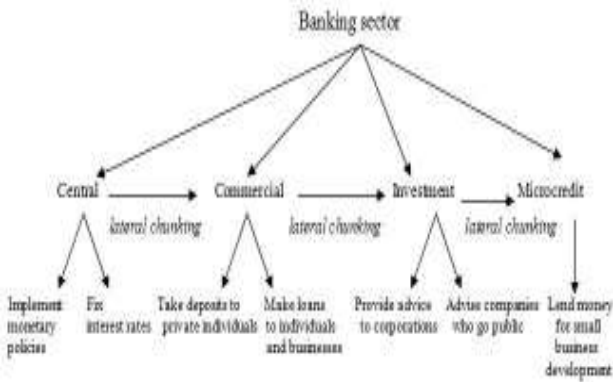
Lateral chunk responds to questions such as:  
 e.g. *What is another example of this class of things (in this context)?*

*What is at the same level as x?*

*What does this situation remind you of?*

According to O'Connor (2001:204), "[Y]ou chunk sideways by going from one member of a class to another member of the same class, or from one part of the whole to another part of the same whole".

In the context of business, available sources of credit from banking institutions can be classified according to the different types of banks. Thus, I suggest the following diagram:



It is noticeable that the three modes of communication, i.e. up, down and across make up a map that guides a person towards various thinking styles. For example, the exercise of **chunking up** presupposes that all the four types of banks, namely central, commercial, investment and microcredit converge into a single one, i.e. *the banking sector*. **Moving down** involves breaking each type of bank into its component elements, that is dividing the central bank into “implementing monetary policy” and “fixing interest rates”, or the commercial bank into “making loans to individuals” and “taking deposits to private individuals” and so on. Finally, **chunking sideways (laterally)** links these parallel financial systems – starting from *central to commercial to investment to microcredit*.

## 5. Conclusions

The chunking up strategy is well-known for its vagueness and abstract type of language.

Chunking up usually starts from the level of behaviour and may continue up to the level of identity. That is to say, in order to observe an individual’s actions and specific behaviours, one should start with his/her beliefs in response to the verbal question *what?*

a) *What is your intention?*  
b) *What strategy is this an example of?*  
and then step up to explore who the person identifies with.

Considering the *wh-* questions – *who, what, where specifically?*, we can associate them directly with the chunking down technique.

Rapport can be quickly established by the practical use of chunking up, down or laterally in organizations / in the workplace.

Preciseness and specificity are rendered by asking questions which lead to the micro level: to chunk down from whole to part, ask *What is a part of this whole?*, to chunk down from class to example, ask *What is an example of this class?*, to chunk down from an outcome, ask *What prevents me from achieving this outcome?*

## 6. References

- [1] Dilts, R. and J. DeLozier 2000. *Encyclopedia of Neuro-Linguistic Programming and NLP New Coding*. Santa Cruz: NLP University Press.
- [2] Ellerton, R. 2006. *Live Your Dreams. Let Reality Catch Up: NLP and common sense for coaches, managers and you*. Canada: Trafford Publishing.
- [3] Katan, D. 2004. *Translating Cultures*. Manchester, UK and Northampton MA, St. Jerome Publishing.
- [4] Molden, D. 1996. *Managing with the power of NLP*. Glasgow: Pearson Education Limited.
- [5] Molden, D. and P. Hutchinson 2006. *Brilliant NLP*. Glasgow: Pearson Education Limited.
- [6] O’Connor, J. 2001. *The NLP Workbook*. London: Thorsons.
- [7]\*\*\**Longman Business English Dictionary* 2000. England: Pearson Education Limited.

**SECTION TWO**  
**ECONOMICS AND BUSINESS**  
**ADMINISTRATION**

**SUBSECTION**

**Marketing – Management**



# The Management of Media Organizations – from Theory to Practice

ANDREESCU (MANOLACHE) Cristina, Ph. D Student  
The Bucharest Academy of Economic Studies  
andreescu\_cris@yahoo.com

## Abstract

Media organizations have become a barometer in the development of a society. The way these organizations are managed depends on the context they can be placed in. Media organizations can be assimilated with a social and economic context. I attempted to emphasize the importance of good management that takes into account the basic principles and which can be integrated into a media organization. Leadership should be concerned with combining the specifics of management with those of human nature. The need for management is real. As it is the interdependence between the media organization and an efficient management. Despite their shortcomings, today's managers are able to manage a newspaper, a radio or a television station. They can be divided into three categories, namely: managers of a media organization, having no knowledge of management; managers having the necessary training but unaware of how to implement management rules and finally, managers with very good training but lacking interest, who let things run by themselves.

**Key words:** Management, media, management style, leadership styles, free market economy, strategy.

**JEL classification:** M10

## 1. Introduction

As with most organizations, the media ones are of a bureaucratic nature. In my paper I tried to stress out their characteristics but what really differentiates them is their name of *unbureaucratic bureaucacies*. For the manager of a media organization, it is a greater or a lesser effort of management. I mean that in case of a lack of hierarchy the participative management appears, where the employees' need for self-achievement is encouraged. In fact, the leadership style that should

characterize the behavior of today's managers resides in combining the priority of production with the interest for human resources.

The managers in Argeş are highly interested in what is happening in their neighbors' yard, in the publications of the competition as well as in their own profit. This is so because newspapers such as *Societatea argeşeană*, *Observator argeşean*, *Top*, but less in the case of *Argeşul*, are owned by people who are involved in other businesses that can sustain, despite of losses even, the business called newspaper, just for the sake of the social position or other important advantages deriving from it. Such managers are not interested in adding value or improving, meaning that they do not make efforts for improving their leadership style.

Placing a media organization in a suitable environment allows it to develop. The more dynamic the environment the more differentiated its structure should be. The more differentiated the structure of a organization, the more difficult the task of coordinating the employees' work. This shows how important the different aspects are for the management of a media organization.

## 2. Literature review

*Argeşul* is the oldest daily newspaper in Argeş area, whose first issue was published on December 23, 1989, continuing the tradition of the first publication, with the same title of March 31, 1876.

The newspaper in tabloid format does not indulge in scandal stories, has a general audience for its general contents, targeted mainly to the rural audience (subscription-based).

The daily offers general political, cultural, sports, miscellaneous and advertisement information. Cultural and political information comes first. Different other types of stories are approached but mainly when the the other types of information are scarce.

The strong point of the newspaper lies mainly in its highly stable pool of editors that write for the paper. It is one of the few publications that did not know major fluctuations of personnel. The professionalism and stability of the editorial group translated into the possibility of assuming and publishing articles that had an unusual impact and were a first for that region.

*Argeşul* is a serious newspaper brand that does not promote scandal stories, observes ethical principles and has a leadership aware that credibility is one of the greatest assets of the newspaper.

The long-term strategy of publishing only credible information and not resort to sensationalism proved beneficial. On the Argeş area market, *Argeşul* newspaper is considered the most serious as compared to other four existing newspapers which, with almost no exception, compete in promoting on their front pages, information on crimes, rapes, sex, incest, pornography, showing less interest for the major problems the local community faces.

The daily has been given credibility due to the information it offers, the attitude it has and the fact that it is considered traditional, with a balanced but firm voice. It is a daily with a personality that constantly increased the number of its readers.

*Top* daily, with 6.000 daily issues, is edited by Media PIC, part of the PIC group of Piteşti. *Top* was launched on the market on April 1, 2003 as a weekly publication. Ten issues later it appeared twice a week, Tuesdays and Fridays.

Six months later, the need for information of the people in Argeş area led to the daily publication of the newspaper, starting with October 1, 2003. Everything contributed to an increase in sales. *Top* daily is edited in very good graphic conditions at the Gutenberg publishing house in Craiova. *Top* defines itself as an information and publicity daily, guided by the interests of PIC group. At present, it advertises the products of PIC group. *Top* is a rather new product in the media market. It presents political, social, economic, cultural, sports, society and miscellaneous information.

All categories are treated fairly to cover most of the public's interests.

The editorial policy of the newspaper aims at bringing the readers general information on all aspects of the social life in Argeş County.

The newspaper targets not only the readers interested in local information but also those interested in events in general. For the last category, the paper brings the latest and most important national and international information.

The Argeş County daily, *Observator*, was first published in January 2000; it appeared in an already crowded market strongly inclined to enrich the genre.

*Observator* is an independent daily of the Argeş County, published in a 16-page format with an additional daily real estate supplement. The Argeş media market can be said to target the lower class of society. Crime is the topic of excellence for all the newspapers in the area, most of the front page features dealing in this subject. Since day one, *Observator* intended to approach the whole range of social topics, focusing on those targeting the largest audience. News in brief are presented side by side with economic, social or political information, each according to importance. This was the way the newspaper tried to get as many readers as possible.

*Curierul Zilei* is the daily with the largest public in the area. It was established in August 1994, at the initiative of two businessmen in Piteşti, Mrs. Marilena Baraţă and Mr. Constantin Neguţ. The first issue was published on September 15, 1994. The editorial office started with a team consisting of young people, mostly with no previous experience with the media work. Paradoxically this proved to be an advantage, which soon translated into an increase in circulation.

Mention should be made that at the time of its first publication, on the Argeş media market there was an audiovisual channel, namely STP Piteşti, radio and television station, and *Argeşul Liber* daily. The direct, concise, dynamic language used by the *Curierul Zilei*, alongside its attractive layout, made it a vivid experience that quickly won the sympathy of the local public. Just to show how this worked we shall say that one of the rules in writing the articles was „Write it as you would tell it.”

*Curierul Zilei* is a daily tabloid, consisting of news that are 99 percent of local interest. Its contents is varied (news in brief, social, economic, political, sports, publicity) with a focus on miscellanea and publicity. The articles are written with professionalism,

easily readable, presented on pages that are modern, clear and attractive.

Its distribution is 91 percent urban and the remaining 9 percent rural, only in Argeş County. Due to its high circulation and lower publicity costs per one thousand readers, *Curierul Zilei* is the best media tool for publicity messages in the Argeş County. This is shown by the fact that *Curierul Zilei* is used as a publicity carrier by famous clients in the area.

*Curierul zilei* has its own loyal audience, due to the debatable cases it has always presented. At present, this daily is the most popular one in the county, the one with the fastest development after 1989.

*Societatea Argeşeană* is a complete one, according to its own description. It was first published on December 1, 2003, in an already highly competitive media market. Along the years, the newspaper adopted different editorial policies, according to the other actors existing in the print media market of Argeş.

*Societatea Argeşeană* grew its own loyal public, very much like the *Curierul Zilei* by publishing debatable cases, original stories and journalistic investigations that have more than once triggered true political and administrative earthquakes in the Argeş County political class.

It created true information breakthroughs in once considered taboo areas, such as police, magistrates, clergy, finances and the business community.

*Societatea Argeşeană* is a daily bringing a large volume of information, whose management changed quite often, which presents a diversity of political, social, economic, sports, cultural, ads and publicity, miscellaneous information.

The publication is disseminated all over Argeş County, through its own as well as other distribution networks. As a conclusion, Argeş County continues to be a strong economic center still, people afford less and less buying a newspaper. The lack of cash resulted in the print media consumers' desperate ability to cope. People would buy one paper that would be read by several people or they would resort to radio or television.

Of the five daily newspapers we talked about, *Curierul Zilei* and *Societatea Argeşeană* cover mostly miscellanea, tragic and shocking cases, presented with photos. The other daily newspapers do not focus on

this kind of information but it is nevertheless present.

Economy is the less covered topic by the newspapers of the county, while crime takes precedence on the front pages. Integrating a media organization into the free market economy requires both good training in the field and the implementation of an efficient management style. As for the publication management, the only publications that preserved the manager position are *Argeşul* – the oldest daily newspaper in the area, managed by Mihai Golescu – and *Curierul Zilei* – with Constantin Neguţ as general manager, as well as Marilena Baraţă, ex-wife of Cristi Neguţ, as founding chairman, which allows us to say it is a family newspaper. *Top* was created for the purpose of promoting the interests of PIC group and not so much for the sake of successful journalism. It was managed by Marian Jinga, who was removed from leadership as he created his own publicity company.

The owners of PIC group considered there was a contradiction of interests and accused the manager of lack of loyalty. At present, manager of the newspaper is Mr. Iustin Angelescu, who does not interfere with the editorial policy of the newspaper, merely managing the business newspaper *Top* represents.

According to the development of the internal life of the newspaper, we can say it was dictated by personal ego and financial interests. The newspaper is meant as a support for the publicity business of the PIC group.

*Observer* daily has its own publishing house (S.C. Tipcomp S.R.L), just as *Argeşul* (Argeşul Liber S.A.), which is a great economic advantage.

Marcel Proca, chairman and owner of the newspaper does not interfere with the editorial policy. In 2005, Adrian Ştefănoiu was assigned editor-in-chief. He managed the newspaper well, increased the newspaper circulation, won new segments of readers, improved the editorial team and their working conditions and signed monthly publicity contracts of over 50 million lei. At the same time, there are interesting management positions, such as strategy director Cristi Bumbenici, administrative director Roxana Matei. That looks like there is an editor for each director, which may seem quite funny for the editorial office of a local daily newspaper.

Until the fall of 2005, *Societatea Argeșeană* was managed by Gheorghe Smeoreanu. The businessman financing the newspaper dismissed him for abuse and financial disorder, though he was the manager under which the newspaper started its activity. *Societatea Argeșeană* is considered a branch of *Curierul Zilei*, because Gheorghe Smeoreanu was first manager of *Curierul Zilei*. The newspaper focused on topics of local interest and had no characteristic style: it was an odd mixture of miscellanea, political, sports and moral lessons from His Holiness Calinic, Bishop of Argeș and Muscel.

### 3. Theoretical Background

The purpose of this paper is to identify the context in which managers of local organizations work. I considered them to be the most important actors in the media. The research is based on the results of questionnaires conducted from September to December 2006, addressed to managers of print media publications in Argeș area, a total of 21 managers of the newspapers *Top*, *Societatea argeșeană*, *Argeșul*, *Observer argeșean* and *Curierul Zilei*.

The questionnaires focused on the perception, opinions and management style in terms of media organization treatment.

The questionnaire results correlated with theory led to the following conclusions:

The opinions of the interviewees were objective but their analyses and comments showed they did not have thorough knowledge of the approached topic. I talk here of the management of the media organization, which was treated superficially. This conclusion resulted from the managers' tendency to be more concerned with profit rather than competition. The reason they give is that profit-driven means customer (reader)-driven but this led to bad management. This is not how it should happen, as one of the most important roles of a manager is to translate potential into reality. This means that a manager is expected to always act as a factor of change, progress and innovation and not just to passively react or adapt to what has already happened. All the interviewees promoted the notion that the means of information co-exist peacefully and complementarily for the purpose of information, an idea that should be discouraged. This image should be replaced

by another one taking into account the fact that the means of information are generally the result of another profit bringing business. As for the management style an acute lack of concern for this aspect was noted. The capability to manage a media organization is the capability to efficiently implement one's own management style. Integrating and maintaining, of course, a media organization into the existing media market requires good media training which, at present, does not exist.

Most media organizations in Argeș need certain investments, need exploring new interest areas as well as bring journalists capable of writing with style into their editorial staff.

The editor-in-chief of *Societatea argeșeană* is worried that some newspaper managers, whether local or central, tend to overestimate the way their newspapers sell and to underestimate the competition. This is an observation that makes me state, as in the theoretical part, that management is truly needed. The fact that unimportant things such as overestimating the circulation of a publication are points of concern for a newspaper manager shows that integrating and maintaining, of course, a media organization into the existing media market requires good media training which, at present, does not exist. An optimal motivational climate should be created, in which the interests and needs of each person could be integrated into those of the organization, so that one's own goals should be best achieved.

Interviewed managers tried to define the strategies of the organizations they lead, but it was all talk. Goals were not clearly defined, here and there just the financial ones, leaving the impression they lacked knowledge on strategy.

One of the greatest problems managers of media organizations have to face is the legal framework and there was a consensus in this respect. Economic issues come first with almost all daily newspapers we approached, while the management struggles to get the selling price that makes the newspaper as affordable to the reader as possible. Peaceful and complementary co-existence of the means of information for the sake of information is an idea that should be discouraged. This image should be replaced by another one taking into account the fact that the means of

information are generally the result of another profit bringing business. For any businessman, media should be a profit-oriented business.

Based on the answers I got, I considered the following conclusions should be pointed out:

*Societatea argeșeană* – the goals of the media organization are correlated with the interests and the respect of the employees.

*Top* – the newspaper management has a management style that resembles that of other publications and takes into account the employees' need for a social life. Hence, an increased interest in the human factor.

Based on the questionnaire results it becomes apparent that most media organizations in the Argeș region need certain investments, should identify other areas of interest and bring journalists capable of writing with style into their editorial staff.

#### 4. Paper Content

According to editor-in-chief Daniel Barbu, the manager of *Societatea argeșeană* tries to adopt the typical behaviour of today's managers. The goals of the media organization he manages are correlated with an interest and respect of the employees.

The newspaper is not managed in a profit-oriented way, even if profit is one of the main targets.

The interpretation of other newspapers' managers of the competition is criticised and he sustains the idea that the public is the only one aware of how things are and the only decider on the success or failure of a newspaper. An important role in producing information is played by technological change, which goes for most fields of activity. In Daniel Barbu's opinion, today profit is the most important thing. Management and quality depend on the financial resources. Dumping prices of the newspapers (for instance, at one time, *Societatea argeșeană* had the price of 1000 ROL), which was harshly criticized by the most circulated newspaper in Argeș, *Curierul zilei*. On the other hand, Daniel Barbu admits that the journalists' recruiting system plays a crucial role in the success of the business, of the media organization.

Good management should combine readers' satisfaction and profit. Those who hold the secret manage to make a name and maintain it on the market.

Emilian Zamfir, editor-in-chief at the *Top* daily newspaper believes media organization should not be placed in the commercial area where businessmen's ideas and orientations prevail, as this impedes on presenting the true image of journalism. He sincerely admitted that most times, performance translated into survival, meaning you have to continuously adapt to change, to requirements, to the team you're working with. As in Argeș region competition in print media is extraordinary, (six daily newspapers, and four weekly ones) maintaining a direct and objective contact with readers could be the key to market success.

The newspaper manager has a management style that takes into account the employees' need for a social life. So, there is an increased interest of the manager for the human factor. Emilian Zamfir thinks a good worker is the first step to making profit, an idea shared by his colleague at *Societatea Argeșeană*. This means an evolution at managerial level because it requires an integration of the employees' needs with those of the organization. Newspaper self-management means the financial aspect is very important.

The profit is set at the same level of importance as the readers' satisfaction. The leadership of the editorial office also takes into account the tight competition existing on the media market in Argeș. Unlike Daniel Barbu, the editor-in-chief of *Top* thinks the media market is too often seen in terms of commerce and competition.

As for the economy of the newspaper, a balance is sought between the funds from publicity, the costs of production and the newspaper selling price.

He values much the honesty of the publication and of those managing it, as it is crucial that correct and authentic information reaches the public, which would result in the failure of manipulation attempts.

Unlike other newspaper managers, the chairman of the *Observator argeșean* is keen on the economic aspect. He has a higher level management style, where reaching goals takes precedence over the interest for the other employees.

Marcel Proca is politically involved, which has advantages and disadvantages for the newspaper. Nevertheless he tries to keep a balance so that his political activity does not have undesired effects on the publication.

He tried several styles of management; first with management teams consisting of the

journalsits having different positions in the editorial office, but because of misunderstandings he gave it up and assigned one manager, namely Adrian Ștefănoiu.

According to his employment contract, Adrian Ștefănoiu pledged to increase the circulation by 30 percent over the following six months, publicity with 50 percent whereas the editorial team was supposed to write better articles.

On the other hand, notice should be made of the continuous effort to integrate new technologies.

What the management of *Observator argeșean* seems to forget is the competition. The lack of other newspapers that could at least equal the performance of the newspaper made them so sure of themselves that they do not take competition into account.

As for the profit, it can only be said that it has a leading role in a media organization. It can signify the existence and also the development of an organization, even if in local media we talk of small profit. Economic issues are important even if a balance is sought after between expenses and income (mostly from publicity).

All this is important for attracting a larger audience while bearing in mind the needs and requirements of the public.

Mihai Golescu, manager of *Argeșul*, considers as most important the good relationship of the media with the public, as the only one responsible for keeping media alive.

He believes that in today's environment, where the laws of free market economy and the spiral of industrialization rule, a place apart is held by print media. According to the manager of *Argeșul*, a healthy strategy of a media organization lies in its awareness of the role technology plays in its present but also future activity. Today's media is characterized by sensationalism, hence the effects, unprofessional media, lack of objectivity, a false media.

For Mihai Golescu, being competitive means covering information in a correct, accurate and clear manner.

*Argeșul* has become a natural and normal presence in the media environment of Argeș, to whom everybody resorts.

## 5. Conclusions and implications

By sheer definition, the strategy of a society consists, in economical terms, in establishing costs that allow establishing the selling price of the newspaper, in setting a price for publicity correlated with the circulation so that by balancing expenses and costs, a minimal profit is obtained so that the organization can function and the reader can buy the paper. If such a strategy does not exist, the rest is just talk.

I wanted to emphasize that free market economy compels media organizations to have not only a good management but also benefit from the new technologies. They do not only reduce the working time but also contribute to simplifying different operations in both print and audiovisual media. The manager has an important role here, knowing how and when to implement technology.

Another aspect of media management is concerned with the legal frame the media organization works in. Most media managers complain of the limits it sets to their activity. Moreover, they accuse the administration and the political class for that!

Different management styles mean augmenting the role of the human factor. Of course, the manager cannot do everything by himself. An efficient management speaks of the manager's capability to integrate and coordinate the efforts of all members of the organization so that to achieve the desired outcome. One can say that the achievements of a leader are a reflection of his own achievements combined with those of his employees.

In sum, media organizations are successful when they are managed effectively. It is only in such circumstances that they can benefit from public recognition. In terms of quality, there can be noted a lack of reference to the managerial context. The image of the organization is mirrored by the manager's achievements.

If he is able to provide the organization with the necessary resources and if he manages the human factor correctly, he should be able to reach his goals. Otherwise, if the media organization is used in the absence of a strategy, of professionalism, he will disappear and so will the respective media organization eventually.

## 6. References

- [1] BERNARD, Claude Jean, „O introducere în presa scrisă și vorbită“, Editura Polirom, Iași, 2001;
- [2] COMAN, Mihai, „Introducere în sistemul mass-media“, Editura Polirom, Iași, 1993;
- [3] GROSS, Peter, „Mass-media și democrația în țările Europei de Est“, Editura Polirom, Iași, 2004;
- [4] HABERMAS, J., Sfera publică și transformarea ei structurală, Editura Univers, București, 1998, pag. 185
- [5] MARINESCU, Paul, „Managementul instituțiilor de presă din România“, Editura Polirom, Iași, 1999;
- [6] Mcquail, Denis, „Mass Communication Theory“, Editura Sage, Londra, 1987;
- [7] PIERRE, Albert, „Istoria presei“, Editura Institutul European, Iași, 2002;
- [8] POP, Doru, „Mass-media și democrația“, Editura Polirom, Iași, 2001;
- [9] RANDALL, David, „Jurnalismul universal“, Editura Polirom, Iași, 1998;
- [10] TUNSTALL, Jeremy, „Journalists at Work“, Editura Sage, Londra, 1971;
- [11] VLĂSCLEANU, Mihaela, „Organizații și comportament organizațional“, Editura Polirom, Iași, 2003

## The Trademark and Its Dismemberments

Lecturer, PhD. Constantin Anechitoae

*Faculty of Law „Ovidius” University of Constanta*

*E-mail: [anechitoae@yahoo.com](mailto:anechitoae@yahoo.com)*

Professor, Phd., Cornel Grigoruț

*E-mail: [cornel.grigoruț@gmail.com](mailto:cornel.grigoruț@gmail.com)*

### Abstract

Currently, brand marks and trademarks and service trademarks are used extensively in all countries - whether developing or industrialized, with a market or planned economy – and they play an important economic role in trade marketing.

Trademarks serve both the interests of those providing goods and services on the market - such as industrialists, manufacturers, distributors, retailers and wholesalers - as well as the interests of consumers, public authorities and the economy, in general.

**Key words:** trademark, firm, intangible elements

**JEL classification:** K11, M31

### 1. The Economic Importance of Trademarks

A trademark enables the entrepreneur who uses it to draw the attention to the potential consumers on the existence of products bearing the trademark, to keep the attention of consumers, once they became familiar with these products and, finally, to distinguish them from the products of the same type that are offered on the market. An entrepreneur can thus acquire a reputation for the products offered under a particular trademark [1].

The value of the trademark comes from the association between a trademark and the product which helps to maintain and develop the demand for the products bearing that trademark, and also from the competition with other products of the same type, belonging to other entrepreneurs. Once a trademark has created the reputation of a company, it makes it easier to enter new

markets, thereby stimulating exports<sup>1</sup>. Trademarks also meet consumers' interests in different ways, which are not in any case irrelevant.

Using and promoting trademarks help consumers to recognize the existence of goods and services available on the market, to identify more easily their origin and to choose between similar goods and services. These are the factors that stimulate competition. On long term, this may lead to an increase in the number and types of consumer goods and, eventually, to produce lower prices. Using trademarks may also stimulate competition among users regarding

---

<sup>1</sup> Google is the first trademark in the world whose estimated value exceeded 100 billion U.S. dollars, according to BrandZ 2009 rankings, released on Wednesday; on the second and the third there are Microsoft and Coca Cola, with 76.2 and respectively, 67.6 billion dollars. "In today's business environment where many companies have collapsed, the trademark has become even more important because it can help support companies in difficult times. Those who will continue to invest in the trademark will be better positioned when the economic situation will be improved than those who reduced costs", said Joanna Seddon, President of Millward Brown Optimor - the audit company which made the rankings. Google is, for the third year in a row, on the first place in BrandZ 2009 rankings, with a 16% increase over last year. Also, the estimated value of Coca-Cola trademark increased with 16%, while Microsoft rose with 8%. BrandZ 2009 rankings include the 100 most valuable trademarks in the world, whose total value is estimated at 1.950 billion dollars, according to studies conducted by the Millward Brown. According to information centralized in this ranking, the highest growth was registered by the category of mobile operators (28%), followed by soft drinks, coffee, fast food, beer and luxury goods, while the most significant decreases are recorded in the case of cars (-22%) and insurance (-48%). BrandZ 2009 rankings were made in 2009 for the fourth year in a row. In compiling the ranking, Millward Brown Optimor considers both the data and financial records of companies and the studies on consumers - natural persons and legal persons.



quality, which, on long-term, it can lead to the general improvement of the quality of goods and services.

Also, an effective system of brand marks and trademarks helps to protect consumers against various forms of unfair commercial practices (e.g. the use of trademarks that mislead or cause confusion because of the similarities with other trademarks). Many countries do not have a specific legislation to protect consumers or, even where such legislation exists, consumers are not always in a position enabling them to defend their rights. In such cases, legislation on brand marks or trademarks may be one of the few legal bases for consumer protection.

Trademarks are equally important for national authorities, particularly for those responsible with quality control and with the control of other characteristics of goods and services. The use of trademarks can help these institutions, for example, to identify, as a result of complaints or tests, supplies and services that do not meet the legal requirements of goods and services similar or belonging to the same category. Finally, the registration of trademarks is a useful source of economic and statistical information for national authorities.

Therefore, every country is interested in establishing an effective system in order to ensure the protection and use of trademarks, so as to satisfy the legitimate interests of producers and consumers and allow optimal use of the contribution that brand marks or trademarks can bring to the economic development.

## **2. The distinction between trademarks and other distinctive signs**

The definition of the trademark, in article 3, allows us to distinguish the trademark from other distinctive signs that have similar identification and differentiation functions. We first mention the equivalence between "firm" and the expressions of "trade name" [2] and "social name", accepted by most authors.

The trade name, for the purposes of the Paris Convention, only means the name of the trader as natural person, respectively the trade company name, and it has that same meaning with that of the company, as defined in Art. 30 of Law no. 26/05.11.1990 on the trade register, republished<sup>2</sup>, according to which "the firm" is the name or, where applicable, the designation under which a trader exercises his/her trade and under which he/she signs.

At Community level, the conflict between the trademark and the trade name has been resolved by the European Court of Justice (ECJ), in the case *Budweiser Budvar*, C-245/02, meaning that, under the exclusive right to the trademark, the holder is entitled to oppose the use of a sign as a trade name, provided that its use is subsequent to the registration of the trademark, in trade activities and intended to indicate the origin of products [3].

The emblem is defined in Art. 30 p. 2 of Law no. 26 of 05.11.1990 (r) as it follows: a sign or name that distinguishes one trader from another of the same type. Both the firm and the emblem accomplish the identification function of the trader, while the trademark distinguishes the goods or services of a natural or legal person from those of others. However, the firm, the emblem and the trademark have the same conditions of validity, i.e. they must be distinctive, lawful and available. If the firm can not be alienated separately from the capital fund, trademarks and emblem conveyance can be made, in principle, separately from the capital fund. The firm has a binding nature, while the trademark is optional; the firm can be only a name or a designation; a trader can only have one firm, but he/she may have multiple trademarks; the firm is protected from the illegitimate use by another trader through the action of unfair competition, while the trademark is protected through the action in unfair competition, but especially on an action of counterfeit [4].

---

<sup>2</sup> Published in the Official Gazette, Part I no. 121 of 07.11.1990. The Act has been supplemented and amended by Law no. 12/1998, published in the Official Gazette, Part I no. 15 of 19.01.1998, Reprinted in Publication, in Official Gazette, Part I nr.49 of 04/02/1998.

## 2.1. The trademark vs. the firm

In order to identify it within the commercial activity, any trade company must have a name. This is called the firm [5].

As regards trade companies with foreign participation, [6] there is one condition required: "The names and emblems of the firm are written, primarily, in Romanian language" [Art. 30's. 3 of Law no. 26/1990 (R)].

In the past, the concept of "firm" was reserved for the individualization of trading companies, for the dealer as natural person, the individualization being made by the "trade name" [7].

In order to be registered, the firm<sup>3</sup> should present novelty, it should be differentiated from other firms and it should not cause confusion. Under article 25 from the Methodological Rule of the Ministry of Justice no. 773 of April 21, 1998, on keeping trade registers and establishing records<sup>4</sup>, in order to be registered in the trade register, the firm must satisfy 3 conditions cumulatively: to be available, to be distinctive, and to be lawful.

The firm should be obligatorily stated in the company agreement [Art. 7 and art. 8 of Law no. 31/1990 (R)]. In establishing the firm, the associates must comply with Law no. 26/1990 (R), which governs the content of the firm, differentiated by the legal form of the company; in the case of closely held companies, the firm consists of a name, while in the case of business corporations, it consists of a designation.

The link between the trademark and the firm, as intangible elements of the capital fund, can be retained only provided that the firm is registered as a trademark. Both intangible goods are recorded but on different legal basis.

The firm is designated to differentiate traders, while the trademark is intended to differentiate products/services from those of the same type belonging to other traders<sup>5</sup>.

## 3. References

- [1] V. Roș, O. Spineanu-Matei, D. Bogdan. *Mărcile și indicațiile geografice*. Ed. All Beck, Bucharest, 2003, p. 29.
- [2] N. Burchel, "Conflictul nume comercial – marcă", in: *Revista Română de Dreptul Proprietății Intelectuale*, no. 1 (6), anul III, Bucharest, 2006, p. 71.
- [3] D. S. Arjoca, „Considerații privind corelația dintre firmă – element incorporeal al fondului de comerț și drepturile de proprietate intelectuală”, *Revista Română de Dreptul Proprietății Intelectuale*, no. (17), year V, Bucharest, 2008, p. 52.
- [4] C. R. Romițan, "Infrațiunea de contrafacere a desenului sau modelului industrial. Necesitatea dispunerii unei expertize. Jurisprudență", in: *Revista Română de Dreptul Proprietății Intelectuale*, no. 1 (6), year III, Bucharest, 2006, p. 49.
- [5] S. D. Cărpenaru, *Drept comercial român. Ediția a VII-a, revăzută și adăugită*. Ed. Universul Juridic, Bucharest, 2007, p. 209.
- [6] D. A. Sitaru, *Dreptul comerțului internațional. Tratat, partea generală*. Ed. Lumina Lex, Bucharest, 2004, p. 229.
- [7] C. Anechitoae, *Introducere în dreptul proprietății intelectuale*. Ediția a 5-a. Ed. Bren, Bucharest, 2010.

---

<sup>3</sup> Art 38 and Art. 39 of Law no. 26/1990 (R), as amended by O.U.G. 52/2008. Simona Dana Arjoca, *Considerații privind corelația dintre firmă – element incorporeal al fondului de comerț și drepturile de proprietate intelectuală*, *Revista Română de Dreptul Proprietății Intelectuale*, no. (17), year V, Bucharest, 2008, p. 49.

<sup>4</sup> Published in the Official Gazette, Part I no. 176 of 11/05/1998.

---

<sup>5</sup> The firm can be individual, i.e. characteristic to the trader as natural person, or it can be social, identifying the trade society.

# Mathematical Models in Investment Strategies Regarding Portfolio of Minimal Risk

Anghel Panait  
Ovidius University  
Economic Sciences I,  
Univesitatii Street, Constanta  
Romania  
E-mail: [anghel.panait@yahoo.com](mailto:anghel.panait@yahoo.com)

## Abstract

In this paper we consider continuous-time market models. We can speak here about the theory of portfolio optimization where H. Markowitz had great results on the mean-variance criterion to judge investment strategies in security markets.

**Key words:** investment strategies, risk, mathematical model, portfolio

**JEL classification:.** C65

## 1. Introduction

Markowitz model of portfolio selection shows how mathematics methods in linear or non-linear general form can be used to find the set of portfolio which is efficient. All investors select the portfolio which best satisfies their preferences assuming risk and return. For the first time in this kind of study Markowitz's analysis offer to the investors the possibility to choose the size of the risk securities. The same analysis can be done in a market with homogeneous expectations when the investors have the possibility of investing in a riskless asset yielding the pure rate of interest. This study was made by James Tobin and his paper "Liquidity Preference as Behavior Towards Risk" and John Lintner in "The Valuation of Risk Asset and the Selection of Risky Investments in Stock Portfolios and Capital Budgets" with conditions that the cost of

transactions, information, and management are all zero.

In economical process we recognize different investors with different expectations in different quantities of portfolio securities. They are interested to have maximum profit with minimum risk.

The theoretical results that we use and obtain will represent the support to a varied strategy of investors on world wide markets.

The first argument is the simplicity of the mean-variance approach to the consideration of continuous-time models. This means that decisions on investment strategies are made at the beginning of the period and the consequences of these decisions will be observed at the end of the period.

## 2. Theoretical Considerations

Some characteristics of model are:

a)  $p_1, p_2, \dots, p_n > 0$  means prices of  $n$  different securities at the initial time  $t = 0$ ;

b)  $P_1(t), P_2(t), \dots, P_n(t)$  are prices at the moment  $t$ . If final time is  $T$ , security prices are  $P_1(T), P_2(T), \dots, P_n(T)$  and not foreseeable.

We have here a non-negative random variables on a probability space  $(\Omega, F, P)$ .

$$R_i(T) := \frac{P_i(T)}{p_i}, i = 1, \dots, n$$

are the returns of the securities

$$E(R_i(T)) = \mu_i \text{ for } i = 1, \dots, n$$

are variances

$$\text{Cov}(R_i(T), R_j(T)) = \sigma_{ij} \text{ for } i, j = 1, \dots, n$$

are covariances

If we can hold  $\alpha_i \in \mathbb{R}$  shares of security we said that each security is perfectly divisible.

The matrix  $\sigma := (\sigma_{ij})_{i,j \in \{1, \dots, n\}}$  is positive semidefinite as it is a variance-covariance matrix.

If we have an investor with initial wealth  $S > 0$  we can suppose that he assume to hold  $\alpha_i \geq 0$  shares of security  $i$ ,  $i = 1, \dots, n$ .

Equality  $\sum_{i=1}^n \alpha_i \cdot p_i = S$  is recognized that budget equation

We define

$$\pi_i = \frac{\alpha_i \cdot p_i}{S}, i = 1, \dots, n \text{ portfolio vector}$$

$$R^\pi := \sum_{i=1}^n \pi_i \cdot R_i(T) \text{ portfolio return}$$

From the definition of  $\pi_i$  we have

$$\sum_{i=1}^n \pi_i = \frac{\sum_{i=1}^n \alpha_i \cdot p_i}{S} = \frac{S}{S} = 1$$

and further relation is true

$$X^\pi(T) = \sum_{i=1}^n \alpha_i \cdot P_i(T) \text{ where } X^\pi(T)$$

denotes the final wealth.

We can write

$$R^\pi = \sum_{i=1}^n \pi_i \cdot R_i(T) = \sum_{i=1}^n \frac{\alpha_i \cdot p_i}{S} \cdot \frac{P_i(T)}{p_i} = \frac{X^\pi(T)}{S}$$

Last relation offers the arguments to build a portfolio return  $R^\pi$ .

Very important for the study of economical model are the mean and the variance of the portfolio return

$$E(R^\pi) = \sum_{i=1}^n \pi_i \cdot \mu_i$$

$Var(R^\pi) = \sum_{i=1}^n \sum_{j=1}^n \pi_i \cdot \sigma_{ij} \cdot \pi_j$  the variance of the portfolio

With this result we can speak about an optimum problem, because an investor who chooses a portfolio that wishes to have a return as large as possible.

However this could be a very risky action and the return can have big fluctuations. Here we must understand the idea of minimizing the risk

and maximizing of the return. We shall present in this situation two cases:

1) we study the problem:

$$\min Var(R^\pi), \quad \pi \in \mathbb{R}^n$$

with conditions

$$\pi_i \geq 0 \text{ for } i = 1, \dots, n,$$

$$\text{and } \sum_{i=1}^n \pi_i = 1, \quad E(R^\pi) \geq c_2$$

2) the second optimum problem is:

$$\max E(R^\pi), \quad \pi \in \mathbb{R}^n$$

with conditions

$$\pi_i \geq 0 \text{ for } i = 1, \dots, n$$

$$\text{and } \sum_{i=1}^n \pi_i = 1, \quad Var(R^\pi) \leq c_1$$

### 3. Optimization theorems

The first problem can be solved by using standard quadratic programming algorithms.

The second problem is a linear optimization problem with quadratic constraint. To solve this problem we do not have special standard algorithms but we could approach this problem with general methods of non-linear optimization.

If we note  $\mu = \min\{\mu_1, \dots, \mu_n\}$  and  $\hat{\mu} = \max\{\mu_1, \dots, \mu_n\}$ , very interesting is to find the constant  $a$  which satisfies the condition:

$$(1.1) \quad \mu < a < \hat{\mu} \text{ and } b \text{ where}$$

$$(1.2) \quad \min \sigma^2(\pi) \leq b \leq \max \sigma^2(\pi),$$

$$\pi \geq 0$$

In conditions (1.1) and (1.2) we have the following equivalences.

Theorem 1: If  $\pi^*$  is solution for problem (1)

$$\text{with } E(R^{\pi^*}) = \sum_{i=1}^n \pi_i \mu_i = a$$

then  $\pi^*$  solves the problem (2) with  $b := Var(R^{\pi^*})$

Theorem 2: If  $\hat{\pi}$  is solution for problem (2) with

$$Var(R^{\hat{\pi}}) = \sum_{i=1}^n \sum_{j=1}^n \hat{\pi}_i \hat{\pi}_j \sigma_{ij} = b$$

then  $\hat{\pi}$  is the solution for the problem (1) with  $a := E(R^{\hat{\pi}})$

Remark: In the following example we shall show that optimal invest can be realized in a seemingly bad security. To show this, we use a model with two security with negatively correlated prices. The parameters we choose here are:

$$\mu_1 = 1, \quad \mu_2 = 0.8, \quad \sigma_{11} = 0.15,$$

$$\sigma_{22} = 0.25, \quad \sigma_{12} = \sigma_{21} = -0.1$$

From the problem (1) we have:

$$\min_{\pi \in \square^2} \text{Var}(R^\pi) = \min(0.15\pi_1^2 + 0.25\pi_2^2 - 0.2\pi_1\pi_2)$$

$$\text{with conditions } \pi_1 + \pi_2 = 1$$

$$E(R^\pi) = \pi_1 + 0.8\pi_2 \geq 0.96$$

We first consider the two portfolios (1,0) and (1/2,1/2).

$$\text{Var}(R^{(1,0)}) = 0.15, \quad \text{Var}(R^{(\frac{1}{2},\frac{1}{2})}) = 0.05$$

$$E(R^{(1,0)}) = 1, \quad E(R^{(\frac{1}{2},\frac{1}{2})}) = 0.9$$

We see that the portfolio return variance (1/2,1/2) is much less than that of (1,0).

If we write the problem using relation  $\pi_1 + \pi_2 = 1$  we find the expression

$$(0.15\pi_1^2 + 0.25(1 - \pi_1)^2 - 0.2\pi_1(1 - \pi_1)) = h(\pi_1)$$

hence

$$\min(h(\pi_1)) = \min(0.6\pi_1^2 - 0.7\pi_1 + 0.25).$$

In this case we obtain the minimizing portfolio as  $\pi_1 = \frac{7}{12}$  and  $\pi_2 = \frac{5}{12}$ .

## 4. Bibliography

- [1] D. Becherer, "The numeraire portfolio for unbounded semimartingales", preprint, Technische Universitat Berlin, 1998
- [2] J. C. Cox, C. F. Huang, "Optimal consumption and portfolio policies when asset prices follow a diffusion process", Journal of Economic Theory 49, 1989
- [3] W. H. Fleming, R. W. Rishel, "Deterministic and Stochastic Optimal Control", Springer, Berlin, 1975
- [4] P. E. Gill, W. Murray, "Numerically stable methods for quadratic programming", Mathematical Programming 14, 1978
- [5] D. Goldfarb, A. Idnani, "A numerically stable dual method for solving strictly convex quadratic programs", Mathematical Programming 27, 1983
- [6] J. Hull, "Introduction to Futures and Options Markets", Prentice Hall, Englewood Cliffs, 1993
- [7] I. Karatzas, "Value preserving portfolio strategies and the minimal martingale measure", Mathematical Methods of Operations Research 47(2), 1998
- [8] R. Korn, "Optimal portfolios. Stochastic Models for Optimal Investment and Risk Management in Continuous Time", 1997
- [9] J. Linter, "The Valuation of Risk Asset and the Selection of Risky Investments in Stock Portfolios and Capital Budgets", Review of Economics and Statistics, 1965
- [10] H. Markowitz, "Portfolio selection", Journal of Finance 7, 1952
- [11] J. Tobin, "Liquidity Preference as Behavior Towards Risk", Review of Economic Studies, 1958
- [12] P. Wilmott, J. N. Dewynne, S. D. Howison, "Option Pricing: Mathematical Models and Computation", Oxford Financial Press, Oxford, 1993

# The Influence of Communication in Achieving the Objectives of an Organization

Anghel Stefania Rodica

*Town Hall of Constanta*

E-mail: [anghel.stefania@yahoo.com](mailto:anghel.stefania@yahoo.com)

Mitu Cristina-Dana

*Ovidius University*

*Modern languages department*

E-mail: [crisrina\\_dana.mitu@yahoo.com](mailto:crisrina_dana.mitu@yahoo.com)

## Abstract

The reason for choosing this subject is that in general the atmosphere or conditions where the information, ideas and feelings are exchanged determines the extent to which it reaches a negative or positive force in the organization. I argued here on the dependence between an open and cooperative environment and stimulation of cooperation relations and also on the negative influence of a closed and defensive climate.

**Key words:** communication, organization, objectives

**JEL classification:** M14

## 1. Introduction

There have been studies regarding communication climate even since 1961 when Gibb suggested that in an open and cooperative climate people perceive a more important measure of the importance and value of the role that they fulfill. Such an environment stimulates the team members to better understand what they have to do in order to achieve common goals.

For an open and collaborative communication, the following behaviors are particularly important: descriptive, oriented solution, open and honest, careful and well defined, fair, indulgent and the one which provides feedback is regarded as an essential element maintaining good working relationships and a high level of performance.

Managerial style and organizational culture are major factors in determining the climate of an open and cooperative communication. If in the organization's history were cases in which suggestions were received with kindness and followed, also when mistakes led to positive conclusions and crises were solved in an offhand manner, then the staff could give evidence of more openness in communication. Employees feel they are given confidence and gain more confidence about their jobs and the whole organization. Effective team work, flexibility and a sense of involvement contribute to achieving an open and cooperative environment, benefiting from it.

There are some behaviors that may be characterized as: value judgments, exercise control, are misleading, show indifference, tend superiority, are dogmatic, are hostile. It is unpleasant to work in such an environment especially for those who occupy leadership positions. Consequently, managerial effectiveness in communication begins to deteriorate so much that interactions between individuals reach minimum.

## 2. The importance of communication in achieving organizational objectives

In the evolution of the organization are very important the mission declaration and the organizational objectives. Effective communication allows people to share their views on the objectives they want to achieve and

the reasons for wanting to achieve them. There are two conditions for this:

- organization to express its clear and consistent objectives to which all members can join;
- leadership to be willing to share information they have with the entire staff at all levels.

Sir John Harvey- Jones writes about this: "Focusing (planning strategies) can be made in a considerable extent by a common vision on the place which is occupied by an individual responsibility within the overall direction followed by the company. There could be no doubt that one aspect that differentiates a successful company from one that is less successful is the existing a clear sense of mission existing in the first and the reassuring feeling that everyone knows the goals and recognize their role in achieving them."

An important role in the development of the organization is represented by the formulation of strategic and operational objectives. Strategic objectives refer to the direction of the organization's evolution, and also relates to methods for assessing the success and the time scale provided.

Organizational and strategic objectives have to be fragmented into operational objectives which are usually detailed as you reach the lower levels of the organization. Division, department or team need objectives which are supposed to be consistent with the overall organizational objectives. The success of the organization is possible only if its departments, or teams are able to realize their objectives.

### **3. Network and information necessities"**

Achieving strategic objectives is strictly dependent on the quality of information provided networking and collective information needs.

Good communication usually occurs when people have information they need to operate effectively. This condition is often violated since some people are not even aware of their training needs.

We are sometimes confronted with too much information and people can get into some kind of "paralysis". They are forced to consume too

much time for analysis and material selection trying to choose the most important elements of a cluster of useless details. A more useful and long term solution is to ensure that everyone's information needs are appreciated and understood by others.

Also too small volume of information leads to inactivity because people do not have sufficient data to ensure their safety in what they do. People give their own interpretation of the information they have and nobody is able to form a clear picture of the situation - mistakes being inevitable.

Communication directed wrong, inaccurate and incomplete may not lead to desired results regardless of how good intentions would be, but rather the appearance of errors and invariably cause a low level of performance causing frustration and loss of trust. It is clear that if people do not receive the information they need to operate, they can not achieve performance standards.

A common problem of larger organizations is that messages often have to travel long distances and pass on to many people before reaching its destination. If communication is involved there is the possibility that the received message to be different than initially as participants in the

transmission process inevitably add their own interpretation. This phenomenon is known as chain distortion.

Some points of the message can be enhanced or new information can be added. Some details may be changed and also the order of various details may be changed as well. Some "gaps" can be filled by the speaker in order for the message to appear more understandable and to sound more credible.

There are two ways of communication: by what we say or write and by what we do. Everything you say verbally or in writing is related to language. Communicate when we try to understand each other but also the context in which interaction occurs. For this we make use of verbal symbols – language. Communication is based on the fact that these symbols are understood. Using ordinary words, without any emotions, do not endanger communication. If words are used to convey abstract moods or

emotions their meanings are not easily transmitted.

In a professional environment, using a language with emotions often lead to misinterpretations and misunderstandings. Effectiveness in communication depends on the ability to be on the same wavelength. Therefore accuracy plays an important role. The communication process always involves a transmitter and a receiver regardless of the number of people interested. Any communication model consists of a simple sequence of seven stages:

1. Transmitter wants the receiver to understand something sent as a message
2. The message is encoded by a transmitter and structured in a logical form – language.
3. When the transmitter is satisfied with the message encoding it is submitted - verbally, in writing, electronically.
4. Message passes through the point of transfer from transmitter to receiver.
5. Receiver decodes the message.
6. Receiver understands the idea that transmitter wants to send.
7. Receiver gets into action following the message.

Communication model in seven steps that we described is based on a very simple process in which the role of the receiver is to understand the message and act according to it.

In the evolution of an organization we consider both the internal and external environment. Therefore communication targets communication techniques within organization and determine the most effective ways of communicating inter organizational. In general,

external communication is to increase the visibility of the organization to which we belong, promote its image, finding partners to provide informational support for achieving organizational objectives. When short-term goals, medium or long term targets also the intervention of the public administration system, of local authorities or government, is necessary and legally recognized use of lobbying techniques in view of an argument consistent and harsh.

Lobby is an approach that follows that the decision factors maker not to make decisions against of a social group or economic categories but rather to adopt measures that would serve their interests. Lobby institutionalizes and regulates this attempt. The results depend on good lobbying training, imposed by the representative of the organization which practice it in his environment.

#### 4. Bibliography

- [1] P. Cabin , “Communication”, ed. Polirom, 2010
- [2] A. Coman, “Communication Tehnics”, ed. C. H. Beck, 2008
- [3] C. Coman, “Negotiation Tehnics”, ed. C. H. Beck, 2007
- [4] A. Horja, L. Mihaileanu, “Regulation of lobby activity. The Influence of the waiting room”, ed. C. H. Beck, 2009
- [5] D. Iacob, D. M. Cismaru, “Intelligent Organization”, University Lectures, 2010
- [6] L. Marusca, “Communication and Conflict”, ed. Tritonic, 2010
- [7] [www.ethos.ro](http://www.ethos.ro)



## The Role of Human Resources Management within the Romanian Companies

Antohei Ionut

*„Ovidius” University of Constanta, Faculty of Economic Sciences*

*E-mail: antohei\_ionut@yahoo.co.uk*

### Abstract

Human resources management proves its important role within company facing the challenges brought into light by the actual economic background. Specialised studies have revealed new roles that human resources management will play in the future. The strategic role proves to be a real challenge for the companies in different economies. In order to fulfil this new role human resources management has to go through important changes that will ensure a higher level of competitiveness both for itself and for the company. The Romanian companies are relatively still tight to the classical administrative approach, but progress toward the new role has been underline by different studies.

**Key words:** human resources management, strategic role, Romanian companies

**JEL classification:** M10

### 1. Introduction

The human resources represent the most valuable asset of a company within the background provided by the knowledge base economy and information technologies. Thus, the human resources management becomes an important element gaining new roles.

A company success will be granted by its capacity to value the experience and competences of its members in order to generate new ideas and solutions to the problems the company face.

### 2. The changing role of human resources management at international level

The human resources management needs to play some important roles within the company, such as the one presented below:

- Strategic partner – major contribution to the establishment and usage of the company overall strategy;
- Change agent – it should enable organisational changes through its own changes, it will develop a organisational culture that will enable such changes;
- Employee’s representative – human resources management will ensure a link between management and employees, trying to obtain a greater level of commitment from them. In the same time the company has to offer its employees rewards linked with performances, development and career opportunities;
- Administrative expert – it represents the traditional role of human resources management. Presently, the focus is set on the efficient administration of personnel, than to applying the regulations.

The strategic partner role proves to be the most important one, considering the current international trends. However, this role implies a changing process still going on base on the fact that many companies are still treating human resources management with less importance [1].

Such an approach will represent a central element in order to develop appropriate strategies (win-win type) regarding the relationship between the company and its

employees. This way, the company will benefit from high performances and commitment toward its values, meanwhile the employees will benefit from the opportunities of development and growth offered by the company.

The new role proves to be a difficult task to accomplish. In many cases difficulties

occurred related to the change of the old bureaucratic way of handling things. Such process implies important changes that have to be made, the management having, in some cases, serious difficulties related to what has to be done in this direction. Therefore, many companies have concentrated their efforts on personnel reduction and cutting off the costs, than on rethinking the specific tasks from a strategic perspective. Thus, the human resources management rest on an administrative approach of doing things, rather than a strategic one.

Specialised studies have revealed that the most important companies have started changing processes in order to develop the strategic role of human resources management. Their experience could prove very useful for the other companies when develop such a complex process.

Companies (such as British Telecom, Pepsi) consider that the main competitive advantage they own, on a long term perspective, is represented by the creativity and level of competence of their employees. Therefore, the role of human resources management consists of establishing a correlation between the human resources strategies and the company overall strategy. The starting point of this approach will be the acknowledgment of the fact that the overall performances of the company are tightly connected with the individual performance of its employees.

In the same time it should be noted that such companies grants the appropriate importance to their human resources managers (they members of companies' board). This way the human resources managers could tackle strategic domain such as: change management, organizational development, information management etc. [2]

The strategic role of human resources management is approached in different manner within companies:

- ◆ there are companies that are using on a large scale decentralization and delegation of tasks. In such cases human resources departments are smaller and the human resources policies are applied by the management of the operational units;
- ◆ other companies promote a strong organisational culture, having larger human resources departments that are responsible with the specific activities throughout the entire company.

Regarding the roles of human resources management within the companies a study of Mercer H.R. Consulting in Holland, Germany and France revealed some interesting findings:

- in Holland 4 out of 6 companies that participate within the study have stated that their major objective regarding the human resources management is to consolidate the strategic role. They are trying to reduce from 49% to 29% the time for the administrative tasks in order to increase the time for strategic ones, currently estimated to 11%[3];
- in Germany, 63% from 21 companies that participated at the study mentioned the need to develop the strategic role of human resources management. They are looking forward to increase the time for these activities, currently estimated at 13%. In german companies the roles of administrative expert and employee's representative are still represented at a high level considering the trade union tradition and the legalised system of codetermination[4];
- in France, the study pointed out that the main role of human resources management is administrative expert, due to the administrative approach that

french companies have developed in time[5].

The strategic role of human resources management proves to be the future challenge, but the process of developing such an approach proves to be a difficult tasks. There are still companies that are attached to the traditional role (the administrative one).

Today's business environment claims a new approach of human resources management within companies. This field

has to become a strategic partner for the company's management.

### 3. Human resources management role within Romanian companies

In the past few years, the romanian companies have assumed different principles, especially from the theory and practice of angle-saxon countries, regarding the human resources management practices. Many of these principles are used only by a few romanian organization, especially the multinational companies.

Within romanian companies were functioning and still are traditional personnel departments fulfilling administrative tasks. The issues related to the administrative activities of human resource management have been underlined by another study undergone by SMARTREE Romania. The main findings of this study are synthesized below [6]:

- ✓ **Relationship with the authorities** - 75% of the managers that have participated in this study consider that the bureaucracy is the main difficulty that occurs in the relationship with the authorities regarding the human resources administration;
- ✓ **Personnel decisions** - these decisions are made in 78% of cases by the general manager. This reflects a restrained authority of human resources managers.
- ✓ **Payroll issues** - 90% of the companies reported that the calculation of payroll is made by the general manager or chief accountant. In 75% of cases the companies are  
  
using specialized software to administrate payroll issues.
- ✓ **Human resources training** - human resources training is considered a priority by some 30% of general managers and 50% of human resources managers. The most important areas are considered: conflict management – 34%, personnel motivation – 28%, interpersonal communication – 25%.
- ✓ **Outsourcing of some activities** - 68% of the participant managers are aware of this new concept. It is used on a reduce scale, especially for the recruitment and training activities.

These results reflect a major administrative orientation within the human resources management activities in romanian companies. Strategic activities (human resources planning, conceiving human resources strategy, planning the human resources training and development activities etc.) are absent or underdeveloped.

Another study developed by Corporate Dynamics and Business Edu in 2007 revealed similar results to the ones mentioned above[7]:

- ✓ only about 19% of human resources managers are involved in taking strategic decisions regarding HR field;
- ✓ about 72 % of such decisions are taken by the general manager.

The same study pointed out an improvement of the strategic role level, the 19% mentioned above representing and increasing related to previous year (12%). Another improvement refers to the fact that the human resources managers became on a larger scale members of company's board.

The changes of human resources management within the romanian companies towards modernism and an enhanced strategic role require a complex approach. In the new economical context that Romania is facing, that of the european single economical space, such an endeavour is more necessary than ever.

### 4. Conclusions

Modern companies have to face various changes that have a great deal of influence on their capacity to meet the planned objectives. Such changes can occur both in the internal side and in external environment of the business. Thus, it is necessary a strategic approach on the functional areas of the organization in order to anticipate these changes, to adapt to them and efficiently achieving the organizational objectives.

The human resources allow the company to adapt to the new conditions, thus they are an important source for its survival and success. The people within the organization have become the most important resource, therefore a strategic approach on human resources management it is extremely necessary.

The human potential of the company frequently represent, the main source of competitive advantages but insufficiently exploited. Thus, conceiving appropriate human resources strategies, connected with the overall strategy may prove an important condition in order to obtain performances and success.

## 5. References

- [1]. Looking to the future of HR - [www.mce.be/knowledge/308/21](http://www.mce.be/knowledge/308/21)  
[2]. T.R. Connolly, W. Mardis, J.W. Down - "Transforming Human Resource", pag.1, 2 - [www.mce.be/knowledge/310/21](http://www.mce.be/knowledge/310/21)

- [3]. [www.mercerhr.com](http://www.mercerhr.com) – Using the power of Human Resources to create new value. A study of Human Resources transformations in major Dutch organizations, 2003, Mercer H.R. Consulting, pg. 4,6  
[4]. [www.mercerhr.com](http://www.mercerhr.com) – Using the power of Human Resources to create new value. A study of Human Resources transformations in major German organizations, 2003, Mercer H.R. Consulting, pg. 3, 5, 6  
[5]. [www.mercerhr.com](http://www.mercerhr.com) – Using the power of Human Resources to create new value. A study of Human Resources transformations in major French organizations, 2003, Mercer H.R. Consulting, pg. 5  
[6]. <http://stiri.rol.ro/stiri/2004/02/129072.html>.  
[7]. <http://www.corporatedynamics.ro/assets/article/Romanian%20HR%20Profile%202007%20ROM---Biz---romn.pdf>

## Issues Concerning the Transfer Strategies of Human Resources Management Practices within Romanian Companies

Antohei Ionut

*„Ovidius” University of Constanta, Faculty of Economic Sciences*

*E-mail: antohei\_ionut@yahoo.co.uk*

### Abstract

This paper presents the issue of transfer the human resources management practices within the Romanian companies. This proves to be a very complex issue. It is necessary to determine what kind of practices can be transferred, under what circumstances and what the best strategies to do this are. Conceiving the best transfer strategies regarding the human resources management practices is not a simple task. Different matters have to be considered.

**Key words:** human resources management practice, transfer strategies

**JEL classification:** M12

### 1. Introduction

The human resources management has evolved constantly, reaching an international dimension. The human resources management within an international context implies various issues considering that the organizations are characterized by the diversity of their people. Therefore, the companies need to develop the most suitable practices regarding the human resources based on their diversity and different cultural backgrounds they came from.

Establishing a strategy regarding the transfer of human resources management practices is not a simple task. This is due to the fact that the transfer process implies major changes within the organization. The changing processes have always been complex, involving different issues that have to be coordinated in order to ensure a successful change.

### 2. The approaches on human resources management practices within the international level

The human resources management practices are analysed at the international level based on two major approaches [1]:

- **The rational approach** – the companies will develop the practices that will enable them to fulfil their objectives in a rational manner and efficiently. According to this point of view the managerial practices will be similar within a specific sector of activity for the same country, even for different countries. This approach assumes a high degree of managerial autonomy.
- **The institutional approach** assumes that the companies are influenced in a decisive manner by their environment. Thus, their practices will be adjusted considering the regulations and compulsions of this environment. Therefore the managerial practice will be different not only from a country to another, but from a sector of activity to another. These differences are explained by various elements such as different regulations concerning the business within a country, the relation between unions and management etc.

Based on the above mentioned two model concerning the human

resources management practices have been developed:

- ◆ **The calculative model** – that promotes those practices that aims to enables the accomplishment of the company's activities in an efficient manner. The human resources are seen as any other economical resource that is assessed by the efficiency of use. Therefore, this model proposes some practices such as: the individual performance assessment (for managers and different professional categories), the reward system tightly connected with the performance assessment, the estimation of the training programs efficiency etc.
- ◆ **The collaborative model** – that involves some practices that are focused more on the people. This way, the value of the employees for the company, ethic issues concerning the contractual relationship are pointed out. The employees are seen as an active partner within the organization, due with a high potential of creativity and innovation that should be properly used. These practices are based on mission statement, the official report on the company's strategy at all its levels, the existence of an employee's communication policy.

Human resources management practices are directly related to he peoples with the organizations. They can prove to be the most important barrier for the changing processes. Therefore, the most efficient transfer strategies should be based on human resources training towards the uptake of the new practices.

It is necessary that the strategies combine the specific elements of the human resources strategies (especially the ones regarding the training and development of the human resources) with the ones specific to the

organizational change strategies. The transfer of human resources management practices implies changes for the people and by the people.

There are many issues that are related to the transfer of the human resources management practices. It is necessary to establish in a clear manner what have to be transferred and what can be transferred, what elements can enable or jam the transfer process.

For the Romanian companies, the models offered by the multinational companies acting within our country, represent the most important source regarding the transfer issues.

The transfer process of managerial practices within the subsidiaries implies different issues that have to be considered within such a process. For example, a study concerning the transfer of human resources management practices within the subsidiaries of the multinational companies within Greece has revealed a few interesting points of view [2]:

- the cultural and institutional background have a great influence over the human resources management practices used by the subsidiaries within this country;
- the trade unions can prove an obstacle in the transfer process;
- the interaction with the local companies has a negative influence over the transfer process;
- there are different degrees of transfer for different human resources management practice.

### 3. Types of transfer strategies

Considering the fact that the main models regarding human resources management practices are offered by the multinational companies that operate within our country the following transfer strategies can be used[3]:

- ❖ A strategy based on the uptake of the models offered by the top companies-the best practice. This kind of strategy can be applied in the following manners:
  - **a mechanical manner, without any adjustments to the particularities of the company or the cultural context of our country.** In such a situation it could be easy to develop new organizational formulas that have no

real support. It is the case of many Romanian companies that have renamed their ancient personnel department as human resources departments without any changes regarding the specific approach of the human resources domain or the change of the specific practices.

- **an adjusted manner which implies that those models are adapted to the specific needs of each organization.** In this case the issues presented above are considered in order to avoid a force uptake of the models that cannot function effectively.
- ❖ **The strategy of adjustment to the changes that occurs within the economical, social, institutional background (a reactive strategy).** This strategy implies the transfer and the uptake of some human resources management practice when the need for change is absolutely necessary. For example, the use of some systems that evaluate the people performances and correlate this with the reward system and also with the needs for training and development will become necessary when our country will become a EU member. The EU companies that will activate within our country will bring such practices that the local companies will have to uptake. Moreover, a common legislation at the EU level regarding the human resources field will impose the change of human resources management practices within the local companies.
- ❖ **The strategy that derives from the human resources strategies (a proactive strategy).** Throughout this kind of strategy the companies aim to create an organizational frame and a adequate organizational culture that sustain the long term orientation within the human resources field. Continuous training and development of the human resources are considered to be the most important issues. The human resources management practiced within the company will be permanently modernized and adjusted.

These companies can offer models regarding the human resources domain to other companies or to society.

#### 4. Conclusions

The transfer of the human resources management practices within the Romanian companies proves to be a very complex issue. This is a very actual issue especially in the context the European integration process.

It is necessary to determine what kind of practices can be transferred, under what circumstances and what the best strategies to do this are. Conceiving the best transfer strategies regarding the human resources management practices is not a simple task. Different matters have to be considered. One of the most important mentioned within this paper is the cultural background of our country.

Transferring the needed human resources management practices represents an important process that will determine the achievement of a higher degree of modernism and efficiency within the human resources field.

#### 5. References

- [1] P.N. Gooderham, O. Nordhaug, K. Ringdal – „Institutional and rational determinants of organisational practices: Human resources management in european firms”, (Admin. Science Quarterly, sept. 1999, vol. 44, issue3 - <http://www.geocities.com>);
- [2] B.Myloni, A-W Harzing, H. Mirza – “Host country specific factors and the transfer of HRM practice in Multinational companies”, 2004, pg. 7 - [www.harzing.com](http://www.harzing.com);
- [3] “Studiu despre valorile și comportamentul românesc din perspectiva dimensiunilor culturale după metoda lui Geert Hofstede”, pg.8- [www.i-interact.ro](http://www.i-interact.ro).

## Balanced Scorecard vs. Six Sigma Business Scorecard

Prof. Petru Balogh, PhD,  
"Dimitrie Cantemir" Christian University  
[petru-balogh@yahoo.com](mailto:petru-balogh@yahoo.com)

### Abstract

The Balanced Scorecard has become one of the most popular and successful instrument for managing the organizations' performance. *The Six Sigma Business Scorecard* combines the Six Sigma methodology with the Balanced Scorecard method for achieving financial objectives. The Six Sigma Business Scorecard utilizes strategy to maximize profitability and growth, accelerate improvement, foster leadership accountability, and encourage employee involvement. It builds on proven methodologies and offers a new method for measuring corporate performance.

**Key words:** performance, management, methodology

**JEL classification:** M10

### 1. Balanced Scorecard as part of performance management

Balance scorecard is part of the performance management system focused on managing the important processes within the organization.

Performance management system must allow:

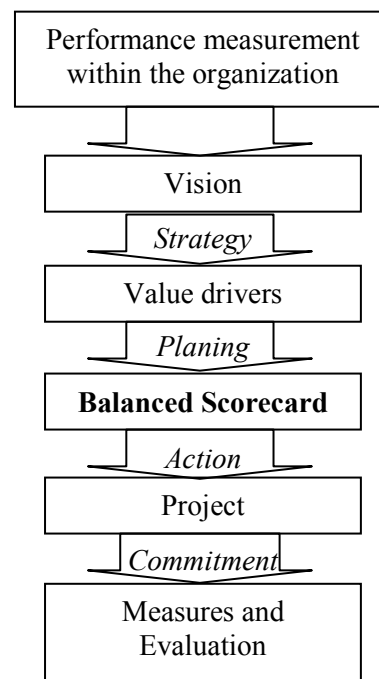
- Striking a balance between the demands of shareholders, employees and customers
- A flexible framework that makes the company aims to be known at all levels of organization;
- Prioritizing real major problems.

Organizations should take measures in accordance with their organizational structure to achieve a balance between different activities.

For the development and / or implementation of a system for measuring the business performances of the organization have taken steps shown in figure 1.

Each organization should develop measures to implement the Balanced Scorecard methodology to assess the improvement of their performances.

Figure 1. Place and role of Balanced Scorecard



The model developed by Kaplan and Norton, fig. 2, consist of four components:

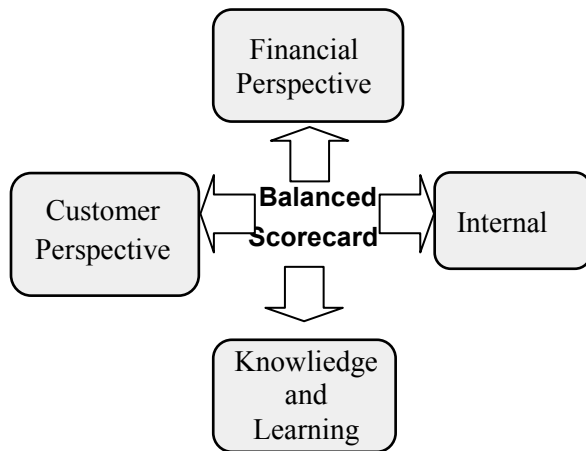
- Financial: The financial perspective focuses on cost efficiency and set targets for achieving profit within the organization;
- Customers: This view captures the organization's ability to provide quality products and services, the effectiveness of their delivery, and ensure customer satisfaction.



- Internal processes: This perspective focuses on the internal results of the organization, leading to financial success and satisfied customers. To meet organizational goals and customer expectations, organizations must identify key processes in which they must excel. Key processes are monitored to ensure that the results will be satisfactory.

- Knowledge and learning: This approach focuses on staff capacity and quality of information systems. Appropriately skilled and motivated employees, who are providing accurate and timely acquire increasing importance in organizations.

Figure 2. Adapted from material developed by Robert S. Kaplan and David P. Norton



## 2. The Six Sigma Business Scorecard overview

The Six Sigma Business Scorecard is a complete corporate performance system that requires leadership to inspire, managers to improve, and employees to innovate to achieve the optimum level of profitability and growth.

Considering the business's purpose, its processes, and its total culture, the Six Sigma Business Scorecard combines various measurements into seven elements, as shown in Figure 3:

- Leadership and profitability
- Management and improvement
- Employees and innovation
- Purchasing and supplier management

- Operational execution
- Sales and distribution
- Service and growth

Figure 3. Six Sigma Business Scorecard



With the seven elements or categories of the Six Sigma Business Scorecard defined, it need to look at the measurements associated with them. These measurements are oriented more to process than to function.

## 3. Comparing Balaced Scorecard and Six sigma Businee Scorecard

Table 1 identifies differences between the Balanced Scorecard and the Six Sigma Business Scorecard. Because of trends in the business environment, market dynamics, the rapid evolution of information technology and the Internet, and competitive pressures, profitability is shrinking. However, businesses have significant opportunities that could improve profitability. Without an integrated measurement system that relates to the corporate culture, vision, and beliefs, identifying what contributes to the loss of profitability and growth can be daunting. Using lessons learned from the Six Sigma methodology, the Six Sigma Business Scorecard offers a method for maximizing corporate profitability. By integrating the

existing quality management system with a performance measurement system, a corporation can aim for dramatic improvement in performance and significant improvement in profitability.

#### 4. Conclusions

Current measurement systems tend to focus on operations, and measurements for the strategic aspects of the business are limited. This leaves leadership unable to relate to the overall performance of the business. The Balanced Scorecard is best deployed at the strategic level and flowed down through the organization. Work groups can devise their own Balanced Scorecards that show their contribution to the strategy of the organization. Action plans and resource allocation can be determined according to the work groups' contributions to the corporate Balanced Scorecard objectives. In theory, if a Balanced Scorecard is created at each department level, it could become a major measurement challenge. People who have experienced the process, however, say that by the time the Balanced Scorecard gets to work groups, the strategy has become unrelated to employees and too much effort is required to maintain the system. As with any new methods and their associated learning curves, challenges are expected.

The Balanced Scorecard has been successfully implemented at hundreds of companies; however, the remaining millions of businesses still need a practical measurement system that will enable them to improve profitability.

Six Sigma Business Scorecard offers a new approach to establishing a corporatewide measurement system that will enable leadership to monitor a company's performance against expected performance. Customers expect better, faster, and cheaper; the Six Sigma Business Scorecard promotes these requirements.

Six Sigma offers a measure of goodness, a methodology for improving performance, a measurement system that drives dramatic results, and a new paradigm that requires a

Table 1. Comparing Balanced Scorecard and Six Sigma Business Scorecard

Balanced Scorecard	Six Sigma Business Scorecard
A strategic management system.	A performance measurement system.
Relates to a longer-term view of the business.	Identify measurements that would drive performance toward profitability.
Designed to develop a balanced set of measurements	Designed to identify a set of measurements that impact profitability.
Identifies measurements around vision and values.	Establishes accountability for leadership for wellness and profitability.
Critical management processes are to clarify vision /strategy, communicate, plan, set targets, align strategic initiatives, and enhance feedback and learning.	Includes all business processes, management and operational, i.e., leadership, innovation, rate of improvement, sales, service, purchasing, and production operations.
Balances customer and internal operations without a clearly defined leadership role.	Balances management and employees' roles; balances cost and revenue of heavy processes.
Emphasizes targets for each measurement	Emphasizes aggressive rate of improvement for each measurement.
Emphasizes learning of executives based on the feedback.	Emphasizes learning and innovation at all levels based on the process feedback.
Focuses on growth.	Focuses on maximizing profitability.
Heavy on strategic intent.	Heavy on execution for profitability.
Management system consisting of measurements.	A measurement system based on process management.

passionate commitment from leadership to

set high expectations. The traditional approach to Six Sigma involves the steps that focus on discovering customers' critical requirements, developing process maps, and establishing key business indicators.

After these steps are completed, the business moves on to review its performance against the Six Sigma standards of performance and takes actions to realize virtual performance.

## 5. References

- [1] Ralph F. Smith, Business Process Management and the Balanced Scorecard, the publisher John Wiley & Sons, 2007
- [2] Paul R. Niven, Balanced Scorecard - Step-By-Step - Maximizing Performance and Maintaining Results, John Wiley & Sons, 2002
- [3] Kaplan & Norton - The Balanced Scorecard Translating Strategy into Action, Harvard Business School Press, 1996
- [4] [www.isixsigma.com](http://www.isixsigma.com)

## Innovation Management and Support

Barsan Simona-Clara

*Research Institute for Analytical Instrumentation Cluj-Napoca*

*e-mail: [simonaclara\\_barsan@yahoo.com](mailto:simonaclara_barsan@yahoo.com)*

Sima Mihaela-Georgia

*Bucharest Chamber of Commerce and Industry*

*e-mail: [georgiasima@yahoo.com](mailto:georgiasima@yahoo.com)*

### Abstract

The article presents the actual state of innovation and the means of supporting it. It starts with a presentation of the main important elements, such as: legislation, innovation, industrial property, its protection, technology transfer, Infrastructure of Innovation and Technology Transfer, competitiveness of SMEs. A case study on innovation's situation within Bucharest-Ilfov area follows, with the purpose of determining the main facts and barriers with regard to this process. In the end of the paper, some solutions to the problems encountered are provided and a part of the benefits recurring from the cooperation with special created structures for innovation, such as Technology transfer Centers, are presented.

**Key words:** innovation management, protection, technology transfer

**JEL classification:** O32

### 1. Introduction

Government policy in the field of research development and innovation aims to enhance innovation processes and increase quality and competitiveness of products and services offered by Romanian companies. Sector with the greatest capacity for innovation, flexibility and orientation towards the market needs is that of SMEs. The success of innovative activities undertaken by SMEs is materialized, both in developing markets through the introduction of new or improved products, as well as improvement and innovation in organizational processes and technologies specific to each company, including the processes of distribution. For SME's innovation is the main instrument of

development. Whether we are talking about developing new products or services or identification of the most efficient already existing methods of accomplishment, innovation brings added value to an organization. In the same time allows it to maintain or improve their market share.

### 2. Theoretic notions

**Innovation** represents an activity from which a new or significantly improved product (good or service) launched on the market results, or represents the introduction of a new or significantly improved process in its own unit. Innovation relies on the results of a new technology, of technological development, of new combinations of existent technologies or on using other knowledge obtained.

**The object** of industrial property (protection) [8] is the: inventions, trademarks and geographical indications, industrial designs and sketches.

Materialization of protection is in the form of **industrial property rights**. These allow the creator or owner of a patent or a brand to benefit from the work or its investment. They are outlined in Article 27 of the Universal Declaration of Human Rights which states that everyone should enjoy the protection of moral and material interests resulting from any scientific, literary or artistic production of which is the author. They reward the effort and creativity that are driving human progress of humanity.

**Protection of industrial property** is regulated, mainly by the following laws: Law no 64/1991 on patents, Government

Ordinance no 41/1998 on property taxes in

the industry and their use approved by Law No.383/2002.

Ordinance provides a number of fee reductions for the legal protection of objects of industrial property according to the average gross monthly income on the last 12 months of the person either applicant or holder or depending on the turnover of the trader.

In accordance with Law no.64/1991, republished, profit or income through effective implementation in the country by the proprietor or, as appropriate, by the licensees of inventions patented in Romania, including the manufacture of the product or, if necessary, application process is exempt from tax in the first 5 years after the first application, calculated from the beginning of the application and included in the validity of the patent." By the above provisions benefits the patent holder, respectively individuals and / or legal persons exploiting the invention. Income obtained by the holder of the patent from the disposal is exempt from tax.

**Technology transfer** is the introduction or acquisition in the economic circuit of the technology and specific machines, equipment and facilities resulted from research, in view of new or improved processes, products or services, required by the market that induces an innovative behavior, including the disseminate information, to explain, to transfer knowledge, to provide consulting and communicate with people who are not experts on the issue of basic research, applied and precompetitive research so as to increase the chances of applying such results, provided there was an owner of the results.

This is done by the network of innovation and technology transfer entities (**ReNNIT**).

**Infrastructure of Innovation and Technology Transfer** was created, is functional, assessed and accredited by the National Authority for Scientific Research under G D no 406/2003 and aims to support economic and social development, foster innovation and technology transfer, attract investment to capitalize results of research and innovation, as well as human resources from the national research and development system.

Their role [5] is to support SMEs and

interface between them, as beneficiaries and producers of innovation "inventors represented by (natural or legal persons), universities, research institutes and companies with research and development activity.

**Competitiveness** [1] is a complex concept which, at a general level, expresses the ability of persons, companies, economies, regions to maintain competition on the internal and / or especially international scale, and to get, in terms of a specific business environment, economic benefits, resulting in constant increases in productivity and standard of living.

The innovation process, regarded as a company long term risky investment, requires a sustained management effort dedicated to the sector.

We mention as a result of the competitiveness of SME **profitability**. This is a snapshot of economic activity, both at the micro, and macro, and the extent to which companies are the competition and are competitive. Functioning as a binding element and the balance between the potential, resources and costs, research-development networks support SMEs in their efforts.

Part of research and development networks, Technology Transfer Center is the entity whose business is to foster innovation and technology transfer for the purpose of placing into economic circuit the results, transformed into products, processes and new or improved services.

Other results of technology transfer that can help increase the competitiveness of SMEs: the modernization of production, including manufacturing costs and lower economic resources, organization and management, production and services under the ISO quality standards, investment in industries of the future: IT / Hi-Tech; services / consultancy.

### 3. Innovation situation - case study

To determine the specific of Bucharest – Ilfov Region [7], from the innovation view point, between December 2008 and February 2009, a survey has been made within a representative sample made of 168 SME's. The results have shown that 73, 96% of them

consider that innovation is compulsory for maintaining their competitiveness.

Product-service innovation has been reported in 62% of the cases, process-technology innovation in 32%, organizational innovation in 17% and

marketing innovation in 17%.

Out of 3983 active innovative enterprises, 848 (21%) are in Bucharest – Ilfov Region and the innovation expenditure for the area is 41, 7% of national innovation expenditure. 72.57% are destined to licenses and patents.

The term innovative enterprise covers all type of innovators: product, process innovators as well as enterprises with on-going or abandoned innovations and refers to active enterprises.

Innovation expenditure comprises both expenditure for finalized innovation activities, as well as those for on-going or abandoned innovation activities. The main components of expenditure for innovation activity are: internal and external research – development; machinery, equipment and software acquisition; other external knowledge (licenses, patents, know-how).

The research proved that Bucharest – Ilfov Region has the highest development rank compared to the national average at all levels, offering the biggest opportunities of investment and development. In the same time, it is the centre of research and innovation activities from Romania. There have been identified five activity sectors with high innovation potential: precision mechanics, IT&C, electronics, plastics and construction. To these we add the intensive knowledge-based services sector.

These are the results of the analyzed innovation factors: the potential of innovation management – 76.7%; the potential of creating knowledge – 87.5%; innovation capacity – 75.01%; innovative activities' performance 51.88%; intellectual property – 64.36%.

IN SWOT, the “S” refers to innovation orientation and quality services (49% of answers).

The Romanian labor market is made out of qualified labor force. The effect could be stronger if proper training is provided. This should be permanent, implicate universities, research and companies partnership, so that the results would correspond to the

continuously changing needs of companies and market demands. That would lead to maintaining the competitive advantage and obtain profit.

The “W” or the main obstacles in carrying on innovative activities were: personal fluctuation and material resources. If the personal fluctuation problem can be solved through an elaborate and constant retentions program, based

on proper motivation, the lack of material resources (30% of companies mentioned this factor), detain companies from making the investments that innovative activities require (21% of companies mentioned raised costs as an obstacle in achieving innovation). The major capital source comes from their own income (80%), credits (29%) and other unmentioned sources. The financing from public funds (budgetary) proved to be insufficient and more than that, hard to obtain (72% of companies declared the programs accessing procedure difficult).

#### 4. Conclusions

Innovative ideas used in new products and services [4], by way of intellectual property are essential to business success, increase the ability of businesses to obtain profits, and to discover new opportunities to adapt to rapid change characteristic of globalization. If one would maintain current technological endowment of most SMEs, their risk of becoming uncompetitive quite soon is imminent. A solution is provided by technology transfer centers, which by nature of their activity, as they work with intellectual capital, allow SMEs to access both research results and funding sources for implementation of new technologies / innovations.

Benefits from the cooperation of SMEs with research centers through entities for technology transfer are very high. The effects are observable in concrete economic results achieved by SMEs in the position that they manage to enforce or maintain on the market (the market share, quality of products / services), the positive effects generated in the chain at the level of national economy (raising the living standard of the population, increased exports).

Contribution to increasing awareness and interest towards the development of RDI

activities in the economic agents and legislative level, optimizing the ratio technology transfer / industry, promoting a culture about the importance of technology transfer, increasing added value of production (technological elements and non-technological of innovation: organizational innovation, innovative marketing), promoting a dynamic market-based

knowledge: regional innovation systems, clusters of innovative enterprises, participation in international networks to promote innovation, creating virtual collaborative systems and mechanisms, an integrated information system (web site, portal, database, electronic newsletters), obtaining patents and registering trademarks of, in direct collaboration with OSIM, encouraging public-private partnership to attract capital to technological companies and start-up companies are just some issues that recommend the Technology Transfer Centre as a reliable partner both for the creators of innovation, and its users.

## 5. References

- [1] Bărsan, S.C., Sima, M.G., 2008, „Inovarea și transferul tehnologic-instrumente de aliniere a IMM-urilor la cerințele economiei de piață, “Seminar “Interferențe economico-sociale la frontiera inovării” – editia 1;
- [2] National Strategy on Intellectual Property (2003-2007)
- [3] National Strategy to support and promote SMEs, horizon 2004-2008
- [4] Săvescu, D. “Rețea națională de educație, stimulare și constientizare a Dreptului de Proprietate Intelectuală-RECPIN.” National project. Nr. 192CPII/9.09.2008;
- [5] Sima, M.G., 2009, “Role of Technology Transfer Center in the promotion, protection and capitalization of industrial property; the impact on competitiveness of Romanian SMEs”, rev. Hidraulica, nr.3, pag.21-25;
- [6] GD no. 406/2003
- [7] \*\*\* <http://www.irecson.ro> ;
- [8] \*\*\* <http://www.osim.ro>.

## Percentage Programming Approach for Portfolio Optimization

Silviu Bârză

*Faculty of Mathematics and Computer Science  
Spiru Haret University, Bucharest, Romania*

[silviu.barza@gmail.com](mailto:silviu.barza@gmail.com)

### Abstract

In quantitative approach to decision making, a possible point of view for portfolio optimization is to model a portfolio in terms of a linear program. In this approach a linear programming model is in form of continuous non-negative variables instead of integer non-negative variables.

In some earlier paper I introduced one type of combinatorial optimization model named percentage optimization model which it is presented in "Introduction".

Next I will present a linear model for portfolio and possible transformation which produce percentage programming form. For this step I will give a possible example.

In the end I will discuss complexity for an algorithm schema to solve portfolio model in percentage programming form.

**Key words:** portofolio optimization, linear program, percentage programming form,

**JEL classification:** C61;

### 1. Introduction

In some personal studies in combinatorial optimization made in the context of equipment replacement I introduced a particular model of linear programming and I named it percentage programming model.

General form for percentage programming, in matrix expression is:

opt  $cx$

$$\begin{cases} A_1x \leq b_1 \\ A_2x \geq b_2 \\ A_3x = b_3 \end{cases}$$

$$\sum_{i=1}^n x_i = p$$

$$x_i \in \{0, 1, \dots, p\}, i = 1, 2, \dots, n$$

where:

-  $opt\ cx$  is the function to be optimized with minimum or maximum;

-  $\begin{cases} A_1x \leq b_1 \\ A_2x \geq b_2 \\ A_3x = b_3 \end{cases}$  is the constraints system

-  $\{0, 1, \dots, p\}$  is integer and finite set of values for each model variable, with  $p$  a non-zero given constant integer;

-  $\sum_{i=1}^n x_i = p$  is a special condition named constant sum constraint.

This model can be generalized by modifying variable boundaries to non uniform upper limits. The new form model is named constant sum linear model. Model can be described as:



opt  $cx$

$$\begin{cases} A_1x \leq b_1 \\ A_2x \geq b_2 \\ A_3x = b_3 \end{cases}$$

$$\sum_{i=1}^n x_i = p$$

$$x_i \in \{0, 1, \dots, q_i\}, i = 1, 2, \dots, n$$

where  $q_i$  are integers so that

$$\max_{i=1,2,\dots,n} q_i \leq p.$$

In next section of this paper I take a linear model for portfolio and I present the transformation of continuous variable model in percentage programming model, and in constant sum integer model.

Finally, without giving an explicit algorithm for solving portfolio optimization, I will give some consideration about complexity of such an algorithm.

## 2. Percentage programming approach for portfolio model

In management science, for portfolio is used a linear model which can be presented as:

$$\text{opt } c_1x_1 + c_2x_2 + \dots + c_nx_n$$

$$\begin{cases} A_1x \leq b_1 \\ A_2x \geq b_2 \\ x_1 + x_2 + \dots + x_n = S \\ x_i \geq 0, i = 1, 2, \dots, n \end{cases}$$

where:

- $n$  represent the number of portfolio components;
- $\text{opt } c_1x_1 + c_2x_2 + \dots + c_nx_n$  is the function to be optimized with minimum if  $c_i$  are costs or with maximum if  $c_i$  represent profits coefficients;
- $A_1x \leq b_1$  and  $A_2x \geq b_2$  are upper and lower limitation for different mixture of portfolio component
- $S$  establish total found to be covered by

portfolio

- $x_1 + x_2 + \dots + x_n = S$  indicate that all found must be used in portfolio.

In general, portfolio component are expressed in one currency so that if I take sub-currency I can consider that values for portfolio component are integers. This observation allows me to replace continuous variables  $x_i \geq 0$  with discrete variables  $x_i = 0, 1, 2, \dots, k, \dots$  and so, continuous linear model turns into integer linear model.

Now I can observe that if one of model variables is greater then  $S$ , let say  $x_j > S$ , while the other remains non-negative,  $x_i \geq 0$  for any  $i = 1, 2, \dots, n, i \neq j$ , then

$$\begin{aligned} x_1 + x_2 + \dots + x_n &\geq 0 + \dots + 0 + x_j + 0 + \dots + 0 \\ &\geq x_j > S \end{aligned}$$

And so, constant sum constraint fails.

Last observation allows me to replace infinite integer variables  $x_i = 0, 1, 2, \dots, k, \dots$  with bounded integer variables and to obtain portfolio model in the form:

$$\text{opt } c_1x_1 + c_2x_2 + \dots + c_nx_n$$

$$\begin{cases} A_1x \leq b_1 \\ A_2x \geq b_2 \\ x_1 + x_2 + \dots + x_n = S \\ x_i \in \{0, 1, \dots, S\}, i = 1, 2, \dots, n \end{cases}$$

Which clearly is a percentage linear programming model as it is defined in "Introduction".

As an example let me consider the portfolio linear model:

$$\text{opt } 0.15x_1 + 0.12x_2 + 0.14x_3 + 0.09x_4$$

$$\begin{cases} x_1 + x_2 + x_3 \leq 4000 \\ x_1 + x_2 + x_4 \leq 4000 \\ x_2 + x_3 + x_4 \leq 4000 \\ 3x_1 + x_2 + 2x_4 \geq 6000 \\ x_1 + x_2 + x_3 + x_4 = 5000 \\ x_i \geq 0, i = 1, 2, 3, 4 \end{cases}$$

in which one must place 5000 currency unit (c.u.) in 4 different funds with 15%, 12%, 14% and 9% profit per c.u. so that total sum in any 3 funds must not exceed 4000 c.u. Additional must be fulfilled  $3x_1 + x_2 + 2x_4 \geq 6000$ .

Using the observations presented earlier, portfolio model from above, which is a continuous linear programming model, it is transformed in a percentage linear model defined as:

$$\begin{aligned} &\text{opt } 0.15x_1 + 0.12x_2 + 0.14x_3 + 0.09x_4 \\ &\begin{cases} x_1 + x_2 + x_3 \leq 4000 \\ x_1 + x_2 + x_4 \leq 4000 \\ x_2 + x_3 + x_4 \leq 4000 \\ 3x_1 + x_2 + 2x_4 \geq 6000 \\ x_1 + x_2 + x_3 + x_4 = 5000 \end{cases} \\ &x_i \in \{0, 1, \dots, 5000\}, i = 1, 2, 3, 4 \end{aligned}$$

### 3. Constant sum programming approach for portfolio model

The goal of this section is to see if there are any possibilities to reduce variable domains for percentage programming model. This question has a positive answer. To do so I must analyze upper bound constraints identified by system  $A_1x \leq b_1$ .

Firstly, I consider only one relation from  $A_1x \leq b_1$ , namely:

$$a_{i,1}^1x_1 + a_{i,2}^1x_2 + \dots + a_{i,n}^1x_n \leq b_i^1.$$

To use properly this relation I specify that all coefficients  $a_{i,j}^1$ ,  $j = 1, 2, \dots, n$  must be non-negative and  $b_i^1 > 0$ . Let consider  $j$  for which  $a_{i,j}^1 > 0$ .

Because  $x_k \geq 0$  and  $a_{i,k}^1 \geq 0$  for any  $k = 1, 2, \dots, n$ ,  $k \neq j$ , results that

$$\sum_{\substack{k=1 \\ k \neq j}}^n a_{i,k}^1 x_k \geq 0$$

and so,  $a_{i,j}^1x_j \leq b_i^1$ . While  $a_{i,j}^1 > 0$  I have  $x_j \leq \frac{b_i^1}{a_{i,j}^1}$ . Now, because  $x_j$  is integer, I

obtain  $x_j \leq \left[ \frac{b_i^1}{a_{i,j}^1} \right]$ , where  $[w]$  designate integer part of  $w$ . I have also  $x_j \leq S$  and so

$$x_j \leq \min \left\{ S, \left[ \frac{b_i^1}{a_{i,j}^1} \right] \right\}$$

Now, let

$$q_j^i = \begin{cases} \min \left\{ S, \left[ \frac{b_i^1}{a_{i,j}^1} \right] \right\} & \text{if } a_{i,j}^1 > 0 \\ S & \text{if } a_{i,j}^1 = 0 \end{cases}$$

be the upper bound for  $x_j$  resulted from the  $i$ -th relation in  $A_1x \leq b_1$  for which all coefficients are non-negative. If in  $i$ -th relation of  $A_1x \leq b_1$  there are negative coefficients I consider  $q_j^i = S$  for any  $j = 1, 2, \dots, n$

If I consider all  $m_1$  relations from the system  $A_1x \leq b_1$ , let

$$q_j = \min_{i=1,2,\dots,m_1} q_j^i$$

be upper limit for variable  $x_j$ ,  $j = 1, 2, \dots, n$ .

In this way, from percentage linear programming model I obtains the model:

$$\begin{aligned} &\text{opt } c_1x_1 + c_2x_2 + \dots + c_nx_n \\ &\begin{cases} A_1x \leq b_1 \\ A_2x \geq b_2 \\ x_1 + x_2 + \dots + x_n = S \end{cases} \\ &x_i \in \{0, 1, \dots, q_i\}, i = 1, 2, \dots, n \end{aligned}$$

Because for all  $i = 1, 2, \dots, n$ ,  $q_i \leq S$ , it results that

$$\max_{i=1,2,\dots,n} q_i \leq S$$

And so the last model represents a constant sum integer linear programming model as it was specified in "introduction".

If I reconsider the example from section 2, I can see that every relation produce a upper bound equal to 4000 c.u. in variables. So I have  $q_1^1 = q_1^2 = 4000$  and  $q_1^3 = 5000$  and then  $q_1 = 4000$ . Similarly,  $q_2 = 4000$  and  $q_3 = 4000$ . So

$$\begin{aligned} \max_{i=1,2,\dots,n} q_i &= \max \{4000, 4000, 4000\} = \\ &= 4000 \leq 5000 = S \end{aligned}$$

and portfolio new model is:

$$\begin{aligned} \text{opt } &0.15x_1 + 0.12x_2 + 0.14x_3 + 0.09x_4 \\ \left\{ \begin{array}{l} x_1 + x_2 + x_3 \leq 4000 \\ x_1 + x_2 + x_4 \leq 4000 \\ x_2 + x_3 + x_4 \leq 4000 \\ 3x_1 + x_2 + 2x_4 \geq 6000 \\ x_1 + x_2 + x_3 + x_4 = 5000 \end{array} \right. \\ x_i &\in \{0, 1, \dots, 4000\}, i = 1, 2, 3, 4 \end{aligned}$$

#### 4. Consideration about models complexity

Portfolio models in percentage programming and constant sum programming are included in combinatorial optimization. This is why one could think that this kind of models have exponential complexity when are solved. For percentage programming if a model hare  $n$  variable with domains  $\{0, 1, \dots, S\}$  then the

general complexity is  $(S+1)^n$ . For constant sum programming complexity is  $(1+q_1)(1+q_2)\dots(1+q_n)$ .

This value for complexity is bigger then in realty.

For percentage programming model, because all variables are integers, constant sum constraint reduces complexity to the problem of number of partition for integer value  $S$  with no more then  $n$  non-negative integers. For constant sum integer programming complexity is lower then complexity in percentage programming because of additional upper bound in variable domains.

The goal of this paper is not to present an algorithm for solving portfolio optimization, this problem with exact complexity values will be presented in future paper more dedicated to mathematical aspects.

#### 5. References

- [1] S. Bârză, *Programare procedurală: formulări și proprietăți* Revista de Informatică, Nr. 1/2004, București 2004.
- [2] S. Bârză, *Modele întregi cu sumă constantă și variabile cu domeniu uniform*, Analele Universității Spiru Haret, Seria Matematică-Informatică, nr. 2, Editura Fundației România de Măine, București, 2006.
- [3] D.R. Andreson, D.J. Sweeney, T.A. Williams, *An Introduction to Management Science: Quantitative Approaches to Decision Making, 10<sup>th</sup> edition*, Thomson Mason, 2003.
- [4] G.I. Nemhauser, L.A. Wolsey, *Integer and Combinatorial Optimization*, John Wiley & Sons inc. New York, 1999

# Organizational Structure and Management in Romanian Health System

Boldureanu Daniel, Boldureanu Gabriela  
„Gr.T. Popa” University of Medicine and Pharmacy Iași, “Petre Andrei” University of Iași  
boldureanu@gmail.com, gabrivaleanu@yahoo.com

## Abstract

The health system in Romania in a continuous transformation from a centralized system (type Semashko) exists before 1989 year to one based on social health insurance (type Bismark). This paper examines the management and the organizational structure of the health system in Romania, and the relations between them in the context of the Health Reform Law.

**Keywords:** management, organizational structure, health system.

JEL I 18; M19

## 1. Introduction

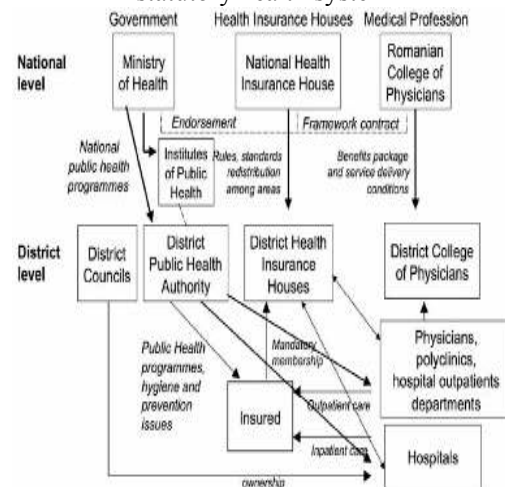
The Romanian health system is in a continuous transformation with the adoption of the law of social security health. For this reason the health system organization in Romania known a number of features that it individualized by the other European countries, but which raises a series of specific problems.

The organization is a primary function of management. The organizational function means establishing the optimal organizational function which enabling the activities, and the implementation of these functions means clear definition of all the elements that determine the organizational function [2].

In health system, the organization has its specific activity due to health specificity. [1].

The Romanian health system is organized at two levels: national (central) and district (judet). At the national level, the organizational structure of the health system is ensured through collaboration of: the Ministry of Public Health, the National Health Insurance House and the College of Pharmacists. At the district level, cross-sector intervention is ensured through District of Public Health [4] (figure 1).

Figure 1. Organizational chart of the statutory health system



Source: Vlădescu C., Scintee G, Olsavszky, V., Allin S., Mladovsky, P., *Romania: Health system review*, Health Systems in Transition, 2008; World Health Organization, vol. 10, no. (3): p.25

The national level is responsible for attaining general objective and ensuring the fundamental principles of the government health policy. The district level is responsible for ensuring service provision according to the rules set by the national level.

The highest authority in the Romanian health system is the government, performing

his role through the Ministry of Public Health.

## 2. The Ministry of Public Health

The Ministry of Public Health (MPH) apply the strategy and the politics of the Government in the area of ensuring the health of the nation. The Ministry of Public Health organize and coordinate the activities for ensuring the health of the population and prevention (according to the 34 article from Law nr.145/1997) [5].

The Ministry of Public Health has the responsibility to elaborate the national health politics and to solve the problems of public health (according to the 1<sup>st</sup> article from Law nr.100/1998 concerning public assistance) by prevention, prophylaxis and the control of mass illness [8].

The responsibilities of the Ministry of Public Health consist of [4]:

- Stewardship role in engaging main stakeholders in different types and different stages of health policies and strategies formulation, implementation and evaluation;
- Defining and improving the legal environment in the context of wide public circulation that includes views of stakeholders and of patients;
- Ensuring increased transparency in managing the state's budgetary allocation for health. The Ministry of Public Health retains responsibility for financing and managing the national public health programmes, selected specialty services and investments in buildings and high-technology medical equipment;
- Regulating both the public and the private health sectors and their interface;
- Ensuring leadership in conducting research and developing policy and planning in relation to developing reform policies and monitoring their impact; monitoring the impact of financing reforms; monitoring the need to upgrade buildings, major repairs and high-technology medical equipment; and monitoring the emergence of the private health sector;
- Defining and improving the legal and regulatory framework for the health care system. This includes regulation of the pharmaceutical sector as well as public health policies and services, the sanitary inspection and the framework contract;
- Developing a coherent human resources policy and for building capacity for policy and management of the health care system.

The **SWOT analysis** is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. As a modern management technique is used with remarkable results in every field, both at the micro and macro level [3]. The SWOT analysis applied at the Ministry of Public Health reveals [8]:

*Strengths:*

- Existence of competent specialists;
- Existence of a young personal;

- Availability of working across the hours of programs;

- Human resources with preparation in different areas (both medical and other complementary areas), which increase the capacity to solve a complex problematic.

*Weakness:*

- Different degrees of technical competence for employee with same levels of remuneration;
- Deficiency in responsibility assuming;
- Low motivation, due the low capacities of differentiation between the employees with different productivity;
- An organizational climate which doesn't conducive team working;
- Low capacity to control the task achievement both at individual level and between departments;
- Lack of continuity in task allocating;
- Absence of a career plans for employee and of a coherent politics of training and maintains employee;
- A lots of institution in coordination/subordination.
- Absence of an integrated informational system.

*Opportunities:*

- The health is an area with social major impact, which maybe delivers arguments for the adoption of a certain politics;
- The UE adhesion enforces the adoption of a new standards and recommendations, which have the finality the rising of the efficiency and quality;
- The status of UE member opens new possibility of finance on projects from European funds.
- The interest of local public administration authorities to took over a part from the ministry's responsibility.

*Threads:*

- The rising of the patient's informal level, concomitantly with the progress and the diversification of the diagnoses and therapeutics technologies will make a rising of complex medical services
- The freedom of people's circulation enables the utilization of different health services from different countries;
- The development of private health system is an environment competitor for the public system;
- The population ageing and the migration of young labour;

- The rising of the collateral costs inducted by treatment covering of rare disease, but very grave, or due to the price politics of some medicines distributors;

- The lack of preparation in health area at the level of local administrations.

In the minister exists ten structures operates to rank of general direction or direction, as follows: The General direction organization, human resources, professional development and remuneration, Juridical direction, Pharmaceutical direction, General Direction politics, strategies and quality management in health, Authorities of public health, Inspection of state hospital attendant, National agency of programs, Logistics, administrative, public relations and mass media direction, Budget and external credits direction and External relations and European business direction.

The head of the Ministry of Public Health is Minister of Public Health, who is helped by three state secretaries, a state sub-secretary, a general secretary and a general assistant secretary. The minister flow-chart shows a number of 285 jobs.

### 3. The District of Public Health

The basic administrative unit of health services organization is **District of Public Health** (DPH). These contain administrative units of the Ministry of Public Health, under the authority of the local Prefect.

Public health authorities are administrative units of the Ministry of Public Health under the authority of the county prefect. They are implementing policy and national public health programs locally identified priority local health issues, develop and implement local public health action.

Activities of District of Public Health public health authorities:

- assess the health of the population of the territory surrounding villages;
- identifies the main public health problems and allocate funds and human resources to solve them;
- implementing health programs;
- coordinate the work of health units in the territory;
- provide specialist staff for all county health system structures.

## 4. National Health Insurance House

**National Health Insurance House** (NHIH) is a public autonomous institution, of national interest, with juridical personality, that administrates and regulates the social health insurance system applying the strategy and the politics of the Government [7]. The NHIH was established at the 1<sup>st</sup> of January 1999 by the Law 145/1997 on social health insurance. NHIH operates based upon their statute and is responsible mainly for:

- assuring the logistic of the Romanian health social insurance system;
- collecting the material funds and their proper utilization;
- coordinating and supervising the activity of the District Health Insurance Funds (DHIF);
- elaborating the framework contract and the accompanying norms sets up the benefit package to which the insured are entitled and the provider payment mechanism;
- deciding the resources allocation between types of care.

The NHIH is governing by a Council of Administration from 17 members. The president of the NHIH Council of Administration is appointed by the prime minister at the proposal of the health minister and has two vice-presidents, elected by Council members.

The basic administrative unit of health services organization is District Health Insurance House (DHIH). These contain administrative units of the Ministry of Public Health in every Romanian district (judet).

## 5. College of Physicians

Romanian College of Physicians [6] – is responsible for regulating the medical profession. The College of Physicians has important responsibilities relating to the preparation and accreditation of medical personal. For the right to free practice, all doctors must be registered with the County College of Physicians and pay a certain fee. Also, new medical organization must be approved locally by the College of Physicians in accordance with a set of national criteria developed by them. The power of the College of Physicians refers to

the medical malpractice trial practices and problems of medical ethics.

In the Romanian health system, College of Physicians shall:

- Ensuring the development and provision of basic health services provided;
- NHHH to ensure that health services meet quality legal parameters;
- Achieve efficient tracking of emergency care;
- Ensuring the medical assistance in the county level;
- Participation in drawing up plans and construction of hospitals equipped with medical equipment of high performance.

## 6. Conclusion

The organizational structure of the Romanian health system comprise: The Ministry of Public Health, the District of Public Health, National Health Insurance House and the College of Physicians.

The Ministry of Public Health is responsible for national health policy, control and coordination, analysis and evaluation of medical outcomes, national financial and human resource planning. Also, it arranges national and international collaboration in health care. Many of its functions are carried out through its specialized District Public Health.

District Public Health assesses the population's health status and set priorities for health care. They draw up a local health strategy and allocate resources based on national policy and local needs.

The main functions of the National Health Insurance House are to collect and manage funds and purchase necessary medical services insured. Also, National Health Insurance House develop rules on how the collection of contributions to National Health Insurance Fund.

The College of Physicians is involved in contract negotiation framework that forms the basis for all contracts signed between the National House of Health Insurance and health care providers (both individual and institutional). Because of this, the CM has a decisive influence on the contents of the package of benefits for the insured population, the type of drugs that are cleared and in what percentage.

## 7. References

- [1] Boldureanu, Daniel, Particularities of the organization in Romanian health care system, *Lucrări Științifice USAMV Iași, Seria Agronomie nr. 52*, 2009
- [2] Nica P, ș.a, *Managementul firmei*, Editura Condor, Chișinău, 1994, p.22
- [3] Văleanu, Gabriela, *Tehnologia informației și cultura organizațională. Provocări pentru noua întreprindere*, Editura Junimea, Iași, 2004, 1.4.1.5. „Tehnologia informației și medicina”, pp. 44-45
- [4] Vlădescu C., Scîntee G, Olsavszky, V., Allin S., Mladovsky, P., *Romania: Health system review*, Health Systems in Transition, 2008; World Health Organization, vol 10, no. (3): pp.21-25
- [5] \*\*\* Law 145/1997
- [6] [www.cmr.ro](http://www.cmr.ro)
- [7] [www.cnas.ro](http://www.cnas.ro)
- [8] [www.ms.ro](http://www.ms.ro)

## C-Marketing through IT&C

Caraivan Mitruț Corneliu  
*University Ovidius of Constanta,*  
*Faculty of Physics, Chemistry, Electronics and Petroleum Technology*  
*caraivanmitrut@yahoo.com*

Mareș Valerica  
*Economic Studies Academy of Bucharest,*  
*Faculty of Accounting and Management Information Systems*  
*maresvalerica@yahoo.com*

Mareș Marius Daniel  
*University Spiru Haret of Bucharest,*  
*Faculty of Management, Finance and Accounting*  
*maresdaniel@yahoo.com*

### Abstract

The good news is that the Internet keeps on growing. The bad news is that, as a company, it is getting harder to be found.

**Key words:** internet,digital technology, efficient channels;

**JEL classification:** M31;

### 1. Introduction

The telephone took four decades to reach 50 million users. The Internet has managed this within four years from its release as digital technologies provide such efficient channels for business and consumer interactions transactions.

The excitement and anticipation of what a brochure or product-catalogue would achieve for many companies five or six years ago seems nothing but a distant memory when we take into consideration the transactional and multi-dimensional capabilities of most current web sites. The Internet has come a long way in a very short time as a mainstream business tool.

How significant is Internet marketing to businesses? Today, the answer to this question varies dramatically for different products and markets. For companies such as electronics equipment manufacturer Cisco, the answer is

‘very significant’ – Cisco now gains over 90% of its multi-billion dollar global revenue online. It also conducts many of its other business processes such as new product development and customer service online.

Similarly, the low-cost airlines gain 90% of tickets’ sales online and aims to fulfil the majority of its customer service requests via the Internet. However, the picture is quite different for the manufacturers of high-involvement purchases such as cars or fast-moving consumer goods brands. Here the impact is less significant – the majority of their consumer sales still occur through traditional retail channels. However, the influence cannot be described as insignificant any longer since the Internet is becoming increasingly important in influencing purchase decisions – many new car purchasers will research their purchase online, so manufacturers need to invest in Internet marketing to persuade customers of the features and benefits of their brands. [1]

Therefore lots of concepts have emerged in the last decade:

- e-marketing
- c-marketing
- e-business
- e-commerce
- m-marketing (mobile)
- m-commerce, and so on and so forth

There are more and more concepts and we have to learn to swim through them. “The



Internet is a tidal wave. It will wash over nearly all industries drowning those who don't learn to swim in its waves." (Bill Gates, Microsoft CEO)

## 2. How big is the Internet

Assessing the size of the Internet is a somewhat difficult proposition, since it is a distributed body, and no complete index of it exists. What we mean by asking how large the Internet is also plays into how we answer the question. [2]

Perhaps the simplest metric is simply how many people use the Internet. This can be viewed as the population of the Internet, and so would seem to be a decent gauge of its size, which continues to grow since forever (Table 3). Many different companies try to measure Internet usage, but the general answer seems to be that just over a billion people used the Internet in 2008 [3]. Of these, about 500 million use the Internet at least once a week, making them more-or-less permanent citizens of the Internet population. (Table 1)

Table 1: Internet Users (2009 Est.)<sup>1</sup>

World Regions	Population (2009 Est.)	Internet Users Latest Data	% from World Total Internet Users	% from Population
Africa	991.002.342	86.217.900	4,78%	8,70%
Asia	3.808.070.503	764.435.900	42,41%	20,07%
Europe	803.850.858	425.773.571	23,62%	52,97%
Middle East	202.687.005	58.309.546	3,24%	28,77%
North America	340.851.831	259.561.000	14,40%	76,16%
Latin America/Caribbean	586.662.468	186.922.050	10,37%	31,86%
Oceania / Australia	34.700.201	21.110.450	1,17%	60,84%
WORLD TOTAL	6.767.805.208	1.802.330.457	100,00%	26,63%

It may be that what most people mean when they ask the size of the Internet - is how many bytes it takes up. Estimating that is a fairly difficult task, but one person made an estimate not so long ago who can probably be trusted to have a good idea. Eric Schmidt, the CEO of Google, the world's largest index of the Internet, estimated the size at roughly 5 million terabytes of data. That's over 5 billion gigabytes of data, or 5 trillion megabytes. Schmidt further noted

<sup>1</sup> Internet Usage and World Population Statistics are for December 31, 2009. Demographic (Population) numbers are based on data from the US Census Bureau. Information can be cited given the rights provided by [www.internetworldstats.com](http://www.internetworldstats.com)

that in its first seven years of operations, Google has indexed roughly 200 terabytes of that, or 0.004% of the total size. There are thought to be some 155 million websites on the Internet, but this number fluctuates wildly from month to month, and one runs into a problem of what exactly constitutes a website. Is a person's individual Facebook page its own website? How about their LiveJournal or blog? What if the blog is hosted by a blog service?

Who could possibly tell us how many web pages there are? There are two obvious candidates: Google and Yahoo, the major search engine companies [4]. Visiting, analyzing and indexing the billions of web pages in the world is their business. Unfortunately, neither company currently publicizes the exact size of its index. And they have not done so since August 2005. We can add this to the dimension of all wireless communication or Wi-Fi, which nowadays play also a very important role to transactions and commerce, through smart phones, PDAs etc. (Table 2)

Table 2: World Communications<sup>2</sup>

Year	Main (fixed) telephone lines (millions)	Mobile cellular subscribers (millions)	International telephone traffic minutes (billions)
1997	792	215	81
1998	838	318	91
1999	904	490	103
2000	975	738	114
2001	1034	961	120
2002	1083	1157	127
2003	1135	1417	141
2004	1204	1763	166
2005	1262	2219	179
2006	1263	2757	183
2007	1278	3305	n/a
2008	1267	4100	n/a

Whereas m-marketing and m-commerce are to be regarded as smaller parts, but not less important than their counterparts on the big World Wide Web, as same principles apply with small differences, in direct relation with particular cases. For instance, m-marketing was

<sup>2</sup> Source: ITU World Telecommunication/ICT Indicators Database.

Painted an interesting scenario occurring as the next phase of e-business. A driver on the interstate with his car which just passed the 20.000km car-service mileage, receiving a text message notifying him that his car-service is due and the technology could recognise that he will be approaching the city and suggest that he may wish to exit and visit the dealership where a car will be ready to take him on to his office. His car will be returned to him at his office after service and all what he has to do is just to click and confirm.

In 2008, mobile phone penetration in developing countries had reached that of Sweden<sup>1</sup> ten years earlier. Even the country furthest behind (Myanmar) in terms of mobile cellular penetration is where Sweden was just 24 years earlier. By comparison, The Gross Domestic Product (GDP) per capita lag for most of the Least Developed Countries, compared to Sweden, is over 160 years. Therefore technology can overcome GDP statistics and problems as people tend to adopt new technology as a way to progress. (Table 3)

Table 3: Internet Users Growth (since 2000)<sup>2</sup>

World Regions	Internet Users (Dec. 31, 2000)	Internet Users Latest Data	% of total users in 2000	% of total users in 2009	Growth (2000-2009)
Africa	4.514.400	86.217.900	1,25%	4,78%	1.809,8 %
Asia	114.304.000	764.435.900	31,66%	42,41%	568,8 %
Europe	105.096.093	425.773.571	29,11%	23,62%	305,1 %
Middle East	3.284.800	58.309.546	0,91%	3,24%	1,675,1 %
North America	108.096.800	259.561.000	29,94%	14,40%	140,1 %
Latin America/Caribbean	18.068.919	186.922.050	5,01%	10,37%	934,5 %
Oceania / Australia	7.620.480	21.110.490	2,11%	1,17%	177,0 %
WORLD TOTAL	360.985.492	1.802.330.457	100,00%	100,00%	399,3 %

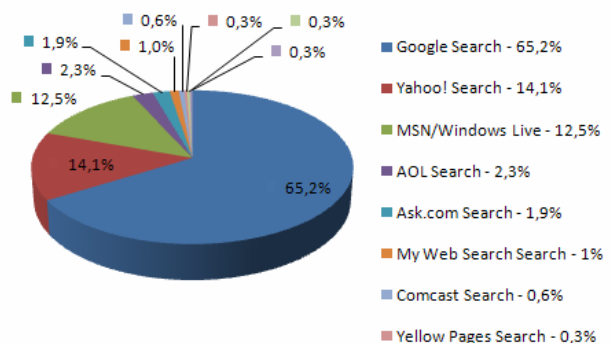
### 3. Search Engines and Data Confidentiality

It is considered that 85% of the visitors on a website get there through a search engine. Search engines have spiders that are programmed to go through the Internet indexing key words into a database. Usually the

algorithms are designed to focus on high quality links (sorted by popularity, as in number of clicks). These spiders get only a limited number of pages and search engines leave a large portion of the Internet not-indexed. This can happen because of passwords, subscription logins, or protected databases, which a spider normally cannot enter. This leaves a “dark” part of the Internet, not covered, but sometimes more relevant than the indexed part. These databases or sites that have links which search engines did not cover, may not be indexed with a dynamic algorithm and it will remain “invisible” until human effort will be taken into calculation. This was tried by Yahoo! Where instead of relying only on automation technology to look through the web, teams of surfers were used to follow demands and visualizations, to classify them accordingly to predefined categories and finally add them to the general index. (Figure 1)

Since the beginning, the description of the “Internet Database” was a marketing dream, because the access to the client’s behavior over the Internet is much more complete than in the physical world. Using cookies and behavior patterns, as well as any form of data collection, especially on well-known search engines (e.g.: Google and Yahoo!), can contribute to a very rich database for marketing techniques, which can be used to determine what a client previously buy, his general preferences or the pattern of searches and clicks can suggest favorite domains or subjects. [5]

Figure 1: Search Engines Shares (Est. 2009)<sup>3</sup>



Confidentiality elements have become an ethics problem as well as a law-enforcement one,

<sup>1</sup> Sweden was chosen as a benchmark as it ranked first in ITU’s ICT Development Index.

<sup>2</sup> Internet usage information comes from data published by Nielsen Online or International Telecommunications Union on a free of charge basis.

<sup>3</sup> Source: Nielsen/Net Ratings MegaView Search

because most cookies policies must be declared, especially third-party cookies, which are often not so trust-worthy. The launch of Microsoft's browser Internet Explorer 8 (IE8) is massively important, since it is the default browser on Windows boxes. And while it may not be as sleek as Google's Chrome or Mozilla Firefox, most consumers will happily muddle along with IE8 oblivious to alternatives. The privacy browsing capabilities of IE8 will have an impact for online advertising if there is widespread usage, since it blocks the tracking cookies at the heart of online advertising and traffic analytics. What Microsoft gives in standards compliance it also takes away in privacy mode. The IE8 privacy mode, which avoids third-party cookies, might cause some initial headaches where advertising and tracking is concerned.

Cookies are basic recordings of user data which is stored on the user hard-drive and which will offer information about the user at his next visit. A simple example is a wine-producer site, which can store information about the preferences of a certain user, recommending types of wine based on previous choices.

Data security and privacy issues are likely to continue to hit the headlines. Data protection is going to be more than just a security issue; it will have huge PR and brand consequences for anyone getting it wrong. The privacy browsing capabilities of Chrome and IE8 will have an impact for online advertising if there is widespread usage as mentioned above. Businesses will need to audit their data handling and security practices and get the right processes in place. Expect to see some major class actions by consumers against businesses that have had their data breached, stolen or lost.

With Google supplying mobile hardware (G1) and software (Android), and bidding on the wireless spectrum, it is clear that the people at Mountain View wish to develop this market to its full potential. 3G smartphones with large-ish screens, such as the iPhone, BlackBerry Storm and G1 all allow mobile users a close-to-normal web-browsing experience. Thus, as mobile usability improves so will mobile Internet use. Google is moving fast to develop, exploit and control mobile advertising by dictating the platforms and mechanisms we use to browse the web on our smartphones, while also leveraging

the mobile wireless spectrum – so the local search or localized services will grow [6]. This is because results are likely to be more relevant and advertising can be more accurately targeted, but this will mean disclosing the location implicitly at every query. Really Simple Syndication (RSS) is an ideal platform for online marketing and communications as it provides marketers with 100% deliverability and a qualified audience and it will move into majority usage thanks largely to built-in support in the new IE 8 browser. Speculation that Google will shift its algorithm to favor more user behavior metrics is growing. In fact, Google has openly discussed these algorithmic approaches in a patent application called "Information retrieval based on historical data". [7]

There are of course methods to act against these intrusions, such as anti-spyware software, local firewalls or manually deleting cookies, but these are only temporary methods in respect with creating giant databases with user preferences and historical data series.

#### **4. From Banner to Viral**

At the beginning of the 90's, an American company called Free-PC was offering its clients free desktops given the condition they had to bare a publicity banner on the side of their monitor at all times. The business was buried as a result of lack of user clicks on that banner. Who would've guessed the people will be so cheap regarding the appealing marketing messages. The annoying banner, too loud or colourful, was quickly replaced with more efficient methods of promotion.

- Pay per click – is a promotion system which allows running promotional ads, but the charge only comes when a user clicks the message. The most popular PPC online system today is Google Adwords.
- Pay per action – is a similar system, only it uses a specific action, like completing a form or subscribing to a newsletter.
- Pay per lead – is a system where visitors are given away something for free and the company will be charged only when a good prospect is delivered. An example is CallWave's free software download that allows monitoring users calls when they

are online. Pay-per-lead also lends itself to a wide variety of marketing strategies. Since you are offering your visitors or subscribers something they can receive for free, you can easily position ads as a valuable service to them.

Pay per – methods offer the possibility of complete control over clicks and revenues or costs, furthermore being very easy to analyze and changed on-the-fly in order to optimize. A secondary benefit is that of free display of the brand while the click or the action from the user doesn't take place. [8]

## 5. C-Marketing

C-Marketing, as a multifunctional concept in nowadays world, defines itself through its main role players:

- Client:

The client must be in the very centre of every organisation which has marketing as a basis for its activities. The activities of marketing must be designed to satisfy the client thoroughly, because satisfaction gives birth to loyalty and from loyalty are generated huge revenues. The client is the king and the Internet gives him even more power through search engines instruments, price comparison sites and all these are coming packed in a user-friendly technology. This is not a client who will likely respond to pop-ups like in earlier days, but a client whom a company has to build his trust and come with personalised offers, thus building his confidence and loyalty.

- Corporate Culture:

Every business which establishes success as an immediate objective mustn't risk a negative attitude towards adopting new technologies. Technological progress requires constant, repetitive and nevertheless expensive investments, as a mean to respond to the client's requirements. This can also be regarded as a mean for cost control and enhancing efficiency throughout the corporation. The organisation has to have a culture for optimisation through technology and this vision goes beyond the simple building of a website and thus considering promoting the brand. The offer has to come with client-oriented innovations. Online vision means actively seeking partnerships and

strategic alliances in order to increase traffic, brand awareness and finally, sales.

- Convenience:

Changing social and economic reasons such as long working hours, increasing divorcing rates and greater geographical mobility all impact modern living. Usually they impact in a negative way, particularly with regard to stress and time, therefore individuals seek out organisations, products and services to help alleviate this and thus leaving them more leisure time. One example may be that grocery shopping for many is a mundane chore. By storing historical purchase data of individual customers, online food retailers remove this chore and allow consumers to spend more time on the more interesting aspects of shopping. Moreover, it is now expected to be flexible with a range of convenient delivery options including evenings and weekends.

- Competition:

Competition has no physical boundaries. The Internet has brought a greater transparency especially in terms of price, promotions, PR and new product development and release. Price comparison sites give consumers more knowledge and power, but don't forget that such information is also available to online competitors. Organisations make investments in acquiring "competitive intelligence" for strategic planning, which should take into consideration any (or all) of the following: traditional competitors moving online, new online entrants from overseas or domestic, alliances and partnerships or revitalised traditional businesses.

- Communications:

The death of mass-media, the paperless office and growth into one-to-one interactions were forecasted years ago. Now the media is fragmented even more than before, we use our e-mails more, but still print and also suffer from SPAM! However, news, PR and online sales promotions come more quickly and more frequently via newsletters and e-mail marketing campaigns, even viral marketing campaigns which can be utilised effectively to improve loyalty. It is wiser to encourage chat-rooms within a corporate web site, so quick responses can be made to adverse comments, rather than leave it to unofficial external sites.

- Consistency:

Consistency is needed across all communications and all channels to ensure that the brand experience is unswerving, especially if the organisation is operating in both the virtual and the physical world. A firm's reputation established over many years in the high street could be tarnished by a poorly performing web-operation.

- **Creative Content:**

If you want to motivate people to return time and time again, then the site content has to be informative, topical, stimulating and of course relevant to the needs of the target markets. Content should be up to date and for larger organisations with extensive product catalogues, rapidly changing prices, massive information and newsletters, this should be done on a daily basis. Well designed responses to Frequently Asked Questions (FAQs) can resolve many customer enquiries.

- **Customisation:**

Relevant customisation should help achieve the aims of the spiral of prosperity, because the more we know about the client, the more we can tailor to their needs. Customisation can also be viewed in respect with processor speeds, style of monitor and resolution or browser. It is wise to adapt systems to cope.

- **Coordination:**

For the effective operation of an e-business, the real-time dissemination of information from the customer finalising the shopping cart and order is crucial. A scalable IT infrastructure is needed throughout the organisation.

- **Control:**

The technologists have provided marketers with the tools to measure just about any online activity. However, many organisations are just collectors of data, but they do not know what to do with it. They either have not clearly defined their objectives or do not know what to measure exactly. [9]

## 6. Conclusions

Communication Marketing is given by the new instruments of the digital media, which change the consumer's way of life, as well as by the integration of technology and multiple channels of communication which enhance the complexity of the business scene.

We have e-mail questionnaires, web-based questionnaires, chat rooms and groups as well as theme-related public groups. We could go on, but suffice to say that social media has well and truly arrived.

Although the use of IT has been proven to promote economic openness, the advent of cheap information access may yet to carry unlimited capabilities in terms of social openness. Beyond economics: attribution, cultural perception and social ethics cannot be ignored. We become aware of m-marketing, we long know e-marketing, but in the end – how much of these new techniques will come back to manipulate or choices without us even realizing.

## 7. References

- [1]. P.R. Smith, D. Chaffey, "eMarketing eXcellence: at the heart of eBusiness", Butterworth Heinemann, Oxford, 2001
- [2]. M.D. Mares, V. Mares, "Neuromanagement of the informational systems", 3<sup>rd</sup> International Conference Accounting and Management Information Systems 2008, [www.cig.ase.ro/amis2008](http://www.cig.ase.ro/amis2008)  
<http://steconomice.uoradea.ro/anale>
- [3]. Internet Usage World Stats, Internet and Population Statistics, [www.internetworldstats.com](http://www.internetworldstats.com)
- [4]. International Telecommunication Union, Telecommunication Development Bureau, Market Information and Statistics Division, [www.itu.int/ict](http://www.itu.int/ict)
- [5]. Nielsen Online Measurement Services, Nielsen Net Ratings, <http://en-us.nielsen.com/rankings>
- [6]. M. Bucurean, N. Tarca, A. Constangioara, "Measuring performance. The marketing perspective", Annals of the Oradea University – Fascicle of Management and Technological Engineering, vol. VIII (XVIII), Ed. Universitatii din Oradea, Oradea, 2009, pp.1559-1563
- [7]. Gh. Popescu, V. Popescu, C.R. Popescu, "Sense or Counter-Sense Change in the Context Created by the New Economy", Annals of the Oradea University - TOM XVII, Oradea, 2008, pp.397-402
- [8]. Ciprian Gavrilu, "Marketing Online – de la B(anner) la V(iral)", antreprenor.net, Bucuresti, 2009
- [9]. R. Gay, A. Charlesworth, R. Esen, "Online Marketing", Oxford University Press, Oxford, 2009.

## Impediments in developing dry ports – A heuristic view

CIORTESCU Cezar-Gabriel  
*"Alexandru Ioan Cuza" University Iași*  
gciortescu@gmail.com

### Abstract

This paper will describe and review in-depth the impediments in implementing and developing dry ports, from a heuristic point of view. The dry port concept is based on the idea of a seaport directly connected by rail to inland intermodal terminals, where shippers can leave and/or collect their goods in intermodal loading units as if directly at the seaport. With dry port implementation, CO<sub>2</sub> emissions would be decreased, queues and long waiting times at seaport terminals avoided, and the risk of road accidents would be reduced; thus, regional sustainability would increase. As the container industry has gone through a huge boom up to the world economic crisis, the idea of implementing dry ports into international freight logistics, coping with the need for environmental protection and the creation of new jobs, might at least be part of the solution. Methodology used in this paper is based on extended literature review, interviews and case studies, with external validation regarding dry ports implementation, and is primarily meant to highlight the main impediments which may occur not only in terms of the actual implementation of dry ports but also as far as the actors involved in containerized freight trade are concerned.

**Key words:** dry ports, impediments, heuristic view, waiting times;

**JEL classification:** R48

### 1. Introduction

The first shipping container was invented and patented in 1956 by an American named Malcolm Mc Lean. From that moment on, the container shipping industry has improved its performance at an impressive pace, with containers production reaching high numbers, megacarrier container ships reaching 14000 TEU [1] (one freight container standard size = twenty equivalent unit, TEU) and the seaports container terminals expanding capacity increased by existing ones [2]. It has become the backbone of global trade, estimated to account for 13% of seaborne trade in volume and 49% of the value [3]. The maritime part of the intermodal transport chains has employed even larger ships to cope with the increasing transport demand and for facilitating lower unit costs [3]. It has already been shown that seaports produce economies of scale. Therefore, progress in ports and hinterland operations must match [4-5]. Intermodal transport services to the ports' hinterland, which was defined as "the interior region served by the port", [6] are strained by the increasing flows.

Environmental problems have received increasing attention during the last decade and we can consider that logistics systems can play an important role in reducing the environmental impact or at least constitute a part of the solution. However, logistics concepts, as far as their role in decreasing environmental impacts is concerned, have not been extensively researched until recently [7].

One of the issues, which has been neglected for many years or sporadically implemented on different continents, is the dry port concept, which represents the focus of this paper. The concept was recently reborn due to increased interest in environmental issues related to growing containerized maritime transport. Many studies and researches have been made for the

concept to be integrated into world freight trade.

As container transport volume continues to grow, seaport inland access becomes a critical factor for the seaports' competitive advantage. Therefore, progress only in the maritime part of the transport chain and in seaport terminals, without improvements in seaport inland access, is not sufficient for the entire transportation chain to function successfully.

Methodology used in this paper is based on extended literature review, interviews and case studies, with external validation regarding dry ports implementation, and is primarily meant to highlight the main impediments which influence implementation of dry ports and for the actors involved in containerized freight trade, after a proper definition or at least after defining the concept.

## 2. Defining the dry port concept

The definition of the concept required investigation of previous names for inland intermodal terminals, as there are different names all over the world.: Gueterverkehrszentren in Germany, Plateformes Multimodales Logistiques in France, Freight villages in UK or Interporti in Italy, Inland Port in US, Inland Container Depots in India and Asia, Estacao Aduaneira do Interior in South America, particularly in Brazil, meaning Interior Customs Station. They all provide transshipment from one mode to another as well as auxiliary services such as warehouses, customs, maintenance workshops, insurance offices and other [8].

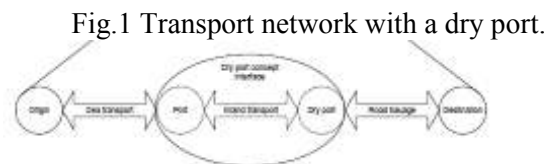
India introduced Inland Container Depots (ICDs) in 1983 and Indian Customs (2004) bases its definition of an ICD on the UN ECE definition below, but restricts it to containers. India also uses the term Container Freight Station (CFS), which differs from an ICD since containers are stuffed and stripped there. Hence, an ICD is a consolidation node for containers whereas a CFS aggregates individual consignments into containers. A CFS function might be added to an ICD. ICDs are normally located outside the port towns but there are no site restrictions regarding CFSs. In Europe there has been a focus on business areas offering a wide range of logistics services. In a survey [9],

a definition was provided for an Intermodal Freight Centre as a concentration of economically independent companies working in freight transport and supplementing services on a designated area where a change of transport containers between traffic modes can take place.

An Inland Freight Terminal is "any facility, other than a port or an airport, operated on a common-user basis, at which cargo in international trade is received or dispatched"[10]. An Inland Port is located inland, generally far from seaport terminals; they supply regions with an intermodal terminal offering value added services or a merging point for different traffic modes involved in distributing merchandise coming from ports [11]. The term dry port is used synonymously. Finally, according to the Economic Commission for Europe [12], a dry port is simply "an inland terminal which is directly linked to a maritime port". However, a dry port definition that corresponds to the definition of an Inland Clearance Depot - cited above - was used [13]. Since the former definition on dry port is rather broad in its meaning, all above mentioned terminal facilities might use the notion of dry port due to their links to seaports.

Another definition describes a dry port as "an inland intermodal terminal directly connected to seaport(s) by rail where customers can leave/pick up their units as if directly to a seaport" [8]. Despite the fact that the frame of reference is ambiguous, we nevertheless get a general perspective from the above quoted definitions.

Research made in 2007 [8] classifies dry ports as it follows: close dry ports, mid range dry ports and distant dry ports. This classification is based on the distance between the seaports that dry ports are servicing and the dry ports themselves. The figure below illustrates this particular idea:



Source: Roso, 2009



However, one such classification could not be sufficient in order to get a clear definition of the dry port concept. There is still a wide area for research regarding the concept and we will mention other criteria of classification as it follows:

- According to size (meaning how many TEU it can handle per year): small, medium, large and mega dry ports, which can be implemented in land-locked countries.
- According to means of access: depending on how many rail tracks and roads are in and out of facility.
- According to value added services: as stuffing / stripping of containers, maintenance of container, handling and storage of refrigerated / frozen and dangerous goods.

A summative definition, as observed from above, is that dry ports, having the word “dry” as a structural part of their name are supposed to be viewed as different from inland intermodal terminals which have, in addition to standard dry port facilities, at least one inland waterway, by means of which goods can also be transferred also by water means: either by barges, tugs, or other navigational equipment; moreover, its handling equipment is at a higher scale than that of dry ports.

### **3. Main impediments in implementing dry ports**

Regarding dry ports, in different parts of the world there has been success and failure in transportation business. We shall show the main impediments in implementing them, from different points of view: infrastructure, business interest, partnership, legislation, regulation and procedures, human resources, software and automation.

For decades, the rail freight transport system in Europe has been an aggregation of separated national systems due to the long established national regime. Rail transport market had primarily a domestic focus and was organised by closed national monopolies. Europe is striving for internal market, without frontiers where, among others, the free movement of goods is to be ensured. Cross-border trade, existing in a fragmented form, different electrified networks

among all national states, of different size and traction types in national railway networks, turns infrastructure into one of the major impediments in implementing and developing dry ports. Fragmentation in the rail sub-systems has led to poor service performance with high costs, low reliability and long transit time. Shippers and logistics service providers are difficult to be convinced of the benefits of the use of rail transport. Fragmentation refers to the varied forms of divergence in the system of the rail freight transport operations, which impedes the cross-border operation from being seamless, resulting in longer transit time, lower reliability, and higher operational costs. In general, fragmentation is presented in the operational, technical, pricing, administrative, and market systems of the rail freight operation. The commercial operation of trains throughout the trans-European rail network requires in particular excellent compatibility between the characteristics of the infrastructure and those of the rolling stock, as well as efficient interconnection of the information and communication systems of the different infrastructure managers and operators. Performance levels, safety, quality of service and cost depend upon such compatibility and interconnection, as does, in particular, the interoperability of the trans-European conventional rail system [14].

The funding of dry port is related to key actors such as the public sector and the private sector, or a combination of both. Many actors are involved in a dry port, each having its own strategy depending on its core business even if vertical integration could lead to some overlapping. At the same time, various functions could be developed in a dry port depending on the actors involved. The most basic dry port is an inland terminal allowing the modal shift of the containers from barges or trains to trucks or vice versa. The warehousing function is almost non-existent. In this case, the inland terminal is a node in a transport chain, with an increasing level of integration due to containerization, but without a direct intervention on the goods being transhipped. Door to door services are provided mostly by freight forwarders through merchant haulage or by shipping lines through carrier



haulage. Trucking companies, rail or barge operators could also theoretically develop door-to-door services even if in fact they are the most basic transport providers, being subcontractors of freight forwarders or shipping lines. The capital structure of a dry port will obviously influence the composition of the controlling body, whether it is a board of directors or some other organisational entity. The controlling body will have to create a framework harnessing many different skills for the successful establishment of the dry port: layout planners and engineers to design the physical attributes of the facility, custom and shipping experts to establish clearance procedures, railway experts for track layout, accountants for managing development resources, etc. The controlling body must therefore create a management structure suited to the size of the facility and one which does not burden it with unnecessary costs; set clear objectives for management and to monitor the management success.

Environmentally, as it results from case studies [8], the implementation of dry ports would guarantee a rise in the CO<sub>2</sub> reduction by 25%. Also, in a press release [15] the European Parliament sends a clear message: "Trucks should pay for the pollution and congestion they cause". The idea that implementing the dry port concept is on the right track is confirmed by the numerous research projects proposed and financed by the EU and Americas, as well as by private-public funding in Asia and Australia.

At the political level, European decision makers have been playing a vital role in governing the EU wide rail freight sector towards liberalisation by way of bringing forward a variety of legal actions to be implemented in all national states. In recent years, a new type of governance approach has emerged next to the existing ones, entailing different principles. In spite of the considerable efforts that have been made in the past two decades, governance in the rail sector has not yet turned the community rail operation into a borderless one. Today, cross border operations are still subject to various national systems and rules.

#### 4. Heuristic solutions

At the global level, efforts are made to synchronize legislation and harmonize all international conventions, including maritime ones for land-locked countries.

Governments will have to make liberalisation of rail networks possible, as with the road transport. By doing so, they would succeed in creating cleaner and safer freight trade by regulation and procedure. The subsequent implementation of schools for training and re-conversion of jobs for helping the road transporters, as stakeholders in services supply chain, to grow into integrated logistics of freight transport, will become a necessity.

Another solution for implementing dry ports is that they be included in the existing interface and in the integrated software of international freight trading. The application of ISO standards as RFID (Radio Frequency Identification) and EDIFACT (Electronic Data Interchange for Administration, Commerce and Transport). The implementation of ASYCUDA (Automated System for Customs Data) software, developed by UNCTAD, will be a future standard for the operation of dry ports. ASYCUDA is a computerized customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, and warehousing manifests, as well as suspense procedures. It generates detailed information about foreign trade transactions which can be used for economic analysis and planning [16].

Moreover, solutions for implementing dry ports into international freight trade are: developing systems of integrated logistics of dry ports for reducing waiting times of ships in seaports anchorage, appealing to reversed logistics, technically sizing dry port equipment, adapted to seaport loading/unloading equipment and capacities, introducing and using double-stack trains and long trains, using DSS (Decision Support Systems) models for full and empty containers, implementing electronic seals and GPS tracking and tracing of containers.

## 5. Conclusion

Dry port implementation is not a straightforward solution for seaport terminal decongestion or for providing easier seaport inland access; it can, nevertheless be part of the solution. The implementation of dry ports would trigger a series of advantages: on the one hand, CO<sub>2</sub> emissions would decrease, queues at seaport terminals would be avoided, and the risk of road accidents would be reduced. On the other hand, durable regional sustainability would evolve, new jobs would be created, costs would be reduced by value-added services, customs and government control would improve by strengthening security and safety. On a different level, competitiveness of importers and exporters would be increased, with or without economic growth, chaotic movements of cargo in hinterland would be eliminated, costs would be reduced and finally, the issue of empty containers would be solved by reallocation. Although it is obvious that the relocation of containers from road to electrified rail would result in lower CO<sub>2</sub> emissions, a dry port is not merely the equivalent of rail implementation – it is a set of efficient services such as transshipment, storage, depot, containers' maintenance, customs clearance, tracing and tracking. Furthermore, the quality of access to a dry port and the quality of the road–rail interface also determines the dry port's performance.

## 6. References

- [1] World Cargo News, BV working on 14000 TEU containership, March 2006, p.16.
- [2] McCalla, R. J., Global change, local pain: intermodal seaport terminals and their service areas, *Journal of Transport Geography* 7, 1999, pp. 247-254.
- [3] Cullinane K. and M. Khanna, Economies of scale in large containerships: optimal size and geographical implications, *Journal of Transport Geography* 8, 2000, pp. 181-195.
- [4] McCalla, R. J., Factors Influencing the Landward Movement of Containers: The Cases of Halifax and Vancouver. In: Wang, J., Olivier, D., Notteboom, T. and Slack, B., (Eds), *Ports, Cities, and Global Supply Chain*, 1<sup>st</sup> Edition. Ashgate, 2007, pp. 121-137.
- [5] Parola, F. and Sciomachen A., Intermodal container flows in a port system network: Analysis of possible growths via simulation models, *International Journal of Production Economics*, Vol. 97, Issue 1, 2005, pp. 75-88.
- [6] van Klink, H.A. and van den Berg, G., Gateways and Intermodalism, *Journal of Transport Geography*, Vol. 6, 1998, pp.1-9.
- [7] Aronsson, H. and Brodin, M.H., The environmental impact of changing logistics structures, *The International Journal of Logistics Management*, Vol. 17 No. 3, 2009, pp. 394-415.
- [8] Roso, V. The dry port concept, Doctoral Thesis, Department of Logistics and Transportation, Chalmers University of Technology, 2009)
- [9] Cardebring, P.W. and Warnecke, C., *Combi-terminal and Intermodal Freight Centre Development*, KFB-Swedish Transport and Communication Research Board, Stockholm, 1995
- [10] UN ECE (1998), UN/LOCODE – Code for Ports and other Locations, Recommendation 16, Geneva, 1998
- [11] Harrison, R.; McCray, J.P.; Henk, R. and Prozzi, J., *Inland Port Transportation Evaluation Guide*, Center for Transportation Research, The University of Texas at Austin, USA, 2002
- [12] Economic Commission for Europe, *Terminology on Combined Transport*. UN, New York and Geneva, 2001, p.59
- [13] Beresford, A.K.C. and Dubey, R.C., *Handbook on the Management and Operation of Dry Ports*, UNCTAD, Geneva, 1990.
- [14] European Parliament and the Council of the European Union, Directive 2001/16/EC2001 on the interoperability of the trans-European conventional rail system, 2001
- [15] CER. The Community of European Railway, European Parliament sends clear message: Trucks should pay for pollution and congestion they cause, Press Release, 2009
- [16] UNCTAD, Asycuda programme description, <<http://www.asycuda.org>>, accessed April 2010.

## Health Claims and Communication of Benefits of Functional Foods – Way of Ensuring the Success of Those Products on Market and to Protect Consumers against Fraudulent Claims

Constandache Mihaela  
*„Dimitrie Cantemir” Christian University, Faculty of Touristic and Commercial  
Management Constanta  
micky\_eve68@yahoo.com*  
Moraru Camelia  
*„Dimitrie Cantemir” Christian University, Faculty of Touristic and Commercial  
Management Constanta  
cami.moraru@yahoo.com*

### Abstract

Expansion opportunity of functional foods on market is positive and consumer interest relatively high. The growth of the functional foods market is related to an aging population, increasing consumer awareness of health issues and a rise in lifestyle related diseases. Functional foods and food components may be available in the market place but in order for consumers to access the benefits of functional foods, they must be informed about them.

This study attempted to identify the importance for consumer purchase and consumption of functional foods, but also identify their attitudes about the need for scientific justification and communication of health benefits for functional food. Research results have shown that consumers are beginning to attach greater importance to healthy eating, 32.99% of respondents believing that this criterion is of great importance in their consumption habits. Most consumers have considered it very important to permit health claims for functional foods by authorized agencies (74.29%), the need for scientific support of health benefits (64.94%) and their communication to the public (89.35%).

**Key words:** functional foods, health issues, health claims, communicating the food health benefits to the public.

**JEL classification:** N3

### 1. Introduction

It is obvious that the aspects related to lifestyle, diet and physical activity play an important role in the increase of the incidence of these diseases, and the success of the reduction measures will depend strikingly on the balance between these factors. This leads to the conclusion that food may contribute to maintaining the health on a long term basis, in ways not recognized until now, which means a new dimension of appreciation of how food can positively influence the health and welfare of the people, beyond providing the nutrients needed [4].

Expansion opportunity on market of functional food seems to be quite favorable, and consumer interest is quite high. However, the distribution of these products on the market is hampered by a number of obstacles. Insufficient clarity of information provided by producers is reflected in the difficulty of control of functional foods before marketing. Disinformation of traders and often of consumers may involve a number of risks, especially to the latter, due not only to the deficiencies in the operation of the health benefits of functional foods, but sometimes also due to the affectation of their state of health.

Consumer interest in the relationship between diet and health increased the request for information about functional food. The scientific and technological rapid progress, increasing healthcare costs, changes in food legislation affecting the label and the product claims, an aging population and increasing

interest in providing health through diet are among the factors fueling the interest in the functional food.

Health sells. And health is also a matter of nutrition – which is why the food and beverage industry is interested in labelling products with health claims.

## 2. The necessity of health claims

The role of dietary active compounds in human nutrition is one of the most important areas of concern and investigation in the field of nutritional science. The findings of investigations on this subject have wide-ranging implications for consumers, health-care providers and nutrition educators as well as food producers, processors and distributors. New evidence concerning the benefits and risks associated with particular aspects of dietary compounds is constantly emerging in both the scientific literature and the popular media. At times, controversies about these findings emerge. Sifting through all the claims and counterclaims, incomplete and incompatible studies, and biases and competing interests for the elements of truth and a prudent course of action is a challenge. However, such discrimination is essential because changing views about the effects of dietary compounds can profoundly influence the consumption of various foods and, ultimately, health and nutritional status, agricultural production, food processing technologies, food marketing practices and nutrition education [5].

The availability of a clear framework for conducting the assessment of scientific support for claims on foods benefits all stakeholders. Consumers have an assurance that claims have been validated and that all claims are assessed according to the same criteria. Food manufacturers and retailers who wish to make claims will know what evidence they must provide to substantiate them. Regulators are provided with a clear understanding of the limits of the validity of any particular claim [6].

Claims made on food labels, and the associated advertising and promotional literature for specific food products, provide the most direct way of communicating the benefits of functional foods to consumers. Of all forms of communication, those related to claims made directly on the label or package of the food, or indirectly through secondary information,

remain a large and current discussion area. The simplest and most direct way in which consumers can learn more about functional foods is through product labelling, but labelling information must be easily understood and trusted. It is essential that these claims should be based on scientific information.

Legislation regulations on food labelling already applied nearly everywhere in the world require that information on food labelling and advertising would be reliable and not mislead consumers. Mostly, these general rules are sufficient to ensure that statements made by labelling and advertising make a fair and adequate information of consumers. However, to submit a health claim on foods there are additional regulations to avoid possible confusion and uncertainty. These new additional regulations are imposed primarily because of the potential overlap between foods with health benefits and drugs. Secondly, an understanding of the meaning and the processes underlying health claims usually requires knowledge of an expert [4].

Consumers worldwide have common interest in identifying accurate information on food safety, on the extension of choice for a balanced diet that can maximize its potential to support good health. In this respect they are becoming more interested in the official statements of the representatives of the Ministry of Health, of the health specialists as well as of the information provided in the media. When new foods or improved products become available on the market, consumers want to be informed on how to include these foods in their own diet. Besides availability of safe and nutritious food, consumers put a growing emphasis on a more equitable ratio quality / price, on the satisfaction of their needs which are constantly changing, on improving their lifestyles.

Incorporation of the concept of food functionality into awareness about nutrition through general education will ensure that consumers are equipped to understand the messages conveyed by claims, both so that they are not mislead and also so that they can take full advantages of the benefits on offer.

Those potential benefits can best be delivered if all stakeholders (commerce,

industry, agriculturists, educators, government and consumers) are sufficiently well-informed to motivate the introduction of functional food products into the marketplace. Food manufacturers, retailers, primary food producers, caterers, health care workers and governments all have roles to play and benefits to gain in ensuring that functional food science becomes part of general knowledge concerning nutrition, in the same way that knowledge about the role of vitamins and minerals in basic nutrition has become part of general knowledge in the past.

### **3. Some inconvenience of legislative framework on health claims**

The idea behind the legislation is that claims made in relation to health benefits need to be backed by scientific evidence. The body that decides whether such claims are indeed backed by credible data is the European Food Safety Authority (EFSA), which provides scientific advice to the European Commission. In July 2008 the Commission asked EFSA to prepare a scientific opinion on health claims that were permissible in the European Union and provided EFSA with a draft list containing 4185 entries that had been boiled down from the 44 000 claims supplied by the Member States.

Part of the problem is the indigestible nature of the inputs it is trying to assess. Thus, in some cases you only have incomplete information as the potential effects have been obtained under experimental circumstances. But then the dose might vary, the compound might vary, and the circumstances of absorption might vary. It will be difficult to evaluate the complexities of the interactions in real diet situations.

Nutrient profiles are being developed by the European Commission and EU Member States; these are the nutritional requirements that food products must meet to make certain health claims. The system is designed to keep consumers from being misled as to the product's overall nutritional value. The application of nutrient profiles as a criterion would aim to avoid a situation where nutrition or health claims mask the overall nutritional status of a food product, which could mislead consumers when trying to make healthy choices in the context of a balanced diet [1]. The World Health Organization (WHO) is also working in this area hoping to develop an international standard for

nutrient profiles that could be used by many countries.

The procedure of obtaining health claim for a certain product is very complex. Lack of ability to make health claims is the main reason why production companies refrain from investing financially in tests done on people, otherwise expensive, tests related to the efficiency and toxicity of the products.

Susanne Döring, director of consumer information diet and health issues of the Confederation of Food and Drink Industries of the European Union (CIAA), believes that uncertainty over the European Commission's nutrient profiles and the list of generic claims that food products are permitted to make, which the Commission and EU Member States are preparing, will "hinder innovation" and lead to fewer products in the market and less choice for the consumer. The regulation places small to medium-sized companies at a competitive disadvantage because – unlike large, cash-rich multinationals – they can not afford to do the research required to design a food product that makes specific as opposed to generic claims, as a full scientific dossier is required. The regulation is too strict, with repercussions for both industry and consumers: Some companies may decide to pull out of the process altogether, anticipating that their products will not fulfil EFSA's requirements for either generic or specific health claims. Other companies plan to resubmit their data when it is clear what EFSA requires. It's also a problem for the consumer, because if the consumer can't read information on the food packaging he or she is not informed about that product. While industry groups say the food claims regulation is too strict, consumer groups say it doesn't go far enough.

In some specialists opinion the challenging legislative environment provides many uncertainties for those companies marketing products with health claims.

### **4. The analysis of the necessity of scientific justification of the health statement as a mean of a consumer protection**

The research was focused exclusively among potential consumers of food in Constanta looking for gathering information

about their perceptions on food with health benefits, on the need for scientific justification on health benefits of food and their public communication.

To ensure the representativeness of the sample it was considered a confidence level of 0.05 (corresponding to a probability of ensuring research results of 95%), a margin of error of +/- 5% and a p-value = 0.5% (assuming that the key attribute rated is buying food with health benefits and that 50% of consumers prefer those products). Sample size was of 385 persons [3].

The interviews took place in supermarkets from Constanta on alternative days of the working week, both morning and afternoon.

Most of the questions had two or multiple responses and some were open questions.

The survey was conducted between 1<sup>st</sup> and February 28<sup>th</sup>, 2010. In all cases, the method used to collect information was personal survey (face-to-face).

The sample consisted of 385 respondents, approximately two thirds of whom are women (66.3%) and 33.7% men. This sample structure is considered as representative assuming that mainly women are responsible for their family shopping [2].

Regarding the age, 15.7% of the respondents belonged to an age group between 18 to 24 years, 21.6% from 25 to 34 years, 23.4% between 35 and 49 years, 20.2% between 50 and 64 years and respectively, 19.1% 65 years or more.

Regarding family structure 21.9% of the respondents come from families consisting of two adults, 26.8% from families consisting of two adults and one child, 38.7% of families consisting of two adults and two children, 4.4% of families consist of two adults and three or more children and 8.2% of respondents are in other situations. Regarding the education level of the respondents 10.3% are graduates of secondary level, 17.5% graduated professional level, high-school graduates 27.2%, 35.2% of university level and respectively 9.8% of postgraduate level.

What regards the socio-professional category of the respondents, most of them were employed in contract work (69.4%), 11.3% were retired, 11.3% were housewives, 3.2% were employed part-time while the remaining 5.8% were unemployed. In addition, the average income per family member ranged as follows: 14.4% below 500 lei, 18.1% between 501 to 700 lei, 33.1%

from 701 to 1000 lei, 18.8% between 1001 - 1500 RON and respectively, 15.6% over 1500lei.

Of the 385 respondents, 9.87% appreciated criterion „healthy food” as most important in food choice (Figure 1) and 32.99% considered this criterion as of great important in their consumption habits (Figure 2).

Figure 1. The opinion of the consumers regarding the criteria of food choices

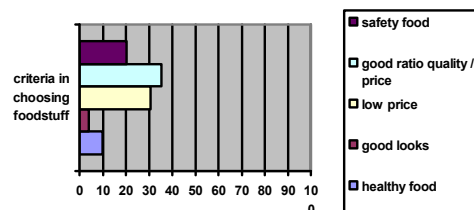
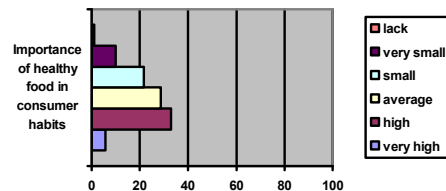


Figure 2. The importance of healthy food in the consumption habits of the consumers



Regarding the potential user opinions on what can be ensured, namely, that the food can support a good health body, views are divided fairly balanced. Thus 26.49%, and respectively 23.64% of respondents, considered that the official statements of specialists in nutrition and medicine and respectively, of representatives of Ministry of Health, are necessary to ensure the support of health benefits of foods while 21.30%, and respectively, 20.52% of respondents considered that the health benefits of foods can be supported through information in the media and respectively, claim specified on the label.

Out of the total of 74.29% of the respondents considered as important to

authorize health claims on food by specialized bodies in the field, while 14.03% did not consider important this fact and 11.69% of the respondents did not acknowledge the need of authorization. Regarding the need for scientific evidence to support the health benefits of food 64.94% of the respondents considered that it is necessary, 9.87% of the respondents do not support this, 14.55% of the respondents believe that such evidence is not necessary, while 10.65% are not aware of the need for scientific support.

Most of the respondents (89.35%) considered as adequate the need of public communication of health benefits of foods, 6.79% of the respondents do not know and only 3.90% of the respondents considered that a public communication of the food benefits is not necessary.

Views on the elements that should be communicated to the public about foods with health benefits were diversified (Table 1).

Table 1. Elements on foods with health benefits to be communicated to the public

Element	Share in the total number of respondents (%)
Information about benefits on health	33.25
Information about food safety	27.27
Extending the possibility to elect a more balanced diet	15.06
Quality / price ratio	20.52
Other	3.90
Total	100

Regarding the respondents view on the central body activity and on the legislation adopted for food with health benefits, most respondents (69.61%) declared that they do not realize the extent to which that law provides support and promotion of functional food or adequate consumer protection, which shows a poor communication with them (Table 2).

Table 2. Elements provided by central bodies through the legislation adopted in foods with benefits field

Element	Share in the total number of respondents (%)
A proper support and promote of foods with health benefits	9.09
Adequate protection of consumers of any producers fraudulent claims	17.40
Not aware	69.61
I disagree with the law on foods with health benefits	3.90
Total	100

## 5. Conclusions

Today consumers want to know as much about the products they consume. They are becoming increasingly concerned about issues related to nutrition, health claims, food safety, food labeling, safety of food additives and ingredients used, and the effectiveness of inspection processes.

74.29% of the respondents considered important to authorize health claims for food by specialized bodies in the field. Thus, a hard task of research is needed to confirm the health benefits of each functional food or component of them. To transfer the potential benefits of functional foods on the health of the population, consumers must clearly understand this concept and have confidence in the scientific criteria used to support health claims. The scientific community continues to research the potential of functional food and their role in health insurance.

The availability of a clear framework for conducting scientific assessment of food is useful to all stakeholders. Consumers thus have to ensure that claims have been validated and that all claims are evaluated on the same criteria. Manufacturers and retailers who wish to seek such claims will know what evidence should be provided to substantiate them. Regulators thus have a clear understanding of the limits of validity

of any claims.

The research results present the importance of communicating the food health benefits to the public, the vast majority of the respondents (89.35%) considering it necessary. Given that consumers are increasingly interested in the relationship between nutrition and functional food and the market is experiencing a dramatic development, the question of how to communicate the benefits arising from consumption of these foods is becoming increasingly important.

The study presents the respondents' opinion on how to ensure the health benefits of foods, as follows: 20.52% by the present claims on the label or packaging of the product, 23.64% by official statements of representatives of the Ministry of Health, respectively, 26.49 % by official statements of specialists in nutrition and medicine.

The opportune and effective communication can help consumers worldwide obtain important information that has a positive impact on health and welfare.

## 6. References

- [1] Asp, N.G., Bryngelsson, S., „Health claims in Europe: New legislation and Passclaim for Substantiation”, *J. Nutr.* 138:1210S-1215S, 2008;
- [2], Cătoiu, I., Bălan, C., Popescu, C.I., Orzan, G., Vegheș, C., Dănețiu, T., Vrânceanu, D., „Marketing research”, Uranus Publishing, Bucharest, 2002;
- [3], Cătoiu, I., Bălan, C., Onete, B., Popescu, I.C., Vegheș, C., „Methods and techniques used in marketing research”, Uranus Publishing, Bucharest, 1999;
- [4] Howlet, J., „Functional foods: From science to health and claims”, International Life Science Institute, Brussels, 2008, Accessed 03 June 2009, <http://europe.ilsa.org/NR/rdonlyres/97C50D2F-8DDB-415F-AC6C-E20ED1B5E7D1/0/FunctionalFoods2008.pdf>;
- [5] \*\*\*, „Report on functional foods”, Food Quality and standard Service, Food and Agriculture Organization of the United Nations, November 2007;
- [6] \*\*\*, „International Food Issues & Resources”, 2007-2009 IFIC Foundation Media Guide on Food Safety and Nutrition, 2007, Washington, DC, USA, Accessed 13 April 2009, <http://www.ific.org/nutrition/functional/index.cfm>



## Managerial elements in the educational system – characteristics and functions of the educational management. Types of managers

Drd. Lucica (Mitican) Cristea  
*„Alexandru Ioan Cuza” University, Iași, Romania*

### Abstract

The present paper focuses on the verification of the hypothesis according to which the organizational climate, the quality of all resources involved in the educational process and especially the quality of the management have a very important role in obtaining performance.

After the conceptual definitions which come as a necessity when describing the educational management, the characteristics and the functions of the educational management, as a well as its types of managers, are to be subsequently presented.

In fact, the scientific paper constitutes a sequence from a more complex research. That is why the results of the enquiry are only partly presented in order to verify the hypothesis.

**Key words:** educational management, performance, organizational climate.

**JEL classification:** A2, M5, M11, M12

### 1. Educational management – characteristics and functions

There is no doubt that the social and economic transformations of the future society will lead to a change in managerial styles at all levels. Today's information revolution calls for new approaches to management science which appear to be even more necessary when we realise that such a science plays a vital part in educating society in general, and the work force required by the new economy in particular.

One of the main priorities of the education reform in Romania is concerned with the decentralisation process – the redistribution of responsibilities, decision-

making authority, public responsibility and resources from the central to the local level – and the creation of an organised educational system which should be administered and financed according to European regulations. This requires commitment, assuming responsibility, clear vision, strategic thinking, professional and managerial competencies i.e. a new managerial type. [3, p.10]

However, input from the preuniversity educational institutions in Romania leads to the conclusion that there are no managers to fit the profile at this level. Thus, it is not enough to create an appropriate legal framework and build a rhetoric to meet European standards. The existence of human resources able to carry out the decision-making function is of utmost importance in such a context.

Management, just like any other activity focusing on the individual, has an underlying set of rules and principles necessary for the administration of resources with a view to reach predetermined objectives. A certain manipulation psychology is inherent in the concept of management. Especially within the educational context, this type of psychology has a both a positive and a negative side. In this domain, the use of manipulation techniques is quite advisable to make sure that the educational objectives are met.

Educational management is enjoying more and more the attention of specialised literature nowadays and has been defined in various ways by the specialists in the field. Thus, it has been given different meanings, being construed as the theory and practice, the science and art of designing, organising, coordinating, and evaluating the elements of educational activity.

I. Jinga [4, p.26] maintains that educational management can be defined as the science and art of educating human resources and shaping personalities in accordance with specific purposes accepted by the individual and society.

S. Cristea [1] points out that educational management, as a psychological activity, is based on three characteristics:

- primary system leadership (overall approach to all educational elements and applications specific to leadership at various levels);
- piloting type leadership (turning to account the pedagogical resources of the education system through managerial functions such as: planning, organisation, coordination, and control);
- strategic leadership (innovative development of the system at various levels of organisation).

Educational management evinces a particular mentality, as well as a specific art of handling and putting into motion resources and organisational elements, which corresponds to the image of education as science and art.

Like other subsystems of any society, education is plagued by the scarcity of its resources [5, p. 298]. However, the crisis in the field is due not only to this insufficiency, but also to the poor management of resources, the lack of meaningful restructuring in keeping with current and future needs of the work force.

A significant amount of information in general managerial literature can be applied to educational management. Such is the case with elements concerning the interaction between small groups and between beneficiaries and the education personnel. [2, p. 14] To ensure that this information is efficient, especially within the education system, there is a need to develop a set of systematic and coherent strategies regarding reforms and adopt an action-oriented approach.

Alois Gherguț believes that the first step in this direction is the establishment of a set of clearly defined values which mirror the specific character of the profession. Moreover, he maintains that all the members within the organisation have to be involved in the decision-making process and a consensus on desired objectives should be reached starting at the lower management levels.

In his paper *New Management in Human Services* (1988), Leon Ginsberg sets out some efficiency principles [apud. 2, p. 15] pertaining to the practices in the educational system:

- orientation and inclination towards action – regardless of the level at which it takes place, management is the more efficient the more it is oriented towards actions established in accordance with

the new structures of society and the directions of its development;

- maintaining a close relationship with the beneficiaries – most of the times, the success in this field depends on the rapid identification of and adaptation to the needs of the community in which the institutions carry on their activity;
- ensuring the autonomy and initiative of the personnel – the personnel must be encouraged to experiment with ideas which are in keeping with the principles of the organisation;
- activity carried out by the existing personnel – this principle has been promoted ever since 1960 by D. McGregor under the name of “Theory Y” and it sets forth the idea that people like to be perceived as being important, useful and reliable with regard to putting new ideas into practice;
- adopting an approach intended for the achievement of realistic goals and the pursuit of stated values – an efficient organisation abides by its main goals and principles and tries to consolidate them;
- simple forms of organisation – the flexibility of these forms is particularly important; the more complicated the forms of organisation, the more difficult the management of activities;
- simultaneous initiative and coordination possibilities – this principle considers the productive correlation between coordination of and respect for the employees’ initiative;

These principles have been elaborated within an economic context, but they can be applicable to education institutions, the more so as the most important resource of this domain is the personnel of the organisations, and the end beneficiary is the entire society. In order to put these principles into practice in the preuniversity education institutions, some amendments can be made, such as:

- education cannot be brought to the level of any economic activity;
- education cannot be considered as ranking among “service providers”;

- education is an equation with more variables and its solutions must lead to results such as: “mature personalities”;
- educational activities require innate abilities on the part of the personnel; thus, the support for the autonomy and initiative of the personnel must be preceded by rigorous recruitment and selection of the human resources;

Educational management distances itself from general management in that it relates to educational goals, contents, activities focused on communicating information, behaviour of the people involved and the human resources engaged.

The educational management in itself assumes an interdisciplinary approach. There is an obvious relationship between educational management, sociology, political science and psychology [7, p. 29-33]. Thus:

- For an accurate planning of the school management activity, it is advisable that a management analysis should be done with sociological instruments. The concept of management, in sociological terms, is construed as the science of organising and handling social life through the agency of concepts such as system, structure, institution, change, leadership style, and reform.
- The political decision-making process provides educational management with an efficient action plan:
  - Identifying the problem;
  - Finding the optimal solution;
  - Putting the solution into practice on a social scale;
  - Assessing the results;
  - Operational assessment which determines new decisions to be made.
- At the psychological level, management reflects the internal mechanisms of human activity as a result of the motivation-goals ratio.

Just like general management, educational management fulfils specific functions. Regarding the definition, number and name of these functions there are several points of view.

Thus, some authors [7, p.33] point out that these functions are carried out in activities of planning, organisation, coordination, involvement, control, and evaluation. Other

authors [28, p.21] identify and depict the following functions: design and planning; organisation; human resources involvement/coordination and management; leadership; decision-making; control-evaluation-monitoring.

## 2.Types of managers

The managerial style is defined by the way in which management functions are carried out with the aim to reach organisational objectives.

The practice of a particular leadership style affects the organisational climate, the end results of human activity, as well as the individual and organisational performance.

The manager, through the leadership style adopted, not only builds and educates his/her team, but also sets the trend for the entire organisation. In the case of educational institutions, judging from the specific goals of this domain, one can rightfully assert that a particular managerial style adopted by managers goes beyond the bounds of the organisation. It spreads and encompasses the entire society.

Specialised literature [8, p.94-101], [6, p.43-47], distinguishes between the following types of managers according to the managerial style adopted (these types represent in fact a synthesis between the one-dimensional and tridimensional approaches to leadership styles):

- The leader – who is distinguished by his/her special innate talent, has a high decision-making capacity, is respected, enjoys authority and the admiration of the people around him/her;
- The creator – who is characterised by a balance between innate and acquired abilities, is meticulous, avoids taking risks and prefers stability to change;
- The destroyer – who advocates change and the abolition of outdated structures; he/she is the most indicated manager in crisis situations;
- The innovator – who has a penchant for innovation, meets the dynamic requirements of the techno-scientific progress;
- The autocrat – who is energetic, possesses a high decision-making capacity, but

constantly underestimates the work of his subordinates;

- The democrat – who is a supporter of participative management, acknowledging that the employees play an important part in building the managerial strategy;
- The delegator of tasks – who sets up the guidelines and provides general guidance, without restraining the liberty of action of his/her employees who assume a fair share of responsibility;
- The situational leader – who is highly flexible and adjusts his/her behaviour to the combination of factors which influence the current situation.

A different approach [6, p.46] focuses on five types of managers with the following characteristics:

- The participative manager – who is a reformer, innovator and creator; takes risks and understands the value of communication and active involvement; has clearly defined strategies;
- The populist manager – his/her priority is dealing with salary claims of his/her employees; is reluctant to deal with staff dismissals; lacks a clear management strategy;
- The authoritative manager – has extensive knowledge and experience, strong personality; is fair-minded and demanding; keen on boosting profits;
- The pacifying manager – adopts hand-to-mouth survival strategies; is good at conflict management and has the tendency to manipulate the employee unions;
- The incompetent manager – lacks initiative and a clear and workable strategy; easily corruptible.

Although the managerial styles have been analysed within the economic context, they are the same for educational organisations, describing educational managers with the same accuracy.

Worthy of notice is the fact that, in the preuniversity education institutions, the most frequently encountered type of manager is the “incompetent manager”. The data which come in support of this assertion are collected following a questionnaire-based survey with scales in measuring attitudes. The survey took place between May and October 2009 on a

random sample of high-school teachers in the central and south-eastern parts of Romania. The survey focuses on several objectives and working hypotheses and consists of 3 questionnaires.

The survey forms centred on the following criteria regarding the performance evaluation of didactic personnel in high-school education:

- The amount of time required for the documentation and elaboration of projects and didactic material;
- The qualification level, age and length of service in the education system of the didactic personnel and their influence on how they make use of their working time;
- Management and its impact on performance;
- The organisational climate and its impact on performance;
- The evaluation of the high-school didactic personnel;
- Material resources.

The main hypothesis of this survey was that the organisational climate, the quality of the resources committed to the educational process and, especially, management quality are of paramount importance in obtaining maximum performance.

Since it is not the purpose of this paper to focus on the entire survey, it will only show the results obtained from the interpretation of the scales corresponding to the questions pertaining to aspects of management and organisational climate in high-school education.

The tables no.1 and no.2 show the answers to questions related to the influence of management on the performance level of the educational institution.

Table no.1  
The performance or lack of performance of educational institutions depend on its management

Yes	No
89	61

Table no.2  
The influence of institution management on reaching performance

More than 50%	Less than 50%	Management plays no part in reaching performance
89	26	35

What can be inferred from this data is that, judging from the teachers' opinions, the management of the educational institution is responsible to a great extent for reaching performance.

Tables no.3 and no.4 show the data collected following the interpretation of the opinions expressed by the participants to this survey, which concern the influence of the organisational climate on reaching performance, as well as the extent of responsibility in this matter.

Table no.3  
The influence of organisational climate on reaching performance

The organisational climate has a 100% influence	The organisational climate has a 50% influence	The organisational climate has an influence less than 50%	The organisational climate has no influence on performance
70	62	18	-

Table no.4  
Responsibility for the organisational climate in high-school education

Responsibility for the organisational climate lies with the manager		Responsibility for the organisational climate lies with:			
Yes	No	The manager	The manager 50% and	The manager	The
					per

		100%	the personnel 50%	Less than 50%	son nel 100%
141	9	27	106	-	17

It is easy to notice the fact that the impact of the organisational climate on performance is perceived by teachers as being rather high. However, responsibility for the organisational climate lies both with the manager and with the personnel of the institution.

To get a clear and objective picture of the influence of management and organisational climate on performance, it is vital to identify the managerial types adopted in these institutions.

Thus, the results of this survey match the managerial styles described in table no.5.

Table no. 5  
Managerial styles adopted in Romanian high schools

Participative-reformist style	Populist style	Authoritative style	Pacifying style	Amateurish style
21	8	40	16	65

### 3. Conclusions

The 150 teachers who participated in the survey gave the following answers regarding the managerial style in their corresponding institutions:

- 14% identified a participative-reformist style;
- 5,33% identified a populist style;
- 26,66% authoritative style;
- 10,66% pacifying style;
- 43,33% amateurish style;

To draw a conclusion:

- All managerial styles are to be encountered in the Romanian high school education;
- The authoritative and amateurish styles are predominant;
- Responsibility for reaching performance lies mostly with the manager;

Responsibility for the organisational climate lies both with the manager and the personnel of the institution

#### 4. References

- [1] Cristea Sorin – *General Pedagogy. Educational Management*, Rd. Didactică și Pedagogică, București, 1996
- [2] Gherguț Alois – *General and Strategic Educational Management*, Ed. Polirom Iași, 2007
- [3] Gherman Liliana, Pănoiu Laura - *Human Resources Management*, Ed. Ind. Economică, Pitești, 2006
- [4] Jinga Ioan – *Everyday Life and Education* Ed. Didactică și pedagogică, R.A. București, 2005
- [5] Niculescu G. Niculae – *The new socio-liberal economy –Romania’s choice*, Ed. Junimea, Iași, 2003
- [6] Puiu Alexandru - *Management*, Ed. Independența Economică, Pitești, 2004
- [7] Tudorică Roxana – *Educational Management within the European Context*, Ed. Meronia, București, 2007
- [8] Zlate Mielu – *Leadership and Management*, Ed. Polirom Iași, 2004

## HR Strategies, the Company's Step Ahead

Prof. PhD. Ion Criveanu  
University of Craiova  
ion\_criveanu@yahoo.com  
Ec. PhD. Loredana Iordache  
loredanaiordache2006@yahoo.fr

### Abstract

In the turbulent context in which Romanian companies operates in, the development of human resources strategies and policies, in close relation with overall objectives and strategies of the organization, becomes inevitable. In this respect, human resources strategy as part of the overall strategy of the company aims to raise awareness of the importance of human capital and to attract, develop and motivate it in order to ensure, at all times, an efficient implementation of modern service aimed at increasing customer satisfaction. The need to develop strategies and personnel policies becomes more current as reality shows that for many organizations, preoccupations to achieve strategies and resources are almost nonexistent. From here they appear a series of mismatch on the existence of overvaluation of staff, lack of labor for certain qualifications, with the most diverse consequences such as increased production costs as a result of unjustified increases in wages, or the inability to manufacture products due to a lack of unskilled labor.

**Keywords:** human resources strategy, personnel policies, strategic objectives

### JEL classification: M12

The accent which Romanian companies put during the last period on human resources development had determined the changing of perception way to this organizations' component. For realizing their objectives, companies have to resist to some challenges which request capacity of ensuring and maintaining competition success through anticipating contextual evolutions.

In Romanian companies it is more and more spoken about human resources strategy. It was often used like an usually term, entering in the terminology of human resources domain without

being properly understand. We can't speak about human resources strategy without being available a strategy at organizational level. More than this, we can't create and implement a human resources strategy if we don't know mechanisms and components of human resources strategies.

Although there are a series of definitions given to human resources strategies, the scope of their conception and applying must be the same: more and more efficiently using of human resources for realizing company's objectives.

In this context, conception and implementation of human resources strategy do not have to be realized as an isolated event, without continuity, and it must be harmonized with strategic components of the company, with the demands imposed by specific business environment of the company, and also with internal demands of this.

Another aspect which must be taken into account in elaborating human resources strategies in consist by motivations, demands and compartments of actual employees, which are permanently changing. From this reason, human resources strategy must correlate these needs with company's objectives.

In the 60's, using the "strategy term" begun to be used in economy for define ones of the most important decisions of companies.

Starting with the 80's, all or almost all became strategic in economy, sociology and psychology, etc. Even it is about groups or individuals' compartment, or economic options, more authors started to think in strategic terms.

The "strategy" term received different meanings, lengthways time, depending on the domain in which it was used.

In human resources domain, in some authors' opinion, strategies express the fact that human or personal resources function is adopting a bigger perspective and a more dynamic vision through human resources, insuring their integration with the other organization's resources.

Another authors had lighted the fact that thinking in human resources strategic terms proves the superannuated anterior conceptions of enterprises which aren't preoccupied about concrete application of important decisions, just them considered strategic: an initial and planned version of strategy idea is criticized and renewed in participative management's perspective and strategic administration of human resources. It is spoken about realizing some links between decisions and their application, and so about different actors' associating at strategic level. This widens and partnership version of strategy is ruling today.

From another point of view it is considered that human resources strategy represents the ensemble of activities linked by planning, recruitment, integrating, perfecting, evaluating and motivating human resources.

From this widen approach could appear derivate human resources strategies, which make reference just to a part of these activities, like: personnel ensuring, employees' development, the reward, relationships with the employees.

Not taking into account the domains in which human resources strategies can be developed, these must be conceived for being in concordance with company's general objectives. At its turn, company's global strategy has to analyze the field of open possibilities of human resources strategy, and to fructify these possibilities.

The majority of authors consider that in any organization, indifferently of activity's nature, there are two types of objectives:

- strategic objectives on long term which regard a series of aspects contained by human resources strategies' definitions themselves.
- operational objectives, tactical and administrative which suppose activities regarding daily management of work groups.

Long term strategies have a series of objectives which regard aspects of human resources, like:

- satisfying human resources organization's necessarily for the next 5

years, as employees number and also as personnel categories

- maintaining wages and rewards at a sufficient high level for recruiting, keeping and motivating employees at all organization's levels
- realizing some harmonious relations between managers and the ones which are in their responsibility
- ensuring necessarily ways and endowments for maintaining and perfecting labor force's knowledge's and competence
- ensuring a properly communication system between management and other employees, and also between different organization's departments and functions
- ensuring necessarily mechanisms for permitting to the organization to stand up in face of human consequences of change.

Analyzing those objectives, we can remark a series of aspects referring to the fact that those are more qualitative and hard quantifying. Although, these objectives are knitting ones with the others, and attainment of ones offers the possibility of quantification through other viewpoints. In another words, we can measure the way in which personnel necessarily is satisfied, from the viewpoint of wages offered by the company.

More exactly, competitive wages, professional work frame ensure a low fluctuation and put into attention a high grade of employees' satisfaction. This leads to a stabile work frame, a good image of firm from external, which will determine the possibility of ensuring further human resources necessarily.

Practical, attainment of objectives linked to salaries and motivation strategy also leads to realizing objectives linked to human resources necessarily.

Global organization's strategy influents in a main way the strategies form human resources area. Not for a few times, it was established the impossibility of realizing some profitable projects for organization, because company's management was excessively focused on financial and technical aspects, not taking into account



human part. Unfortunately, there still is an important part of managers which still consider people like a machine which can be anyway and in any conditions used.

The experience had demonstrated that this thing was especially changed during the last years. Sometimes, people can put up to change, especially when the stress level which they are confronting is important. Sometimes, they aren't enough motivated for doing the necessarily effort to adapt at the new demands, or they do not understand which are new demands, being kept in the past and in old demands which they had realized.

Elaborating human resources strategy must be realized in concordance with company's objectives and it must offer human support for their attainment. There is a series of factors which must be taken into account in elaborating human resources strategy:

- analyzing existent human resources of the organization
- analyzing internal and external environment
- knowing general strategy of the company
- implementing personnel procedures and policies.

The influence of these factors leads to the conclusion that elaborating human resources strategy in an continue process of analysis and diagnosing, and during this process it must be permanently followed in which measure established objectives in human resources area correspond or they are actual to attainment general company's objectives.

Managers have an important role in strategy elaborating, and they have the responsibility of its creation, and also have the role to persuade employees to involve in these strategies' sustaining. The content of human resources strategies must reflect also the content of human resources management or theirs activities, and also the manifestation intensity of the others firm's functions linked by personnel.

The absence of organizational level of some coherent human resources strategies, makes impossible organizations' adapting at international frame's changes, human resources activities having to be understand in interdependence with all the other process spread at the level of one organization. Management of human resources, as strategic managerial process, is more difficult, comparing with

technical progress promotion or financial resources flow. Organizations which had teaches how to lead their people, applying a performing management of human resources, had passed a step in face of others, because ensuring maintaining human resources' quality are durable strategic processes.

Elaborating a human resources strategy involves elaborating some strategies on each activity on company's functions of human resources, in a smaller or bigger measure, depending of organization's life period. In an organization founded in the "born" period, it will be granting a bigger importance to the recruiting and selecting strategy, reporting with strategic planning of the personnel, for example, whom importance will be putted into evidence in the firm "growth".

Although in specialized literature there are a series of approaches referring to human resources strategies' elaborating, in practice had been often formulated the following strategies:

1. Strategic planning of personnel is difficult to be realized on long term in actual economic conditions, characterized through a high instability and a rapid change of market's conditions. Companies are preoccupied by solving moment problems, and they do not have necessarily capacity for a longer term planning of human resources. Although, we do not have to neglect the fact that company's objectives constitute the start point of any human resources prognosis. Although when we speak in practice about human resources prognosis we generally think to recruitment, especially in growing and maturity phases, we do not have to neglect the aspects linked to available resources' analysis. Making a personnel inventory on professions, preparing, performance it maybe is more advantageous to use personnel form your own company, than to recruit external personnel.
2. Elaborating recruiting, selecting and integrating human resources strategy is the most difficult attribute of managers, in actual conditions. A recruiting and selecting strategy

depends on a lot of many internal and external factors. First of all, knowing organization's objectives is very important. Next, are necessarily a series of researches of the following aspects: free posts can be occupied with existent personnel, or through recruitment; there are personnel's record well done, with the attributes of free posts; there is a certain evidence of passes, for recruitment necessarily determination; the free post's attributes can be redistributed.

All these analyses lead to elaborating recruitment strategy, which, as we had mentioned, depends on a series of external factors, like: company's image, demand and supply on labor force market, etc. Integration's purpose is the one of facilitating new employee accommodation with work's demands. The group demands aren't every time likewise the manager shows to the new employee. For this, there are many cases in which the new employee can't accommodate itself at work place.

3. Elaborating personnel motivation strategy. Specialized literature discussed a lot the problems about personnel motivation. In practice, these things are harder to be realized, because founding the most adequate strategy of motivating human resources supposes to know very well employees' necessities and demands, which must be corroborated with realizing organization's objectives. Unfortunately, there still is the mentality of a lot of managers that, if people are unsatisfied, they go and we can find others. Things had change a lot in the last 3 years. For that, together with the recruitment, managers have to find solutions for motivating and keeping prepared people. The practice shows us that employees maintaining is as difficult as their selection, but more expensive.

4. Strategies' elaborating regarding rewards system must take into account actual legislative frame-work, and also realizing a performing and motivating system, referring here not just at salary, but also at indirect rewards system, which, in the last years, is more and more important.

We can't say that we have exhausted the area of all human resources strategies. Each of these strategies can generate others, and all of them are strongly linked one with another. But, it is necessarily a new approach regarding the ensemble human resources function, referring to constructing some concrete policies and procedures for these strategies sustaining.

While human resources strategies express the ways of objectives attainment in a straighten future inhuman resources area, personnel policies have a smaller horizon, with a stronger measure of detailing and an operational character, their role being the one of sustaining human resources strategies in each of main areas of human resources management.

Establishing a concrete policy in human resources area must take into account personnel importance in a company, responsibility which devolves to the managers, strategic objectives of the organization. A correct formulated personnel policy is the essential element in performance obtaining.

For human resources area's policies attainments their objectives, they must fulfill a series of demands:

- to be clear formulated, redacted and written communicated to all the employees, for not letting place of interpretations
- to cover all activity domains of the human resources function, especially where the company had proposed strategies on this domain
- to be consequent and to obtain the whole personnel's adhesion
- to be transparent and to allure a bigger number of employees at it's conception and at it's transposing in practice, and so to act at all levels
- to be in concordance with general objectives and strategies of the company
- to stimulate at each employee the desire of continue improving of his own activity.

In various situations, there are implicitly personnel policies, as a attitude of managers to their subordinated, and as an organization's philosophy expressed through the way in which are approached personnel problems or through the manner in which they treat their employees:

Personnel's policies depend of organization's basal values and they are putting their stamp through organizational culture.

Although big majority of managers affirm that in their companies exist human resources policies, a careful analysis shows that a big part of them do not know to describe the nature and content of these policies. The reason is very simple: managers' aware human resources policies' importance, and they want their elaboration only when crises' moments appear into organizations.

For this, elaboration and implementation of human resources policies can't be realized without passing some steps:

- picking up and analyzing some information received from employees and also from managers regarding elaboration of some personnel policies very efficient
- the analysis of external organization factors, firstly referring here at legislative frame
- knowing general organization strategies and human resources strategies, regarding the elaboration of some individual human resources strategies on each area of human resources management
- knowing imparted and accepted organizational values and culture.

After elaborating and accepting human resources policy, this has to be communicated to all employees, an important role devolving to those persons who are putting it in practice.

Applying human resources policy also involves the supervising exerted by human resources managers, and also collaboration with the other departments' managers.

The efficiency of elaborating and implementation human resources policy can be verified through the following three ways:

- the way in which human resource policy facilities or not attainment proposed objectives
- the measure in which this is or isn't compatible with organizational values or culture of the company
- the measure in which actual legislation is respected

Analyzing the aspects linked to human resources policies, we consider that there aren't recipes in their elaboration and implementation. Each company has its own characteristics, and human resources managers devolve the obligation of founding the best methods for correlating company's objectives with the employees' desires and expectations.

More and more companies understand and try to obtain advantages, as a sequel of applying some coherent human resources policies. Awarding the necessity of human resources strategies and policies does not suppose just strictly specialists intervention in this area, but it also includes an awarding at global level and at each individual level.

Attributing the role of strategic partner in the business internationalizing actual context represents the recognizing of the human resources functions' role and importance, without organization's development weren't possible.

## References

- [1] Aurel Manolescu, "Human Resources Management", Ed. Economica, Bucharest 2003
- [2] B. Gazier, "Human resources strategies", Ed. Institutul European, Bucharest 2003
- [3] G. A. Cole 2000 „Personnel's Management ”, Ed CODECS, Bucharest 2000
- [4] V. Lefter, A. Diaconu, C. Marinas, R.Puia - Human Resources Management, Ed. Economica, Bucharest 2008

## Developing Skills- a Priority for the Management of Human Resources

Radu Catalin Criveanu

Marius Mitrache

Magdalena Criveanu

*University of Craiova*

### Abstract

The management system based on skills allows a relevant integration to manage and support the human resource in his career. Recent studies showed us that vocational skills training has become a priority in Management of human resources. The aim of these studies is to establish a correlation between the company's objective and the employees' skills. Human resources management, based on the organisation values will contribute to improving employment and rapid adaptation to market requirements. This work was supported by CNCISIS-UEFISCU, project number PNII-IDEI code 393/2008.

**Key words:** human resources, skills training.

**JEL classification:** O15;

Human resource management based on skills is a concept that was imposed rapidly in recent years not only in theory but in the practice of human resource management. And that is because the success in career depends more and more on the individual skills and on how we develop our personal skills required by a particular job.

It is known that human resources system has undergone a period in which the environment was fairly stable and less flexible. In current conditions it can no longer provide an effective management. That is why it should be adopted a slim framework for the management of human resources, which allows a relevant

integration to manage and support the human resource in his career. For this reason, it has to be realized a management system based on skills.

Lately it is put a strong emphasis on vocational skills training. Competencies are the most valuable good that an employee brings in an organization, together with knowledge and experience.

Beyond personality, skills bring added value and uniqueness of each employee. A jurisdiction may be a natural talent, a skill - that is learned or acquired over time through experience - or a combination of the two - the one that has jurisdiction for an employee is porting them, a thing which not a few times we forget. No matter what area of the human resources we speak about, specialists try to convince us of the importance and the need of the "skill based approach". The problem raised in this case is the following: Are we ready to establish a correlation between the company's objective and the employees' skills?

We take this overlapping of skills, talent, know-how with us whenever we change jobs. And exactly this combination is what makes us unique in a role, which makes the difference between success and failure even if there are two or more people with the same knowledge, in the same role.

Professional competence as a *core*<sup>1</sup> model for the management of human resources, stimulates the existence of several specific subsystems:

- professional. The differences noticed between the desired profile of competence and the assessment of the results and the individual potential induce the need for an individual professional development plan;
- and the selection of staff. Professional competence is the skills and qualities sought in the process of recruitment and selection;
- Analysis of skills associated with a profession determines a scale of remuneration, and the results of the evaluation of a person lie on one of the levels of the ladder of promotion. Individual assessment in terms of determining the potential applicable skills has as a result the promotion decision.

Taking in consideration the fact that it is expected that the European economy will create about 13 million jobs in the next 8 years<sup>2</sup>, as most of them require superior professional skills, it will be a must for people to follow training throughout life to remain competitive.

Developing skills is a priority not only for employees but also for firms. The permanent job evolution in an organization creates the need for the knowledge of the employees' skills.

The approach focused on skills adds to the skills, knowledge, values, attitudes, personal and specific skills and reasons which contribute to achieving good results in achieving labor. Setting the profiles based on employee competencies with higher efficiency, it can be built the base on which it will be made a superior organization (in other words, superior performance will be the basis for improvement, training and effective recruitment of labor and providing for future needs of the market.)

To perform a skills-based management should be considered the following issues:

- The extent to which such an approach can be implemented
- Amendments to laws or policies where appropriate
- Knowledge and understanding of human resources based on competence

Beginning with the criteria applied in the recruitment and selection procedures, and ending with the last stage of career, passing through assessment, training, motivation, reward, the management of human resources based on powers may give performance to the policy of human resources of an organization by generating positive consequences both in the strategic plan (forecast staffing, organizational

culture, management style), and individuals plan (personal development, increased motivation).

It should be emphasized that the objective is not to create a normative model that finally all bodies should apply. In reality it is often recognized that in a process, this approach could raise more questions that do not provide answers. Dialogue and habit arising from its use will allow a better understanding of the measure to be set in the management of human resources, taking into account the outcome of consultations and practical experience.

Another approach based on competence focuses on the characteristics described as skills. These skills<sup>3</sup> serve determining the staff and recruitment's needs, training, assessment, job mobility, pathways and professional recognition and remuneration.

For integrating a system based on skills it should be act in more ways:

1) Organization follows these steps: introduce a mechanism that allows the increasing of the link between human resources and strategic objectives of the organization, increase the ability to establish partnerships among organizations and other organizations, contribute to solving problems of equity and to raise barriers, which are often inherent, of an approach based on jobs and tasks; facilitates changes in human resource management by providing a good result both in the employees assessment among organization and in terms of gaps in the skills and requirements in terms of recruitment.

2) From the people point of view, it will enable a better understanding of the approach within their own functions, to self-evaluation and to establish a link between bonuses, recognition of work and remuneration.

3) In terms of human resource management, this system will provide a good result to develop criteria for the recruitment and selection, job descriptions, goals and objectives of employees, measuring performance, training needs based on gaps and plans for change.

How they make their individual contribution in a company is seen in the results. These results take the form of behaviors. Behaviors can be considered as a yield (effective or ineffective) or as an extent that an individual responds to the needs of the organization. The situation is reported to the applications. There is recruitment, selection, analysis of gaps, career planning and setting organizational profiles. Jobs are no longer basic elements of an organization. They were replaced by employees' competences (skills and abilities, knowledge necessary to achieve the strategic objectives of the firm). People will have to prove flexibility and be able to adapt to different situations.

The organization operates under a framework which includes vision, values and its mission defining, as well as its strategies and also the structure and support systems. Vision, mission and values define the nature of the organization. All these must be part of the organization. Skills and behaviors can play a major role in this situation. The main features of competencies that can be pursued in this type of management are: motivation, psychological reactions, self-image (attitude, value and image that a person has about himself/herself), knowledge, abilities.

Competencies are tangible, they can be measured and therefore changed. Competencies analysis involves the analysis of skills, habits and the main behaviors that a person must possess.

There are five essential elements that allow the definition of general competencies: strategic elements, professional and technical category, the specific of the company, the cultural values, human resources elements.

All employees should have an average competence in the above mentioned items. These elements serve to career planning, management efficiency, the training staff and activities. Characteristics which will determine the success of the organization will depend on the ability of leaders to formulate questions, to adopt a good perspective and to entrench people. To gather all these elements it must be an integrated system comprising enterprise's value, a vision, an enunciation of the mission, goals, objectives, an action plan and a back up system. Ability corresponds to the lowest observable measurable unit of work behavior. It varies with time. M. Cohen argues that in general the behavior is a

consequence. Ability is important because past yield is the best pledge of future yield, present yield devolve from past yield and more than effective behavior is effective and relevant.

The organization must create an integrated process of human resources by examining not only the skills and knowledge, but also the behavior that is required for the work to be done. Once the profile is established, it may be used the behaviors of the different purposes: the selection and recruitment, performance management, change planning and career promoting.

Planning change is a responsibility which develops upon the organization and the first step to define the skills, knowledge and ideal behaviors as well as the specific objectives of a job, and then to create a program to help candidates achieve its objectives. For this system to be successful, both the organization and the employee have to answer the following questions:

- What are the skills we need?
- What are the powers which they possess the employee?
- What is the spread between them?

The real process will begin with an assessment of employee skills and through an analysis of spreads between them and the required skills. Thus, in light of available resources, the employee will draw an action plan and its boss will help him/her with this task.

Training is essential in human resources policy, upon the manager rests the responsibility of two main objectives: the motivation and development skills<sup>4</sup>. In our opinions, one of the shortcomings in the training of Romanian firms is the chaotic manner in which they intend to achieve their training plans. In fact the success of this approach is influenced by several factors such as<sup>5</sup> stimulating organizational culture, a participatory management that encourages employees and not least a motivated work force willing to learn and develop permanent.

We cannot talk about the development of collective and individual competences without employees' motivation and adherence.

Motivation is essential in the development of the competences.

We believe that in order to have an effective training program it is necessary to fulfill several conditions like:

- The courses should not only provide to the employees the training that the organization needs, but also awareness of their utility. General speaking, people perceive very well the utility of a course. Not few times, it happens that the decision going training courses to be taken by a person who doesn't have great connection with the work or has not done a proper job analysis. In these conditions, no matter how well organized is the course, people will not perceive its true value because they will not benefit from the information received. Therefore, we consider that, in order to have the desired success, the knowledge acquired during the course must be applied immediately in the workplace
- Choosing where to place courses and matching the training equipment to the training needs of students
- Instructors and lecturers should have adequate knowledge. Selecting trainers is very important to the success of the courses. This would require the establishment since the beginning of competencies that we want to achieve from the course and at the same time we must ensure that the chosen trainers can develop these skills.
- The evaluation system chosen for assessing the success or failure of the training courses.

Skill forming or development must be a continuous process that allows anticipation of the future needs of the organization and not to produce imbalances in activity.

Due to the focus/stress put on the skills, human resources management will become more flexible and will reduce costs and simplify bureaucracy. Also this type of management will contribute to improving employment and rapid adaptation to market requirements.

Management focused on skills supports people and, as it is based on the organization values, it is going to have a special contribution in creating a general picture of it.

### References

- [1] D. Goleman, "Emotional Intelligence", Ed. Teora, Bucharest, 2003.
  - [2] <http://ec.europa.eu/news/culture>
  - [3] Laëtitia Lethielleux "L'essentiel de la gestion des ressources humaines", Ed. Gualino EJA, Paris, 2008.
  - [4] M. Thévenet, C. Dejoux, E. Marbot, "Fonctions RH", Pearson Education France, Paris, 2007.
  - [5] V. Lefter, A. Diaconu, C. Marinas, R. Puia, "Human Resources Management", Ed. Economica, Bucharest, 2008.
-

## The Automobile Buyer Behaviour: Emotional or Rational?

Economist Phd. Candidate CRUCERU Gheorghe  
*Transilvania University, Braşov*  
[g.cruceru@yahoo.com](mailto:g.cruceru@yahoo.com)

Assistant Professor Phd. Candidate MICUDA Dan  
*Constantin Brâncoveanu University, Piteşti*  
[dan.micuda@gmail.com](mailto:dan.micuda@gmail.com)

### Abstract

The automobile buyer's behaviour is a specific one and the knowledge and understanding of the motivations is important for the automobile manufacturers and distributors. Automobile buyers are the beneficiaries of complex high technology products, which have a long-term use. The paper is focused on understanding the mechanisms that underlie the buying process, the buyers' expectations and needs, as essential elements for producers and distributors. When these mechanisms are controlled, the company can create superior products in terms of technical quality and which comply with the pollution standards, and wanted by customers more than the ones of the existing competitors on the automobile market. The buying decision is a complex process which is the result of both the endogenous and exogenous factors to the purchaser. To meet his needs the Romanian car buyer chooses either to purchase a used car, most of the times an imported one, or to buy new brands, also mainly imported ones.

The underlying motivation of either option is twofold in the sense that it is rational and subjective, the proportion being different from person to person. In Romania, the automobile buyer's behaviour witnessed significant changes, the latest preferences being directed towards the used cars more than towards the new ones. The consumption behaviour is also different from one development region to another, the main factor of influence being the buyers' income level which is different from one region to another. The population with higher income has a higher tendency to purchase more expensive automobiles.

**Key words:** automobile buyer behavior, emotionality, rationality, motivations

**JEL classification:** R49;

### 1. Introduction

Companies in general, and particularly those in the automobile field, direct their activity towards meeting the consumption needs, towards what is required by the market. To achieve this objective it is required to know well the market mechanisms, the needs, the process of turning these needs into demand, the motivations underlying the buying behaviour.

The consumer behaviour knows a number of definitions both from the marketing perspective and from the psychological one, yet without having reached a unitary definition [6; 7].

Being a multidimensional concept, it is difficult to find a common denominator for a variety of approaches to consumer behaviour, especially given that many theoretical aspects have not yet found experimental verification or emotional validation as well as a general acceptance from the specialists [3].

Consumer behaviour is one of the key variables of the marketing environment that every company wants to understand and to influence to its own advantage. Consumer behaviour is a component of the people's economic behaviour, which, in their turn, represents a form of manifestation of the human behaviour in general [1].

In a broader sense, the consumer behaviour includes all the activities involved in the selection, purchase, and use and growing out of use of products and services.

Although the buyer's choice is considered free, there are certain factors that limit the



buyer's choice. A first limitation would be imposed by the influence of the groups, of the communities. Another limitation comes from the direction of the manufacturers who define and determine the nature and the quality of the goods to be consumed.

A final limitation in the buyer's freedom of choice comes from the belief that our purchases that we consider free choices are more or less subject to the social category to which we belong, respectively to which we wish to belong [5].

All the mechanisms that are based either on the subject's beliefs or on its external influences are the ones that finally determine the buying decision or a certain conduct of the buyer, and they must be fully understood by the producers of goods and services.

## 2. Consumer - characteristics and influence factors

One of the most important variables of the marketing environment on which the company has no control, but which it tries to influence it the desired direction, is the consumer. Consumer behaviour can only be explained by knowing the system of factors that act in close relationship and mutual interrelation, but the way in which they act and especially the role they have in the system are viewed differently and therefore in the specialized literature we meet different classifications of these factors [2].

In the analysis of consumer behaviour, the marketing departments must consider the following factors:

- - its dynamic character;
- - consumer behavior does not completely fit certain laws;
- - consumer behaviour determines interactions, being necessary to know what the consumers think (perception), feel (impression) and what they do (behaviour), as well as which are the factors that influence them (natural environment);
- - consumer behaviour determines exchanges between the participants in the buying - sale process;
- consumers are very different from one another;
- consumers act mainly emotionally and may act differently in different time moments;

- consumer behaviour can be influenced, he can learn and can change his attitudes and behaviour;

The multitude of behaviours that make up "consumer behaviour can only be captured through a systemic approach, because the act of buying is not a simple reaction between revenue and expenditure, but also requires other dimensions that determine the manifestation of certain attitudes [3].

The factors that determine the behaviour of consumers in their decision to buy a car do not only refer to the physical needs and do not solely depend on their buying power.

Most theories consider consumer behaviour as being a function determined by socio-cultural factors and by personal traits.

Among the socio-cultural factors with the greatest influence on consumer behaviour and respectively in developing the marketing strategy, one can distinguish: culture, class and social position, family and group behaviour (reference group).

Consumer behaviour is equally influenced by personal traits, the important ones being the age and the stage of the life cycle, the person's economic situation, occupation and education, motivation, perception, training, beliefs and attitudes, personality and self image.

Consumers change their preferences and behaviour according to age and stage of the life cycle. The economic situation also affects the person's behaviour, as consumer especially in terms of quality; the quality and the price are directly proportional characteristics.

Occupation and education are largely linked to income and social class, with a number of implications for the marketing activity because as the population's degree of education increases, it needs better quality products or services.

Motivation is that inner strength that mobilizes people in their aim to achieve certain objectives.

Motivations can be classified as it follows:

- a) primary, when determining the purchase of a product, from a certain category;
- b) secondary, in case they determine the purchase of a particular brand;
- c) rational, if they are induced by logical reasoning and assessment of the situation in which the consumer is;

- d) emotional - caused by the impression that the consumer has about the brand;
- e) conscious - because the buyer knows he needs a particular product;
- f) slow, if it operates at the buyer's subconscious level.

Once the motivation triggered, the way the consumer will act depends on how he perceives the information about the respective product.

Perception is the process through which a person selects, organizes and interprets the information to create an image on the natural environment.

Learning is at the basis of the perceptual mechanism and of the consumer's motivation to buy or not a particular product or service.

The beliefs and attitudes are factors which make the consumer's behaviour and reactions be better understood. Faith is the descriptive thought that a person has about something, and attitude is determined by the cognitive, affective and intentional component.

The self personality and image influence the perceptual and motivational mechanism of the consumer, thus his behaviour.

The effort to understand what is appreciated by a consumers database of global diversity in car interiors allows transforming the findings derived from the analysis of the consumers' behaviour into innovative and competitive products.

The analysis of the consumers' behaviour appreciates the major trends in society, population and technology they and are applied on the automobiles market.

The consumer establishes in every moment of his existence one or more consumption programmes. The consumption programme (or the consumption formula) represents the specification of some given quantities of different goods  $x, y, z, \dots, w$  which provides a consumer a certain utility (satisfaction).

The consumption programmes of each consumer are influenced by the social status and by the family situation, by the implications of the phenomenon of induction of the needs and orientation of the consumption through the media, advertising and publicity, imitation, fashion, etc. The consumption behaviour of each customer is individual and subjective [4; 8].

Due to the fundamentally different nature of the acts and processes that define the automobile buyer's behaviour, the way in which people behave in economic terms is not just a

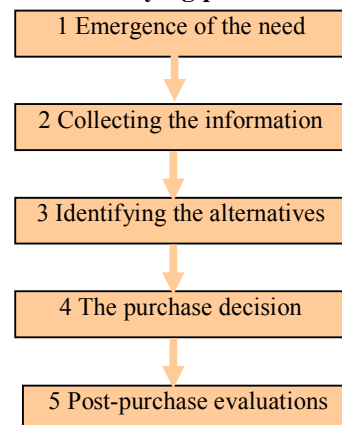
summation of mechanically repeated acts, but rather the result of the accumulation of a life experience and of an accumulation of influences from the group to which every person belongs.

### 3. The decisional buying process

According to the theory of consumer behaviour, the decisional buying process goes through several stages: the emergence of a need; finding information and identifying alternatives; mental evaluation of the alternatives; the outcome of the evaluation materialized through the purchase or non-purchase intention and the last stage, that of post-purchase evaluation.

Schematically, the decisional buying process is shown in Figure 1.1 and it involves the consecutive going through five conventional steps:

**Figure 1.1 The stages of the decisional buying process**



The person's final decision can take many forms, thus after the mental evaluation of the alternatives, the buyer may decide to purchase, to postpone the purchase, not to buy or to replace the previously selected car with another one, having higher technical and pollution characteristics and at an affordable price, as a result of a later offer.

### 4. Selecting the automobile brands in the buying process

On the automobile market the products are renewed at higher and higher speed.

The technical and performance features are becoming more varied and complex.

Buyers can be classified into two categories: car owners and those who are their first purchase. If the first category has a stock of information, mainly from the buyers' own experience, part of the knowledge acquired over time and therefore a new choice it is a decision based on a fairly substantial stock of knowledge for those who are buying for the first time, the decision is a more difficult process, the hesitation degree is higher than in the first case. Although the information about the wide variety of brands and models is available, the analysis of this information in order to adopt a buying decision is difficult. To buy one or another brand of car, the family, friends, distributors or the people who have that car brand are consulted. In the consciousness of many buyers or potential buyers there is a certain hierarchy of confidence in the car brands, but for most purchasers, the income constraints are an important element in choosing a car or a brand. The brand is an important attribute that the buyer takes into account when purchasing a car. The German brands inspire most confidence concerning the durability and the superior performance, being preferred by most buyers. Toyota is preferred due to the image of safe and highly performing brand, created in the buyers' consciousness.

### 5. Automobile buyers' behaviours

Automobiles are durable goods, which include high value-added, as a result of the high technology, from the most diverse areas.

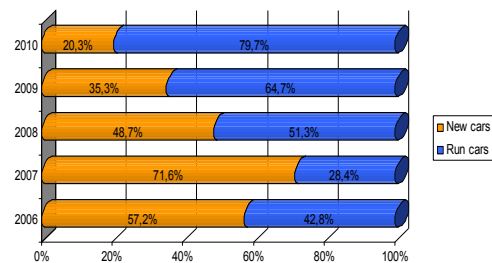
The price of a car can range from several thousands euros to tens or hundreds of thousands of euros, which makes choosing a car be considered a very serious task. It would be natural that the selection was the result of a mainly rational analysis.

The generous offer of the car manufacturers, who continuously bring on the market new models with outstanding performance and with very varied prices somewhat give trouble to the buyers. This difficulty is explained on the one hand by the fact that the technical, technology and pollution performances are less known to the purchasers, because of the great abundance of products, making it difficult for the buyers to compare and to rationally evaluate the products. The result is that the choice is increasingly shifted towards the subjective, irrational side.

The automobile buyers from Romania have a behaviour that has suffered permanent changes, which made the task of the auto companies' marketing departments quite difficult. The preference for used cars is more and more obvious.

The motivation is a purely subjective one based on the conviction that they are cheaper and the prestigious brand provides a certain security and image within the reference group, especially in the young people's opinion. In Figure 1.2 the car buyers' preferences tendency is shown for 2006-2009 and for the first months of 2010.

**Figure 1.2 The evolution of the car buyers' preferences**



Data source: <http://www.drpciv.ro>

From the data presented one can see the tendency of preferences towards used cars in the first two months of 2010. Unfavourable trend begins with the adherence of Romania to the European Union when access to acquisition of imported cars has become very simple. The buyers' preferences are different from one geographical area to another. These preferences are the result of the influence of the group of factors specific to the development areas. The market of the development region Bucharest-Ilfov has a share of almost 50% of the national market.

As is shown in the table 1.1 on this market the buyers' preferences were directed in 2009 over 80% towards new cars as compared to the other markets where the buyers have oriented in the best case in a proportion of 38.3% towards purchasing new cars.

**Table 1.1 the share on development regions of the car registrations**

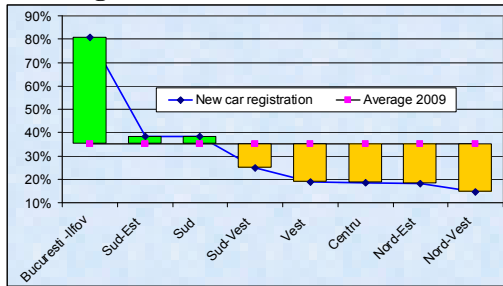
Development regions Year 2009	Buc - Ilfov	South-East	South	South-West	West	Centre	North-East	North-West	Romania
New vehicle registrations (%)	80,9	38,3	38,2	25,0	19,0	18,5	18,1	14,6	35,0

Data source: <http://www.drpciv.ro>

The development region with the lowest inclination towards purchasing new cars is North-west with 14.6%.

Figure 1.3 presents the evolution of new car registrations compared with the total number of car registration in the 8 development regions compared with the national average.

**Figure 1.3 the evolution of new car registrations from the total of 2009**



Data source: <http://www.drpciv.ro>

The analysis of the buyers' preferences regarding Dacia brand reveals a high affinity of the majority of the areas. As presented in Table no. 1.2 the highest preference for Dacia brand belongs the South development region with almost 46 local cars registered out of 100 new cars.

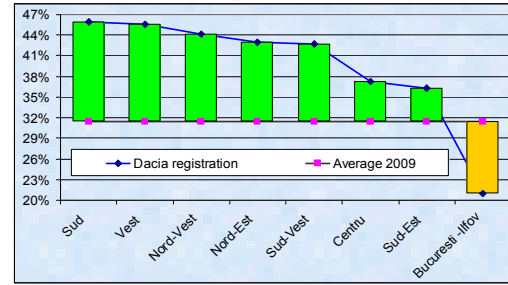
**Table 1.2 Dacia cars registrations of all new cars registrations in 2009**

Development region	South	West	North-West	North-East	South-West	Centre	South-East	Bucharest
Dacia out of the total of new cars registrations (%)	45,9	45,6	44,2	42,9	42,7	37,3	36,3	21,0

Data source: <http://www.drpciv.ro>

The Western region also has a high preference for Dacia brand although the influence of the Western brands is very strong. As shown in Figure 1.4 Dacia has the lowest demand on the market from Bucharest as compared to the other car brands.

**Figure 1.4 the preferences of Dacia buyers on development regions**



Data source: <http://www.drpciv.ro>

The Bucharest-Ilfov region prefers in a proportion of 21% the Dacia brand, being thus 10 percent below the national average.

## 6. The behaviour of used cars buyers

The buyers' tastes are very different; nevertheless, the German brands are by far the most preferred ones by Romanian buyers. As presented in Table no. 1.3 the most demanded brand is VOLKSWAGEN, followed at short distance by Opel.

On average, the brands of German origin dominate more than 70% of the used cars buyers' preferences.

**Table 1.3 the top of the preferences of used cars buyers**

No.	Brand	Preferences proportion
1	VOLKSWAGEN	28,20%
2	OPEL	22,90%
3	FORD	10,50%
4	BMW	6,80%
5	AUDI	6,60%
6	RENAULT	3,80%
7	MERCEDES-	3,20%
8	FIAT	2,90%
9	SKODA	2,20%
10	PEUGEOT	2,20%
11	SEAT	1,90%
12	SUZUKI	1,20%

Data source: <http://www.drpciv.ro>

There is an obvious preference for the German brands as an expression of the reputation and image that these brands have on the used cars buyers' consciousness. The explanation for this phenomenon is that of the price affordability for the used cars and

that of the reputation, of the confidence in the brand, the buyers having the sense of a special identity as compared to the owners of other brands, especially local ones.

## 7. The financial behavior of the automobiles' buyer

The automobiles' buyers have frequently resorted to crediting instruments in order to purchase automobile, their dependence being pretty high just like Pearson's correlation coefficient presented in the table 1.4.

**Table 1.4 Pearson's correlation coefficient For vehicle registrations and banking credits**

		Vehicle registrations	Banking credits
Vehicle registrations	Pearson Correlation	1	0,541(**)

\*\* Correlation is significant at the 0.01 level (2-tailed).

The degree of acquiring banking debts has begun to decrease at the same time with the effects of the crisis, which determined a radical change of the acquisition behavior, the buyers being stricter when they decide to buy the used automobiles.

## 8. Conclusions

The decision of car buyers from Romania tends towards the subjective side of the choice criteria. Most of the buyers consider owing a car as more than a necessity. For them it is a way of expression, of reflecting on the social status, of superiority over other owners, usually of local brands. Young people in particular, prefer the German brands which inspire confidence and which in their view reflect the perfect choice, dynamism, speed and safety [9]. The design is an important criterion in choosing a car and it is considered, especially by the young buyers, a way of expression, a representation and personalization of their own image within the group, a fact which directs the choice of a car towards the subjective side. Because new cars are priced relatively high as compared with the used cars, the option usually is that of buying used cars belonging to prestigious brands. The effect of this choice is a very negative one since there is a decrease in the sales of new cars and implicitly the local ones with all the economic consequences involved, and on the

other hand pollution and the used cars maintenance and repair costs are high, effects which most often are not taken into consideration when buying a used car.

The unfavourable trend of preference for used cars in the first two months of 2010 could change together with the onset of the renewal programme of the car park in Romania. This programme is expected to cause major mutations in the low cost or middle cost car buyers' behaviour. The producing and selling cars companies might emphasize more the benefits. Although the effects of the financial crisis are fully felt by the vast majority of car buyers, the expensive, sports and luxury brands are increasingly being demanded. These preferences are the result of the financial wealth and of the social position of a class of buyers. Owning such a car is considered as being the expression of the owner's value and social status.

## 9. References

- [1] Balaure V, - "Marketing", Editura Uranus, București, 2002
- [2] Brătucu G, Brătucu T, - "Analiza sistemului de factori care influenteaza comportamentul consumatorului individual", Revista Management și Marketing, nr. 2, Editura Economică, București, 2007
- [3] Cătoiu I, Teodorescu N, - "Comportamentul consumatorului", Editura Economică, București, 1997
- [4] Ciucur D, Gavrilă I, Popescu C, - "Economie", Editura Economică, București, 1999
- [5] Dobrotă N, Scurtu M, - "Teorii și Doctrină economică", Editura Independența Economică, Pitești, 2004
- [6] Kotler, P., Armstrong, G., Saunders, J., Wong, V, - "Principiile marketingului", Editura Teora, București, 1999
- [7] Pop N, Petrescu C, "Marketing et gestion de la relation client", Editura Uranus, București, 2008
- [8] Scurtu M, Duțu M, - "Economie", Editura Independența Economică, Pitești, 2001
- [9] Zaltman G, - "Cum gândesc consumatorii", Editura Polirom, București, 2007
- [10] \*\*\* -<http://www.drpciv.mai.gov.ro/>

# Organizational justice, key point in economic crisis management, a comparative study: can Romanian problems be solved by foreign solutions?

Cruceru Raluca

*Academia de Studii Economice București*

[cruceruraluca@rdslink.ro](mailto:cruceruraluca@rdslink.ro)

## Abstract

A recent Romanian study shows that two out of three employees with higher education are affected by the measures recently taken by the companies they work as a result of recession. Eliminating bonuses, restructuring processes and even lower wages are relatively common phenomena encountered lately in organizations in Romania. Employees are affected indirectly by reductions and development budgets of the organizations they work for. Concern for the future is even greater. Thus, 3 of 4 employees with higher education are expected to cost reduction actions that affect them directly or indirectly. In an attempt to cut costs, rather expect top managers restructuring processes, while employees without managerial positions believe that the restructuring will take place near elimination of bonuses and wage loss. How can workplace justice can ease the pain? This article is attempting to give an answer to this complex question.

**Key words:** economic crisis management, organizational justice, romanian problems;

**JEL classification:** M54;F59;

## 1. Effects on labor market recession

The study was conducted by two counseling firms in March 2009, on a sample of 1158 employees with higher education until the age of 45 years. The sample is nationally representative for the population studied.

70% of employees with higher education attended the expenditure reduction measures in the firms they work for. Almost half (46.4%) of the same category is affected by

budget reductions of corporate development.

But more painful are the measures that have direct impact on employee income, and affects a significant number of employees. Thus, 30.5% of employees with higher education to admit that their company bonuses were eliminated, and a similar percentage (30.2%) of persons with higher education attended the restructuring processes in the organization. Nearly one in five employees with higher education have witnessed wages reductions in the company they work for and one in ten attended the reduction in working hours or downsizing.

Employees of small firms were less likely to costs reduction measures compared to employees in medium and large firms (52.5% from 69.8% average). This can happen just because small firms have a very complex cost structure. For example, reducing development budgets and eliminating bonuses are much less common in these firms, but lower wages is a percentage comparable to other companies. Employees of companies with over 250 employees (36.1%) are significantly exposed to strong restructuring process, while firms in Bucharest notice the largest percentage of employees exposed to the development budget reductions (54.9% from 46.4% average).

## 2. Concerns for the future

As budgets have already been established by companies for 2010, worries about budgets decreasing over the decline, does not significantly increase the budgets already established. Percentage of employees with higher education who believe that they will take place in the organization actions to reduce personnel costs is significantly higher than the employees already exposed to such actions. Thus, 39.2% think there will be

facing restructuring, 38.3% believe they will have their bonuses eliminated and 25.8% believe they will be deducted from their salary in the organization. (see Figure 1)

The predominant concern in small businesses is related to lower wages, while the biggest concern of those working in large firms is related to the restructuring plans.

There is also a major discrepancy between top management and employees with non-managerial perceptions regarding the future cost reduction activities in the organization: top management sees as more likely to reduce costs through restructuring, while non-management employees expect wage reductions and the elimination of bonuses.

### 3. Fields and companies analyzed:

- IT (Microsoft Siveco, Oracle, Adobe, Softwin, IBM, Google, Siemens, Hewlett Packard, Route 66, Nokia)
- Telecom (Vodafone, Cosmote, Orange, Zapp/Telemobil, Romtelecom, RDS/RCS, UPC/Astral, GTS Telecom, Media Sat)
- Professional/Media (Media Pro, Ringier, Intact, Realitatea, Catavencu, Deloitte & Touche, Price Waterhouse Cooper, Leo Burnett, McCann Erickson, Ogilvy, Ernst & Young, KPMG Romania, Accenture, Genpact)
- FMCG (Danone, Friesland, Cadbury/ Kandia, Excellent, Kraft Foods, Heineken, Ursus Breweries, InBev Romania/Interbrew, Pepsi, Coca-Cola, Nestle, Ferrero, McDonald's, Unilever, Procter & Gamble, Henkel, Oriflame, Avon, Sarantis/Elmplant, Beiersdorf/Nivea, Farmec Romania, Colgate-Palmolive)
- Financial/banking (Raiffeisen Bank, Millennium Bank, BRD, BCR, ING, CEC Bank, Banc Post/Eurobank EFG, Banca Romaneasca, Alpha Bank, Credit Europe Bank, Unicredit Tiriatic Bank, Banca Transilvania)
- Pharmaceutical (Sensiblu, Help Net, Dona Pharmacies, A&D Pharma, Romastru/Wyeth, Bayer Romania, Zentiva/Sicomed, Glaxo Smith Kline (GSK), Ozone Laboratories, Pfizer, Roche Romania, Sanofi Aventis)
- Distribution/Retail (Carrefour, Auchan, Billa, Mega Image, Kaufland, Selgros, Real, Cora, Plus, Metro)
- Construction/building materials (Holcim, Lafarge, Cement Carpat/Heidelberg, Dufa Deutek, Policolor, Kober, Lasselsberger,

Cesarom, Fabryo)  
- Auto (Dacia, Renault, Romcar, Tiriatic Auto, Porsche Romania, Toyota, Automobile Bavaria, Iveco, Pro Truck, Mercedes)  
- Other Industries (Petrom, Rompetrol, OMV, Lukoil, MOL, JTI, Philip Morris, British American Tobacco (BAT)) [1]

### 4. Possible foreign answers to complex situations: solving inner-team problems applying organizational justice principles

Managers facing the actual economic context, in full global crisis and pushed by a fast growing competition generated by the globalization process, whatever the domain they are in, have similar to mostly the same issues. Human resources are the most precious resource a company have, because it can bring profit or can bring the company down.

This is why the managers have to keep in mind that maintaining a general positive climate at work can make employees forget, in part, that they are subject to wage, working hours or personnel reductions and strategies to do so can be very useful in getting the best of what employees can give, without demoralize them.

Next there are shown two possible practical situations and some possible answers to the above mentioned issues, from a foreign managerial point of view, based on organisational justice theories [2]:

1. What are your aims in resolving workplace conflict?

- To make it go away?
  - To keep it in-house?
  - To keep costs down?
  - To create an appropriate organizational culture?
- All the above?

*Justice theories and their principles:*

- Procedural justice (steps taken to resolve)
- Distributive justice (fairness of outcome)
- Interactional justice (being treated with dignity and respect)

These are complicated by *internal dynamics* of *interests, rights* and *power*. *Interests*: the desires and concerns which motivate people to bargain or fight for what they want.



*Rights:* predetermined standards such as entitlements, rules and laws.

*Power:* the ability to coerce, convince, threaten and take action to obtain one's target.

## 5. Study case: the Z Company Dispute

What are the points of conflict escalation here?

What are the costs involved in this conflict?

At Z Company, which is a mine, workers store their boots in trays on shelves at the entrance to the bathhouse. Miners cannot report for work without their boots.

Joe finds his boots are missing. This is common for miners due to a combination of theft and pranks.

Joe reports the matter to the supervisor who tells Joe that he will not be allowed to sign on for duty.

Joe is very angry about losing a day's pay and quickly gains support from his fellow workers by calling a snap strike. The company loses a day's production.

What can be done in such situations?

Organizational processes assist conflict resolution and consist of:

- A workable grievance procedure which does not contain too many steps;
- Trained supervisors and managers who are skilled enough to deal with the dispute or refer it to HR;
- Employees willing and motivated to use the formal grievance procedure instead of resorting to other means of resolution;
- HR evaluation of the internal dispute resolution system measured by:

1. Transaction Costs

These are the euro amounts incurred through salaries, delays, tribunal/court expenses.

2. Satisfaction with Outcomes

A measure of how much the resolution fulfilled the interests that began the conflict

3. Effect on relationships

A measure of how well the resolution leaves the relationship intact

4. Recurrence

A measure of the chance of the dispute occurring again

5. Justice

A measure of how well the resolution satisfied the elements of justice

*Procedural Justice*

- Focuses on the fairness of the dispute system process

- This has resulted in set of rules often referred to as the 'rule of law':

1. Charge is relayed to the accused in writing with detail

2. Accused has an opportunity to defend him/her self

3. Decision maker is neutral

4. Decision maker provides reasons for decision

*Distributive Justice*

- Focuses on the fairness of the distribution of a scarce resource

- We judge the fairness of distributions according to:

- Equality (all get the same)

- Equity (more goes to the greatest contributor)

- Need (more goes to the needy)

*Interactional Justice*

- Focuses on the fairness of treatment within the dispute system

- People who have been treated with respect and dignity tend to accept the outcome of the dispute even if it is not to their advantage

*The impact of justice on dispute outcomes:*

- Procedural justice is a powerful predictor of acceptance of the outcome

- Importantly interactional justice together with procedural justice predict acceptance of the outcome regardless of the type whether the outcome is favorable or not.

- Disputants who receive procedural and interactional justice are more likely to blame themselves for a poor decision.

- Disputants denied procedural and interactional justice will not accept the outcome if it is unfavorable and will distrust their managers whether the outcome is good or bad.

## 6. Study case: John

*Supervisor's report:*

I am the Manager of the Survey Team. We conduct and analyze all the market and feasibility surveys for the organization. It's a small team and we certainly depend on the good will and hard work from our team members. Three months ago, I was offered the services of a surplus employee, John, who had worked for 28 years in the trades' area as a manager. He had good general



office skills, some research and certainly, marketing skills. I was keen to expand the team and was very happy to take on John.

Shortly after joining the team, John developed a very antagonistic attitude towards me as his manager. I don't know whether he has a problem with working with a woman. I have counseled him, but he remained sullen and refused to really talk. He has stirred up a lot of trouble in the team, and I think he's spread a great deal of discontent.

He is also unreliable and he is often away ill. He is simply not working out, and my advice from senior management is that I cannot dismiss him.

*John's response*

"After 28 years with the trades section my whole career was destroyed by an arbitrary decision by management to close it down and outsource it. I cannot believe after all I've done for this place and for all the work I've put in, that this is the thanks I get. So, they told me that I won't be let go - that they had other jobs for people like me who were surplus to requirements. You know what they've got me doing? Clerical work. I've been a manager for 15 years and now I'm a clerk. Oh, they pay me the same money, but it's not the money is it?

I am just so angry. When I go to work, I can hardly think for being so angry and upset that my section got the boot and other areas, like this stupid survey team can still keep operating. Look at their budget and the returns they bring in. What a joke!" [3]

Organizations from all over the world, including Romanian ones, who create a sense of organizational justice will obtain the human capital rewards in improved motivation, retention and fewer employment lawsuits. Unfortunately, companies who don't, may find themselves in the situation of not only losing a competitive possible advantage, but even getting themselves in the situation they have to close down.

According to an American study from 2008, companies find themselves in great difficulty not only in retaining employee, but also in recruiting them. Difficulties in retaining high quality staff are the biggest concern companies face through globalization, according to a study by the Economist Intelligence Unit on behalf of business advisory firm EquaTerra. North American executives were found to be 12% more likely than European ones to cite globalization as a challenge to retaining skilled

staff. Western European executives found their primary challenge was funding expansion into new markets. [4]

One of the possible solutions, for Romanian managers, if they are willing to apply it, lays in the complex employer-employee relationship and the degree of trust they give to each other. Interactional justice within an organization can make the *real* difference, even when people are downsized or salaries are reduced. People tend to get more tolerant with these problems when they are treated with dignity and respect and kind of "all alike".

The ones that want to survive in actual crisis and globalization context has to take whatever measure necessary for their business to "breathe".

## 7. Conclusion

- The provision of organizational justice – particularly procedural and interactional – will enhance acceptance of dispute outcomes and should underpin all decision making processes including performance appraisal, recruitment and promotion interviews;
- Grievance procedures provide a structured approach to ensuring workplace justice but:
  - Supervisors and managers need training (in process and interactional justice)
  - Employees need encouragement to use the internal processes
- Grievance procedures should be reviewed to ensure *Transaction Costs* are low; that there is *Satisfaction with Outcomes*; that there are no negative *effects on relationships*, that *Recurrence* has not occurred and that *Justice* was delivered [5,6].

Figure 1. Romanian case study-higher education sample

Changes made in the organization	%
Budget cuts were made (professional development, marketing, research, rewards, etc.)	44.7
Bonuses were eliminated	30.5
Restructuring took place	30.2
Low wages	19.1
A number of employees/all personal is working part-time	9.0
Some staff entered technical unemployment	8.6
None of the above	30.2

Source: Daedalus Millward Brown and Catalyst Solutions  
Base: 1158 graduate of employees younger than 45 years

## 8. References

[1] Study "Employer of Choice" performed by Daedalus Millward Brown in collaboration with Catalyst Solutions, Romania, Bucharest, 2009

[2] Van Gramberg, B, "Managing Workplace Conflict ADR in Australian Workplaces", Federation Press, Sydney, Australia, 2006

[3] Ury, W.L., Brett, J.M. and Goldberg, S.B. "Getting Disputes Resolved: Designing Systems to Cut the Costs of Conflict", Jossey Bass, San Fransico, USA, 1988

[4] Folger, R., Cropanzo, R. "Organizational Justice and Human Resource Management", Sage Publications, California, USA, 1998

[5] Tyler, T. R. "The Psychology of Procedural Justice: A Test of the Group-value Model.", Journal of Personality and Social Psychology 57: 1989,pp.830-838

[6] Lind, E. A., "Fairness Heuristic Theory: Justice Judgements as Pivotal Cognitions in Organizational Relations." in "Advances in Organizational Justice", Eds. J. Greenberg and R. Cropanzano. Stanford, CA: Stanford University Press,2001,pp.56-88

# The Impact of Knowledge Management Systems Upon the University of Petroșani

Cucu Ioan

[cucuiosan2002@yahoo.fr](mailto:cucuiosan2002@yahoo.fr)

Isac Claudia

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

University of Petroșani

## Abstract

Applying corporate Knowledge Management principles in universities has already proven to be one of the best ways to increase the administrative efficiency of the institutions as well as support researchers and faculty. However, implementing such a system has its barriers, mostly due to the poor understanding of the concept (and its long-term benefits) and due to the unstructured, closed sharing policies. The paper tries to provide some insight into how universities position themselves in relationship with knowledge management and knowledge sharing concepts.

**Key words:** knowledge management system, Efficiency, barriers, sharing policies;

**JEL classification:** I21;

## 1. Introduction

Considering the concept of *knowledge*, we find it is defined as the sum of what it is known, the body of truths, information and principles held by mankind. Knowledge is directly linked to intellectual abilities but also to observation, experience, study and investigation.

*Knowledge Management* is a more recent concept that implies that collection, storing and distributing information in a company in a structured, organization manner, leads to the increase of efficiency of its processes. The many success-stories in the area of Knowledge Management and the increased use of technologies in business processes and business

administration are a strong basis for the development of the *Knowledge Economy* concept, where capital and natural resources are no longer the main production factors, being superseded by Information (or Knowledge).

Facing the challenges of the businesses environment is hard to speak of, but in order to have a higher growth rate than similar companies, every wild card should be used. Knowledge Management can be just such a wild card, helping businesses on many levels. Personnel turnover, for instance, is one of the main issues every company has to face. Recruiting, selecting and training new employees, as well as disruptions in the normal business processes cause high undesired costs.

In order to deal with it, several action can be taken: better employee motivation with specific human resources techniques, development of better company internal branding and corporate culture. Some voices even argue that this process is not entirely bad, as long as the best, most efficient employees don't leave the organization (the Applebees company in the USA is known to split its employees into three categories: very efficient - 20%, medium efficient - 60%, low efficiency and focuses its personnel retention efforts only on the first two categories) [9].

No matter how the issue is looked upon, turnover is a constant in every organization, thus new employees are constantly brought in. Their performances however, and their adaptation time is in direct link to the organisation's integration and knowledge management policies.

## 2. Implementing Knowledge Management Concept within Higher Education Institutions

Knowledge Management researchers and practitioners - [6]; [8] - have agreed on the importance of Knowledge Management Systems in organizations: it is important for organizations to “know what they know”, to provide their employees with a constant growing base of information *anytime-anywhere*.

A study published by the *Knowledge Management Magazine* and IDC [4], revealed that the main reasons of adopting Knowledge Management within American organisations are the following:

- Retain expertise of personnel (51.9%);
- Increase customer satisfaction (43.1%);
- Improve profits, grow revenues (37.5%);
- Support e-business initiatives (24.7%);
- Shorten product development cycles (23.0%);
- Provide project workspace (11.7%).

The same study shows that the primary business uses or domains of Knowledge Management are to:

- Capture and share best practices (77.7%);
- **Provide training, corporate learning (62.4%);**
- Manage customer relationships (58.0%);
- Deliver competitive intelligence (55.7%);
- Provide project workspace (31.4%);
- Manage legal, intellectual property (31.4%);
- Enhance web publishing (29.9%);
- Enhance supply chain management (20.1%);
- Other (5.5%).

Later studies - [1];[4] - have shown that **the impact Knowledge Management Systems** have on the overall efficiency of a business **can be replicated to universities** even if there are some differences in the management style and the organization mission itself. However, researchers found there are important opportunities to implement Knowledge Management Systems to support every aspect of their activity: „Knowledge Management should not strike higher education institutions as a radically new idea; rather it is a new spin on their *raison d’être*” [3].

Another important finding is that the social dimension of Knowledge Management Systems – represented mainly by communication and

collaboration patterns and practices (or in the terms of KM – *knowledge sharing* patterns and practices) has a great importance in the success of implementing such a system, sometimes exceeding the importance of the other components such as hardware or software. In many cases, although collaboration – as a process where two or more people who share a common goal work together, share knowledge, exchange ideas and build a unitary result [7] is widely accepted as the most efficient method for creating value, some important barriers of knowledge sharing arise leading to the creation of *non-collaborative* environments.

## 3. Study regarding Knowledge Management and Knowledge Sharing within the University of Petroșani

The current situation regarding Knowledge Sharing was assessed based on a small survey conducted among the members of the Computer Science department at the “University of Petroșani”. The questionnaire based study was run on all the members of the department thus making its results reliable and representative.

The questionnaire comprised of several themes spread through 20 questions and shows, among other aspects, the degree in which respondents know the concept of Knowledge Management, how they see its importance for an organization and some variables that assess the knowledge sharing practices: the number of articles / books or other type of research offered to colleagues and the number of article / books or other type of research received from colleagues.

The findings are as follows:

- On the first theme – **Knowledge Management concept awareness** - we found that only 50% of respondents know what KM implies. Looking further, at the level of understanding respondents claim to have, 50% of the respondents that know what Knowledge Management means (25% of all respondents) have a basic knowledge of the concept and 50% (or 25% of all respondents) have a medium knowledge of the concept. None of the respondents claimed have a good understanding of the concept through study and/or practical experience. Another related finding was the importance of the sub-group respondents were part of: Mathematics group

to and Informatics group. The findings show that the respondents from the Informatics group have more knowledge regarding Knowledge Management Systems than the Mathematics group: 71.4 % to 20% (the 50% average is achieved because the Informatics group is slightly larger than the Mathematics group). Interesting was also the fact that age does not seem to have an effect on Knowledge Management awareness, the answers being spread evenly among the three age intervals proposed: under 25 – 40, 41 – 55 and over 55;

- Considering *the importance of Knowledge Management Systems in the University*, the findings show a “positive feedback” with 25% of respondents choosing “useful” and 25% of respondents choosing “very useful”. 50% were missing answers, since those respondents do not know the concept of KM thus cannot have an opinion regarding its importance. Another interesting aspect is the tendency to give more weight to KM Systems as the personal knowledge of the concept increases (the Spearman and Pearson correlations show a direct connection even if it is only a medium connection);
- Furthermore, considering *the agreement to implement a Knowledge Management System in the university* and also the agreement to help in such an implementation, we found that no respondent is against it: 67% are positive towards it, while 33% can't answer / don't know. Moreover, 58% of respondents agree to help in an implementation project even though most of them (43%) only offer a couple of hours each week;
- Regarding *Knowledge Management barriers*, from the 50% that answered the question we found that 83% consider there will be difficulties for the implementation of KM Systems with the main one being the difficulty to change existing mindsets and systems (60% of the respondents who answered there could be problems). Other barriers were lack of time (20%) and poor communication (20%). The age of the respondents came into effect here, but in a awkward way: most of the respondents over 40 years old didn't answer the question (either because they don't know what KM is, either because there are not sure regarding problems

that may arise), while most of the respondents under 40 said there will be some barriers. That basically implies that the younger respondents believe that the current mindset will be the most difficult thing to overcome and that this is mostly due to their older colleagues. However, we would like to underline a limitation of our study in this aspect – the fact that 75% of respondents were in one age category. Further inquiry is necessary, including rearranging the age intervals;

- *Communication and overall collaboration and appreciation among colleagues* is another aspect we tried to asses. First, we asked the respondents to name three of their colleagues and their taught subject, with the professor-subject association being our main interest. Only 58% of the respondents could name all three and 16% named only two. Some (8.3%) could not make any correct professor – subject association and some made only one correct association. When analysing the mentioned professors we found that the most named professor was the newly appointed head of department and the second most named professor was the head of the International Relations department – which could imply that formal power is an important aspect of the respondents' mentality. When looking at this issue while considering the two groups we found that 90% of answers from the mathematics group named other professors in the mathematics group (and 10% from the informatics group) while 80% of answers from the informatics group named professors in the same group. This shows that group belonging is still highly important and more important for the mathematicians, mathematics being the older of the two groups. The other ways we tried to assess communication and collaboration was to ask the respondents to name five of their colleagues and their research interests and also five colleagues and their extracurricular activities. The findings show no profound communication practices: only 50% could name five professor – research association and most of respondents (58%) could not name at least one extracurricular activity of their colleagues;

- Regarding *Knowledge Sharing*, most respondents (90%) said they have received 0-5 books or articles from colleagues and all respondents admit to not having written any review for books / articles of colleagues. What we found to be intriguing is a contradiction between received books and articles and offered books and articles: 50% of respondents considered they did offer some of their work to colleagues (25% consider they offered 10-25% of their work and 25% consider they have offered over more than 50% of their work). While we cannot at this point be sure of all the reasons that led to this contradiction, we can imply a certain lack of structure: while some might have received papers from colleagues, they didn't find the time to read them, or even forgot about receiving them; on the other side some might have had the intent to offer some works to colleagues but didn't actually do so. Another aspect we take into account is the difference in scale: while the first question had a value based scale (0 to 5 articles, 5 to 10 and so on), the second had a percent based scale (0-10%) that could fit in some specific contexts. The percent based scale was chosen because of the need to determine not only the actual number of papers offered by respondents to their colleagues, but also (and more importantly) the degree of openness – what that number represents (10% of 5 papers is different than 10% of 50 papers). We are considering some change for the scale of these questions and even adding more questions or an in-depth interview to better evaluate the sharing policies;

- The last issue that we wanted to determine is *how respondents consider their colleagues' abilities as teachers and researchers as well as how they see themselves in relation to their colleagues*. The findings show a slight positive feedback: most of the respondents (54%) consider that the general level is “good” (on a scale consisting in below average, average, good, very good), while 36% consider the level as “average” and 10% as “under average”. Considering their relation to their colleagues, have more 30% consider themselves to be better than the average of their colleagues and 70% respondents who consider themselves better expectations thus they see the general

level lower. This finding could be another factor to take into account in relation to the non-collaborative environment: lack of knowledge is considered one of important barriers towards knowledge sharing (as shown by [2]).

#### 4. Conclusion and Future Work

As paradigms on knowledge and knowledge creation shifted from the academic world towards corporations and other professional organisations [1] and with the impact of Globalization that led to “education being regarded as a commercial product, governed essentially by market forces” [5], universities in developing countries found themselves in a strong competition both on a national and on an international level.

Considering this tendency, conclusion of the study and observations made below, it is safe to say that the competition between organisations duplicated to a competition inside each organisation, where employees compete for acknowledgement, better positions and increased revenues. Personal interests still carry the most weight and when competitive advantages are based on personal knowledge – such as in the case of universities, *knowledge sharing* is less embraced.

Our future work aims to pursue two different aspects: the first aims to extend the study to partner universities, to establish the existence of knowledge sharing patterns (or lack thereof) in Romanian universities; the second will attempt to bypass the knowledge sharing barriers and implement a Knowledge Management System at the University of Petroșani.

## 5. References

- [1] Bleiklie, Ivar, Byrkjeflot, Haldor, “Changing Knowledge Regimes: Universities in a New Research Environment”, *Higher Education*, Volume 44, No.3-4, Springer Netherlands, 2002, pp. 519–532
- [2] Hew, Khe Foon, Hara, Noriko, “Empirical Study of Motivators and Barriers of Teacher Online Knowledge Sharing”, *Association for Educational Communications and Technology*, published online on <http://www.springerlink.com>, 2007
- [3] Kidwell, Jillinda J., Vander Linde Karen, Johnson, Sandra L., “Applying Corporate Knowledge Management Practices in Higher Education”, *Educause Quarterly*, Vol. 23, No. 4/2000, pp. 28-33
- [4] Milam, John H., “Knowledge Management for Higher Education”, *ERIC DIGEST*, published on <http://www.eric.ed.gov/>, 2001
- [5] Madanmohan, Rao, “Knowledge Management Tools and Techniques: Practitioners and Experts Evaluate KM Solutions”, Oxford, UK: Elsevier Butterworth–Heinemann, 2005
- [6] Mohamedbhai, Goolam (2007), “Globalization and Its Implications on Universities in Developing Countries” in G. Breton and M. Lambert, Eds. *Universities and Globalisation: Private Linkages, Public Trusts*, Paris: UNESCO/Université Laval/Economica, 2007
- [7] Schrage, Michael, “No More Teams! Mastering the Dynamics of Creative Collaboration”, DoubleDay, 1995.
- [8] Shein, E., “Case Study: Frito-Lay Sales Force Sells More Through Information Collaboration”, available online at: [http://www.cio.com/article/30167/Case\\_Study\\_Frito\\_Lay\\_Sales\\_Force\\_Sells\\_More\\_Through\\_Information\\_Collaboration./1](http://www.cio.com/article/30167/Case_Study_Frito_Lay_Sales_Force_Sells_More_Through_Information_Collaboration./1), 2001
- [9] [http://www.mentorhr.ro/articole/toolbox/costuri\\_fluctuatie\\_personal](http://www.mentorhr.ro/articole/toolbox/costuri_fluctuatie_personal), 2005

## Strategy Making through Innovation

Cureteanu Radu

*Universitatea Aurel Vlaicu Arad*  
*rcureteanu@uav.ro*

Isac Florin

*Universitatea Aurel Vlaicu Arad*  
*florinlucian.isac@gmail.com*

Rusu Sergiu

*Universitatea Aurel Vlaicu Arad*  
*sergiurusu@yahoo.com*

### Abstract

This article is about company's approach to innovation and how innovation could contribute to a useful strategy making. It is hard to open a business publication without finding optimistic articles on successful innovators. The message usually is, "innovators win" and it's reverberating in nearly every management suite. However, in companies that don't have a history of innovation, have made it primarily an R&D issue, or are struggling to make their innovation efforts pay off, executives need specific guidance on how to tailor a successful innovation strategy to their individual company situation.

**Key words:** innovation, useful strategy, R&D;

**JEL classification:** O30;

### 1. Beliefs about innovation

Some time ago, most executives viewed innovation as matter of coming up with new products or services, which was primarily the job of the company's R&D department. If pressed, they would have likely maintained that breakthrough innovations – innovations that significantly change customer expectations, the basis for competitive advantage, or industry economics – were either the result of dumb luck, or originated with a visionary leader like Steve Jobs, Richard Branson or Akio Morita [2].

But such views of innovation have become

obsolete. Drivers such as globalization, the blurring of industry boundaries, the explosion in the availability and accessibility of information, the increasing dispersion of knowledge, and the growing use of alliances and partnerships have dramatically shifted the landscape of innovation. As a result it is urgent that companies re-examine their assumptions about innovation and purge three common obsolete ideas [7]:

- Innovation is all about coming up with new products and services. New products and services are still vital to growth. But there are several other ways in which companies can innovate. Leaders need to ask themselves what new customers they might serve and what these customers need, how they might configure their value chain differently, and what alternative economic model they might use.
- Innovation is solely the job of the R&D department. Research and development are always important in innovation. But every group inside the company and beyond it – such as partners, customers and suppliers – need to be involved as well if you want to find opportunities to innovate that will produce competitive advantage.
- Breakthrough innovation occurs only through luck or a stroke of genius from a visionary leader. Luck is good and having an innovative genius leading your company is wonderful. But the majority of companies can't rely on either. So they



need to design and implement a systematic innovation process to maximize the chances that they will identify and take to market new profitable opportunities time and time again.

## 2. Design your innovation program

Once you are willing to challenge these three obsolete assumptions, you are ready to start designing your innovation program. A simple way to organize your thinking and actions about innovation involves challenging each outdated assumption by asking three key questions: What is the purpose of innovation? Who should be responsible for innovation? How do you innovate? The “what” of innovation: from product/service to business model [3].

## 3. The “who” of innovation

If members of a company’s R&D department aren’t the only people who should be involved in innovation, who else should be? The answer is two-fold: most functions, levels, business units, and geographies within the company have an important role to play; and outsiders to the company should get involved as well.

The *how* of innovation: from serendipity to systematic process. If it is systematic, it can’t possibly be creative! This is another obsolete idea, and one that successful innovators have overturned, as evidenced by the results of some surveys. It found that firms that had an established innovation process out-innovated firms that didn’t. An innovation process is critical to bring structure to a fundamentally unstructured activity without a process to bring order to the chaos this money is wasted.

The trick is not to let the process get in the way of the creativity of the participants – to use “disciplined imagination”. The simplest way to do this is to adopt an innovation process that allows for several successive phases of divergence and convergence. In each divergent phase, the emphasis is on exploration. In each convergent phase, the focus is on making choices and decisions [6].

In the first phase (discovery), the exploration (divergent) step aims at developing a wealth of new insights about the world and the company. The focus (convergent) step aims at selecting the ones that are the most compelling and the most likely to be of help in generating new

opportunities. In the second phase (opportunity generation), the objective of the divergent step is to generate lots of new ideas about what the company might do differently, while the convergent step focuses on selecting the most compelling ones. In the third phase (realization), the objective of the divergent step is to explore alternative business models for bringing to market the ideas that have been selected by running focused marketplace experiments. In the convergent step, a decision is made on the most appropriate business model for actually going to market and eventually scaling up the idea into a full-fledged business.

## 4. Initiative deadfalls

Companies that overcome obsolete attitudes and concepts about innovation and adopt the innovation architecture to organize their efforts will be well on their way to rejuvenating their innovation engine. Experience indicates, however, that there are a number of serious missteps that can trip up your program. While the obstacles executives encounter obviously varies from company to company, here are some of the most common ones we have seen, and ways to avoid them [4].

1. Overly relying on customers to find solutions. Meeting unsatisfied customer needs is the ultimate rule for successful innovation, but often customers have difficulty expressing what their needs are – let alone how to meet them. Often they can only convey a preference among current options. So observing customers in their own setting is essential for understanding their unsatisfied and unarticulated needs.

2. Generating ideas without new insights. People often equate idea generating with getting a group of people in a room in front of a set of blank flip charts. However, it’s incredibly difficult to generate useful new ideas without appropriate stimulus. So instead of asking “what new opportunities might we pursue?”, focus your team’s thinking on the ways in which you might identify and overturn your company’s obsolete assumptions, identify and serve unmet customer needs, recognize and take advantage of major external changes, leverage your core competences in new ways

– or better yet, do several of these things simultaneously.

3. Assuming that innovation is about making a few “big bets”. Many think innovation is inherently risky and always involves making big bets on unproven concepts. But most of the risks can be reduced by systematically testing the key questions about a new opportunity using focused experiments in the marketplace. This testing process provides initial answers to such questions as: Will target customers like the offering? Can we deliver on the value proposition? Can we construct a viable economic model that will make us money? And can we create sustainable competitive barriers?

4. Failing to give innovators time, training and tools. Some companies wrongly assume their employees can immediately become innovative when their bosses send out the marching orders. In the late 1990s, a leading industrial equipment manufacturer gave an internal team the mandate to come up with innovations that would help it maintain its leadership position during the next decade. When the expected results didn’t come in, the team was asked to diagnose why. They found that team members had been provided little training in innovation best practices, had been given few tools to facilitate their work, and were spending only 5-10 percent of their time on the effort. We told the executive team that unless they were prepared to do it right, they should kill the initiative. To its credit, the executive team accepted the feedback, devoted the necessary resources, and moved forward with a program that was ultimately very successful.

5. Confusing “involving many people” with “making it a free for all.” Involving many diverse groups from inside and outside of the company is key to generating interesting new ideas. But some companies make one or more of three mistakes. Some enjoy the diverging part of the process so much that they keep on creating lots of ideas – but then they forget to converge and select, and therefore never get anywhere. Others assume that any good idea is a good idea for them, when in effect some ideas might be better implemented by another company. Others let the people involved in the innovation process make all the decisions through a democratic vote – but executives should never abdicate their ultimate decision-making responsibility, even to promote wider involvement.

6. Letting a systematic innovation process become bureaucratic. There is enormous merit,

as described above, in adopting a disciplined innovation approach with a clear process, roles and responsibilities, due dates and the like. But sometimes, an overly eager project manager intent on making sure that everything gets done on schedule will let the calendar take precedence over the content and the quality of the outputs.

A consumer packaged goods company was working on developing a launch plan for a new concept that had passed the initial screen. As team members diligently followed the prescribed process, they discovered that the original customer research did not contain sufficient information to inform some intricate product design choices. Facing the prospects of missing the launch timetable that they had committed to, the team decided to launch the product without conducting additional research. As a result, the product was poorly received – a clear example of internal deadlines overcoming common sense.

7. Failing to insist on sufficient involvement from the executive group. When a large and diverse group engages in the innovation process, it’s tempting for top executives to postpone their involvement until they need to make decisions. If that happens, the innovation team needs to draw the executive team into the process, and to refuse to move forward if it doesn’t succeed. Otherwise, when the time arrives to start investing in the recommendations of the innovation team, the executives won’t understand the rationale for the investments and will either veto the recommendations or force the team to waste enormous amounts of time “replaying the movie” from the beginning.

## 5. Starting the initiative

That innovation is an unavoidable imperative is no longer in doubt. That innovation can be achieved by any company that sets its mind to it and implements a systematic innovation process has been demonstrated by the success of many firms – large and small, high tech and low tech, selling products or services, based in developed and developing countries. The key issue for executives is to figure out how to get an innovation effort with a high likelihood of success started in their

companies [5].

As a first step, use the innovation architecture to organize your innovation efforts. Determine who should be involved – erring on the side of broad engagement and remembering that in every company, imagination and creativity are randomly distributed; train the team you have assembled in the what (business model) and the how (systematic innovation process). Free up enough of their time so they can be effective, and warn them of the pitfalls they are likely to encounter.

Then, send them off on their discovery mission. Ask them to address new questions that typical planning or innovation processes don't address. In this phase these are: What are the outdated assumptions that we have (and that our competitors may well have as well) about our business that we might consider overturning? What are the unarticulated needs of our customers, and as importantly of our non-customers? What discontinuous changes are about to occur in the environment that we might be able to capitalize upon? What true core competencies does our company have that we might be able to leverage in different ways? And once they come back to you with answers to these questions, have them move to two by generating ideas that capitalize on the insights generated during the first phase [1].

As importantly, get and stay involved in the process as a coach, resource and sounding board – but not as a traditional reviewer or as a doubting one. Based on experience, you will be pleasantly surprised by the results.

## 6. References

- [1] Baranano A.M., What do managers know and what do they need to know? European Journal of Business Education, 2001
- [2] Cameron K.S., Positive Leadership: Strategies for Extraordinary Performance, Berrett-Koehler Publishers, 2008
- [3] Cureteanu R., Organizarea inovativă, Editura Universității „Aurel Vlaicu” Arad, 2009
- [4] Harari O., Break From the Pack: How to Compete in a Copycat Economy, FT Press 2006
- [5] Ionescu Gh., Marketizarea, Democratizarea Și Etica Afacerilor, Ed. Economică, București, 2005
- [6] Isac F.L., Cultură, Leadership și Motivație în Organizații, Ed. Mirton, Timișoara, 2007
- [7] Thierauf R.J., Optimal Knowledge Management: Wisdom Management Systems Concepts and Applications, Idea Group Publishing, Hershey, 2006

## Managing Intelligence Teams

Cureteanu Radu

*Universitatea Aurel Vlaicu Arad*  
*rcureteanu@uav.ro*

Rusu Sergiu

*Universitatea Aurel Vlaicu Arad*  
*sergiurusu@yahoo.com*

Isac Florin

*Universitatea Aurel Vlaicu Arad*  
*florinlucian.isac@gmail.com*

### Abstract

This article describes how top firms structure their intelligence teams, how the teams operate, and how they contribute to strategy making. Every business confronts some set of crucial business issues and strategic decisions, a unique combination of specific competitive changes that needs to be explored and specific choices that must be made. Each business issue or strategic decision must be supported by vital, forward-looking intelligence. For the corporate leaders and intelligence professionals, the challenge always is to understand the potential turbulence inherent in the relevant competitive or marketplace environment.

**Key words:** intelligence team, top firms, strategic decisions, marketplace environment;

**JEL classification:** M54; I29;

### 1. What intelligence teams do

An intelligence team is a group of individuals who work together to develop a deep understanding of a specific business issue with the intent of developing strategy-relevant insights, action possibilities, and recommendations. Based on our work across many organizations, intelligence teams designed to address core intelligence

challenges share a number of attributes. Team members are drawn from diverse functional departments or organizational units. They are typically headed by an intelligence professional whose dominant charge is to ensure that the team not only works efficiently and effectively but that it generates insights that add significant value to decision making. [7]

Intelligence teams almost always consist of both core and transient members. Core members assume responsibility for the team's process and outputs and typically include one or more intelligence professionals who manage the analysis process and ensure that the outputs support decision making. Transient members contribute specific knowledge or expertise at a particular point in the analysis and serve the role of connecting the team to key decision makers or external sources of information. Intelligence teams are charged with identifying and analyzing potential discontinuities in specific technologies, key transient members included external technology experts who were invited to participate in the middle stages of the team's work.

## 2. The focus of their work

Intelligence teams are not required for all facets of a firm's intelligence work. Firms create intelligence teams to address the "big" intelligence challenges. Executives and intelligence professionals thus must address an unavoidable question: What issues and decisions give rise to intelligence challenges that warrant the creation of an intelligence team? Answering this central question, we need guidelines that aim to weed out intelligence challenges that might seem to merit the team approach but actually do not.

Intelligence challenges that do warrant the team approach are simply too complex, ill-structured and substantial to be comprehensively and systematically addressed by just one or two individuals. Exploring likely developmental paths of alternative energy sources or possible strategic shifts by rivals in response to emerging technological discontinuities – two intelligence challenges being considered by a large industrial products firm – illustrate the need for a team dedicated to thinking broadly and digging deeply in domains that may be unfamiliar to the organization and characterized by multiple uncertainties. [3]

Here are some guidelines that aim to create broad-based teams with the requisite analysis capabilities:

**Executive involvement.** The executive "users" or "clients" the individuals who most need to learn from the intelligence and deploy its outputs in decision making must be, directly or indirectly, centrally involved in the intelligence team. Serving either as core or peripheral team members, they introduce key questions and challenges into the team's deliberations and learn first-hand the nature, extent and implications of the relevant uncertainties. Seasoned intelligence professionals leading a team can "manage" the well-known tendencies of executives to look for evidence to support their predetermined conclusions, to shorten the analysis process at the expense of considering multiple points of view, and to accept the first plausible "answers" to the intelligence challenge.

**Breadth of data inputs.** Never allow a team to be dominated by representatives of one functional unit or department. Individuals drawn from multiple areas contribute diverse data inputs: access to departmental data bases, secondary sources and prior analysis; data

obtained through their unique access to external sources; questions specific to their functional expertise; and enhanced ability to gather additional data inputs through interviews (e.g. customers and channels) and secondary data searches.

**Diversity of perspectives.** Insights are more likely when team members bring distinctly different perspectives to exploring an issue, identifying preliminary findings, specifying tentative assumptions or challenging emerging points of view. Thus, it is often necessary to choose one or more team members who are known for their willingness to challenge the conventional wisdom or who can develop and sustain constructive tension in the early stages of idea development and hypotheses generation.

**Range of analytical skills.** If appropriately structured, a team can deploy many analysis frameworks to make its way through the analytics of any intelligence challenge. The uncertainties that must be addressed in most marketplace issues, for example, rivals' changing strategies or technological shifts, require many different forms of skills and expertise.

**Managing the team: shaping the team context.** Intelligence team members –like any other type of team – may suffer the usual forms of distraction that can easily inhibit the emergence of a committed and smoothly functioning team. They report to other masters; they may not fully understand the potential organizational benefits of the intelligence project; they may feel that there is little benefit in the project for their own unit or department. Thus, rare is the intelligence team that comes together "naturally". In short, the context for an intelligence team must be shaped with great care if the team is to be something more than simply a set of individuals coming together to complete a task only because they have been asked to do so.

Here are three elements that when addressed as a group, establish a context for an intelligence team. [2]

**Shape the strategy stakes.** Make explicit that surmounting the intelligence challenge will contribute significantly to specific strategic and operational goals. Reconfiguring the strategy to avoid further loss of key accounts, or stated positively, to

build the “customer value proposition platform” made it clear that the stakes inherent in the intelligence work were of the utmost importance to the organization. Some organizations use a kick-off meeting as a forum for one or more senior executives to express how and why the intelligence project is central to strategy making.

Establish the intelligence charge. Often it is necessary to emphasize that all facets of the intelligence challenge are “on the table”; nothing is to be short-changed, downplayed or delayed. The executive team declared that no aspect of the firm’s prior strategy should escape analysis and any factor that influenced customers’ buying processes and predispositions should be investigated. The firm’s “sacred cows” and non-discussable issues, including its assumptions about how to do business in this key product segment and the reasons why customers traditionally bought from it, should be “put on the table”.

Create the executive platform. Intelligence teams become energized when there is an explicit expectation that the team will present its work to decision makers. Senior executives informed the intelligence team that it would present preliminary outputs to the monthly executive meeting, and the final outputs would be presented to all functional groups and to a specially designed session with the strategic planning group.

Managing the teams. Executives often lament that intelligence teams take too long to develop valuable outputs – outputs that feed directly into decision making. A common complaint is that the intelligence team becomes bogged down in its own processes. Upon investigation, what we usually find is that the team actually did not have an established analysis process and thus had no generally accepted team guidelines for collecting and transforming data into fast, insightful outputs.

Analysis intent. A succinct one- or two-sentence declaration of analysis intent focuses all members of the intelligence team on what needs to be accomplished.

However, as with all things in the case of intelligence teams, analysis intent may be a moving target. As team members dig deeper into the competitive context, learn more about the relative capabilities and competencies of their own organization, and become more comfortable with their collective analysis prowess, they may choose to extend and refine both the scope and

the intent of the analysis. [5]

Test leveragability of potential results. Analysis intent, by itself, does not indicate whether, and/or how, specific “findings” or “insights” can be leveraged by the organization. Although analysis intent always suggests likely or potential results (that is, findings and insights), rare is the intelligence team that will be able to anticipate all the results of its work.

Emphasize insights. Analysis intent and leveragability of potential results are both influenced sooner rather than later if from the outset the intelligence team emphasizes insights as the key analysis output rather than simply developing “data dumps”. Insight typically involves new understanding of a context or situation. Thus, attention to insights compels the team to address explanations of a context or situation rather than just describing or delineating it.

Intelligence team members can enhance both the quality and speed of the analysis process when they develop, communicate and test insights with each other once they have begun to collect and share data. Stated more emphatically, insight derivation should not be postponed until all or most data has been collected. [6]

Develop early inferences. Teams reach insights faster when they establish the following operating norm as a core feature of analysis process: draw inferences early in data gathering and test them with fellow team members. Once they conducted interviews with individual customers and with industry experts, team members developed specific inferences about what was causing customers to shift their specifications of the desired solution, why some competitors were responding faster than others to the changing needs, and why their own firm appeared oblivious to a shift in the internal dynamics within a number of customers.

Integrate alternative views. Central to the rationale and process of intelligence teams is the ability to generate and integrate alternative frames of reference or “views” into the analysis process. Alternative perspectives serve as the antidote to group think, the scourge of analysis in all organizations. Where group think prevails, the intelligence team loses its vitality; and it

is not likely to generate genuinely new insights.

Alternative views can be integrated into the team's work in multiple ways. Team members can adopt the perspective of customers, channels, suppliers, governmental agencies, current rivals, potential new entrants or even substitute product rivals. Sometimes these perspectives involve role playing – such as when the analysis intent is to anticipate and project rivals' likely strategic moves, or how a prospective new entrant might enter the market, or how our own firm might respond to rivals' incremental or radical strategy shifts.

Many intelligence teams formalize such role playing in war gaming, competitor profiling, scenarios, and even computer-based simulations. [1]

Because of the inherent uncertainty and ambiguity of the business issues and contexts they address, some intelligence teams find it necessary to identify distinctly different assumptions and then to test and refine those assumptions as a core element of its analysis process. Such alternative assumptions formalize the integration of alternative perspectives into the team's deliberations. One intelligence team analyzing the anticipated emergence of new products developed alternative assumptions around the source and speed of new product introductions. Some assumptions: products would emerge from traditional rivals or "new" rivals, they would appear in large or small volumes, and they would penetrate the market slowly or more rapidly. The alternative assumption sets allowed the team to identify distinctly different strategy implications and to present each set of strategy considerations to the management team for separate discussion. [4]

### 3. Intelligence team applications

**Competitive strategy development.** An intelligence team analyzes and projects a specific competitor's marketplace strategy, leading to the formulation of a strategy to compete with that competitor.

**Strategic planning.** An intelligence team identifies and assesses key assumptions with respect to the current and emerging competitive context. The intent is to ensure that the firm's strategic plan is tested against critical assumptions and that those assumptions are monitored to indicate as early as possible to need to adapt the plan to changing external

circumstances.

**Major investment decisions.** An intelligence team identifies alternative choices and likely competitor responses to investment plans associated with new plant construction or key technology programs new product introductions. The intelligence team serves as a competitor surrogate to "test" the roll-out plan's effectiveness.

**Technology assessment and monitoring.** Intelligence teams are used to assess the current state-of-technology – particularly the competitors' – in a given industry, projecting its likely future development and market introduction. The intelligence team continues to monitor the technology's progress, including competitors' R&D programs, so that you can decide whether your own technology program needs more resources or funding to ensure your R&D efforts are successful.

**Supporting sales and marketing efforts.** An intelligence team analyzes key marketplace trends in order to provide "tactical intelligence" and advice to sales teams as they prepare for client calls and to shape subsequent "offerings".

**Major program/project bids.** Intelligence teams play the role of competitors' in preparing and making large contract bids. Such efforts are used to shape and strategize such bids.

**Win/loss assessments.** An intelligence team prepares and executes win-loss analysis after the results of major contracts are announced. The intent is to better understand competitor bidding strategies and thus develop solutions more likely to win in the next contract process.

**Competitive benchmarking.** Intelligence teams are ideal for planning and conducting product and process benchmarking, especially when it involves current or potential competitors.

**Merger and acquisition activities.** Intelligence teams play a critical support role in merger and acquisition efforts. They help ensure the merger and acquisition Team is not blind-sided or out-manoeuvred by competing bids from either existing competitors or new firms intending on using the acquisition to enter the firm's markets. [8]

#### 4. In sum

Intelligence teams help ensure that intelligence about external realities is not only insightful but relevant and useful to a range of critical business decisions and actions. They enable learning that takes individuals out of the comfort zone of their specific positions and functional units. Increasingly, they are viewed as ideal platforms for individuals up and down the organization to develop analysis skills and substantive expertise that will be helpful to them as they rise in the organizational hierarchy.

#### 5. References

[1] Aronson M., *Bill Gates (Up Close)*, Ed. Viking Juvenile, 2008

[2] Baschab J., Piot J., Carr N., *The Executive's Guide to Information Technology*, ed. Wiley; 2 edition, 2007

[3] Cureteanu R., *Organizarea inovativă*, Editura Universității „Aurel Vlaicu” Arad, 2009

[4] Ionescu, Gh., *Cultura organizațională și managementul tranziției*, Editura Economică, București, 2001

[5] Isac F.L., *Comportamentul consumatorului, ediție revizuită și adăugită*, Ed. Mirton, Timișoara, 2009

[6] Rainer K., Turban E., *Introduction to Information Systems: Supporting and Transforming Business*, Ed. Wiley, 2008

[7] Tsoukas H., *Complex Knowledge: Studies in Organizational Epistemology*, Oxford University Press, 2005

[8] Weggeman M., *Lead professionals: The cashing of creativity*, Editura Kluwer Bedrijfswetenschappen, 2002



## Future Exigencies Regarding the Necessity of Reorganization of the “CN CFR” National Society

Dăneci-Pătrău Daniel  
Universitatea Spiru Haret  
danusidenima2@yahoo.com

### Abstract

The expansion of the societies' activity, internationally, suppose the development of the business complexity they produce and especially the expansion and the diversification of the instruments of the human resources management that they use to administrate cultural, economic, social, political and institutional variables which influence their activity in each country. All these evolutions determine the rethinking of the human resources strategic role at the organization level, people being considered the main competitive advantage they possess. A railway transportation system is seen, in most countries as an essential precondition for the overall economic development and for this especially, they allocate considerable amounts of resources for the construction and the improvement of the railway, but also to streamline and optimize the human resources system.

In this article, I presented the objectives and the principles of reorganization of the “CN CFR SA” National Society taking into account the SWOT analysis of the activity of the railway infrastructure and exigencies at present and in perspective regarding the human resources management in the railway transportation in Romania.

**Key words:** CFR Romania, railway activity, human resources role.

**JEL classification:** R49;

### 1. Introduction

Railway management has as purpose the maintenance and the improvement of the existent railway network, to allow its continuous use, through commercial exploitation of the traffic in an efficient and secure way. In addition, adequate management has to take in consideration the problems concerning the

productivity and the efficiency of the human resources use. The railway management can be seen as a process that tries to optimize the general performance of the management of the railway network over time [4]. The railway transportation effects are important; it is an essential component of the economic and social development process often absorbing a great proportion of national budgets. There is a strong correlation between the kilometers made and GDP. This fact helps the development through the trade facilitation, nationally and internationally too, improving population access to jobs, education, health care and other services.

The work relation is a characteristic element in all human resources management aspects. At its elementary level, the work relationship is given by a singular combination of convictions adopted by an individual and his employer regarding to what they expect one from another. The term ‘work relationship’ describes the relationship that existed between employers and employees at job. These relationships can be formal, as work agreements, procedure agreements or they can be informal, for example psychological agreement, which express certain presuppositions and expectations about what they have to offer and are willing to efficiently bring the managers and the employees [2]. Rousseau and Wade-Benzoni make distinctions between two types of agreements that define the work relationships namely: *transactional agreements*- they have conditions regarding the exchange between well defined parties expressed in financial terms; they have a limited duration and specified requirements about performance and *relational contracts* - are less precisely defined, in terms more abstract and refer to a negotiable quality of an organization member [3]. Performance requirements added to the continuous negotiable quality of organization member are incomplete or ambiguously formulated.

Work relationships can also be expressed in terms of psychological agreements, which after Guzzo and Noonan have both transactional traits and relational characteristics [1]. The concept of psychological agreement expresses the idea that, at its level or at the most basic level, the work relationship consists of a unique combination of beliefs that an individual and his employer have in connection to what each expects from each other.

The concept of work relationships is important for the staff specialist inside the railway transportation society because it governs most of what they have to know and to take in consideration the company the moment when the latter elaborate and apply human resources processes, politics and procedures. All these have to be considered in terms of contribution that they can or cannot engage in the development of a productive and satisfying work relationship between the parties involved.

## **2. The current situation of CFR SA National Society**

The railway infrastructure management, public or private property of the state is assured in Romania by the Railway National Society, "CFR" SA. The society has the statute of a commercial society on shares and it develops businesses of a national public interest, with the purpose of carrying out the public railway transportation, having as main objective:

- The railway infrastructure management and making it available to rail carriers, according to law;
- The development and modernization of railway infrastructure in Romania in line with European standards to ensure compatibility and interoperability of European railway transportation;
- The leadership, organization, planning, coordination and control of exploitation, maintenance and repair activities of the railway infrastructure.

By achieving its objective, "CFR" ensures the carrying out of public railway transportation for passengers, merchandises and other goods, under transportation agreement with the purpose of satisfying the public, social and defense interest. The public railway transportation is organized and carried out on trade market principles. The "CFR" society manages the Romanian railway infrastructure, public property of the state and it

possesses the goods it endows and those acquired in its own name with any title.

The organizational structure of "CFR" society is established on several levels, namely: the society's management, synthesis central management, the regional level (8 regional branches: Bucharest, Craiova, Timisoara, Cluj, Brasov, Iasi, Galati and Constanta) and the basic subunits. Over the past years, once with the continuous reduction of state budget allocations for capital repair of public railway infrastructure elements in the agreed period of republican norms, as well as CFR service instructions in force, and the insufficiency of personal funds allocated for maintenance and current repairs of the public infrastructure elements, the technical parameters of the public railway infrastructure have suffered a continuous deterioration. As a traffic safety measure, the only measure, available for the "Lines" personnel, to ensure safety conditions during trains' traffic, restrictions of accidental speed have been placed on land, caused by the deterioration state of the component elements of the railway infrastructure.

According to legal provisions, the society's incomes have the following sources:

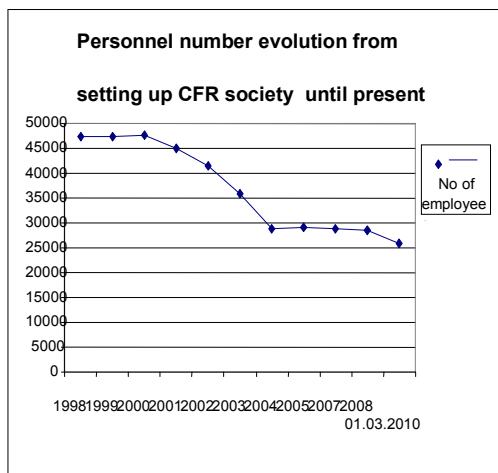
- tax incomes from the public railway infrastructure – TUI - tax paid by freight railway operators and passengers;
- incomes from rents and other charges for various services provided by railway operators or other traders, in addition TUI;
- other incomes from exploitation of goods and products;
- incomes from the state budget.

TUI is used only for covering the current functioning, maintenance and repair costs of the public railway infrastructure; the personal incomes from rents and other charges cover the functioning, maintenance, repair, modernization, development costs of the private infrastructure and incomes from the recovery of goods are used to cover maintenance costs of the railway infrastructure. The amounts allocated from the state budget are used only to cover the investments, repair, modernization, development costs of the public railway infrastructure and other investments needed for the projects of national importance which

ensure Romania's integration in the European transportation system.

Following the Government's imposition, there is an artificially maintained low level of TUI uncorrelated with the infrastructure costs, unlike other EU railway administrations where the infrastructure charge faithfully reflects the marginal costs or is partially completed from the state budget, through compensations awarded to the infrastructure manager to balancing income / cost. "CNCF CFR SA" Ministry of Transport submitted a draft legislative amendment to ensure compensation of TUI real cost to the budget. This initiative remained though unfinished, being rejected by the Government. The personnel number from the moment of setting up the society and until present has the following evolution:

Figure 1. The personnel number evolution at "CN CFR" during 1998- 2010



The personnel's number evolution from 47.427 employees in 1998 to 25.600 employees in 2010 was caused by the following:

a. In 1999, the Society's Business Agreement was approved through GD (Government Decision) no. 698/1999, where "Performance parameters" of the railway infrastructure were provided. It has created employment requirement in a number of personnel since early 2000 by adopting a new strategy in human resources policy, such as limiting hiring to a few specialists in poor areas and a minimum number of graduates of different forms of education as well as using the possibility of retirement as a result of fitting in Groups I and II of work. Given that labor productivity in 2000 should

increase by 2, 6%, of which 0.6% by reducing the number of personnel, it was necessary to create conditions for efficient use of personnel.

b. In 2001, difficulties were encountered regarding fitting in ICB (Income and Costs Budget), since the number of personnel could not be reduced because there were operating sectors that had a great shortage of personnel and that could not perform safely their activity. Therefore, as a reorganization measure, through GD 880 and 887/2001 it was established the setting up of 11 subsidiaries of the society, as companies, which were formed by conduct industrial sectors within the society. Setting up these subsidiaries and the natural losses led to reduction of society's personnel number by 2441 employees unlike 2000.

c. In 2002, the reorganization measures carried on the same personnel policy proposed even since the society's setting up and thus, hiring was limited to graduates of different forms of education, and for covering with qualified personnel the sectors related to traffic safety, personnel from inside the society was trained by qualification courses. Regarding fitting in ICB limits, the personnel number continued to drop and through GD 706/2002, other 7 subsidiaries were set up, amounting to a total of 4839 employees. Outsourcing personnel in newly set up subsidiaries from inside the society began in October 2002 and ended in December, the same year. In November 2002, following Government Decision 1199/2002 for the dissolution of Railway Management Services Society "SMF SA" a number of 1018 employees was taken over. However, at the end of 2002, the personnel number recorded a significant decrease, being with 3635 employees smaller than in 2001.

d. In early 2003 a number of 41,484 employees was recorded. As a result of the Restructuring and reorganization program of "CNCF CFR SA", from September 2003 the personnel number decreased by 5042 employees. During 2003, as a result of the privatization program, a total of 10 subsidiaries of "CNCF CFR SA" with status of joint stock companies, amounting to a total of 1154 employees have been privatized.

e. In 2004 the subsidiaries' privatization process continued by privatizing a total of 4 subsidiaries with status of joint stock companies, with a total of 631 employees. Following financial difficulties, in 2004 was applied a new Restructuring and reorganization program of "CNCF CFR SA", which had as result the dismissal of 1600 employees and the reorganizing of the society's structures. There was a series of activities outsourced by setting up a number of 4 subsidiaries with status of joint stock companies, amounting to a total of 4935 employees.

f. Between 2005-2008 the staff number remained relatively constant, by limiting the recruitment of personnel, including for the activities in which employment was poor.

g. From early 2009 until now, hiring within the society was stopped and reducing personnel by about 2800 employees was due to the retirement system and to the dismissal of 800 employees under the restructuring program of the railway system designed by the government.

Numerical distribution for the staff structure of "CNCF CFR - SA" is shown in the table 1.

Table 1. Numerical distribution personnel structure of CNCF "CFR"-SA

STRUCTURE	NUMBER OF EMPLOYEES
WORKERS- of which	20,769
Unqualified workers	45
Qualified workers of which:	20,769
-positioned on categories	1,733
-in operating activity	18,533
-other categories of qualified workers	461
SPECIALISED POSITIONS of which:	4,831
-executive positions	3,008
-management positions	1,823

From it, it can be understood that employees in specialized positions in the railway system

represent 20% of all employees, what makes difficult for them the re-employment in another domain, in the case of a possible dismissal from the railway, as it is currently provided. For qualified workers in operating activities, representing about 75% of all employees, this dismissal may affect them, but they can later find another job thanks to their training and experience.

### 3. The necessity of reorganizing the "CFR SA" society's business

Currently, the objective analysis of the activities performed by the society and through subsidiaries has led to the identification of some dysfunctions, as follows:

*-From an organizational perspective* it appears that there are too many sub-units, inadequately equipped and with personnel excessively dispersed, leading mainly to a reduced activity in terms of an employment shortage and of a technical equipment under average, although in the past 12 years there have been made investments in heavy track machines and small mechanization park and in safety installations and equipment of high performance and reliability traffic.

*-In terms of costs* there is an alarming increase of financial need, mainly generated by perpetual under-funding of the railway system which led to amplifying the phenomenon of the infrastructure degradation. Also, the decision to outsource such activities as organizational strategic subsidiaries proved to be inefficient, while the activity of these subsidiaries should have followed the logical tendency to attract third customers and to maximize profits from these activities while easing the financial effort of the society. Costs analysis in relation to the subsidiaries reveals that measures for outsourcing the activities have not achieved their purpose, the turnover of subsidiaries still being formed as a specified percentage from the agreements with the society.

Moreover, these subsidiaries have increasing costs, putting year after year significant pressure on society's budget. On the other hand, considering the loss of an important level on the transport market in favor of other transportation alternative, the

railway traffic has recorded a decreasing tendency which led inter alia to the appearance of some sectioning points without usefulness and without future perspectives on short and medium term.

In recent years, activity in Traffic sector was conducted with some gaps mainly related to the following issues:

- the necessary level of the personnel could not be provided, some positions related to traffic safety remaining vacant;
- defective personnel policy because of excessive centralization of this problem without taking into account the actual needs of each branch;
- the material base was provided to the necessary minimum and in most cases with large delays due to financial allocations failure to the required level;
- providing inadequate windows (especially on single lines) for work on line, with major implications in equipments productivities.

After analyzing the current business model, the parameters and the used resources, there were identified several shortcomings of existing processes for coordination and management of trains traffic. The main disadvantages of the current system consist of the large number of hierarchical levels in the traffic management decision-making chain (4 levels) and their large number of units (BCCTF, 8 RCR, 23RC with 85 RC wires, 992 stations). It is thus obvious the need of modernization and of efficiency of the railway traffic coordination and management process.

The SWOT analysis of the railway infrastructure and of the related activities is as follows:

Table 2. SWOT Analysis of the railway infrastructure activity

STRENGTH	WEAKNESS
-the existence of an extended railway network assures capacities for the intern requests as well for the extern railway transport for merchandise and passengers -the railway network includes pan-European corridors and magisterial lines -good territorial cover in all travel directions -37% from the network is electrified -27% from the network is a double line -the existence of a highly	-failure to provide in time or insufficient funds destined to repairs and investments to the public railway infrastructure -the existence of a lot of due assets to essential repairs (bridges, tunnels, lines, installations for traffic security etc.) which affects the system performances and the traffic security -the possibility for the traffic security to be affected by villains while an efficient legislation lacks -the lack of full coverage on maintenance and operating expenses for the railway

qualified staff ready to assure the right implementation of modernization steps (ETCS, computerization, high speed lines etc.) imposed by ensuring interoperability and intermodal transport -the existence of an information system with specific applications for the entire network -Romania's geostrategic position	infrastructure from TUI - lack of precise and efficient legal ways to recover debt from clients -the existence of historic debts -the lack of correlation between the railway network the road and the naval one -the lack of the state support in competition with the road branch - carrying out activities through subsidiaries, which leads to the rise of costs -the specificity of the maintenance of the railway infrastructure does not allow the use of a performance marker to reflect realistically the quality of the activity performed and the objective factors which influence it.
<b>OPPORTUNITIES</b> -the possibility to access extern funds, repayable or not repayable, for the maintenance, the development and the modernization of the railway infrastructure and of the railway patrimony -the EU politics to rehabilitate the railway transport -the EU politics to promote technologies that do not pollute -the EU policy support of intermodal transport -supersaturating of auto communication paths and the increase of the number of accidents	<b>THREATS</b> -the diminution of the economic agents' interest in the railway transport because of the growing number of private auto transport means -the existence of national programs for building highways -the climatic changes that affects through natural disasters the infrastructure condition -the states' integration from the former Yugoslav space in EU and the appearance of detours -the prices increase for raw material and fuel -the late approval for BVC and for values smaller than the fundamental ones which affects the good work or which can lead even to blockages

The reorganization objectives generally aim to generate/optimization issues of legislative framework on the financing of the railway system completed with internal organizational decisions and financial restoration to lead to the restoration of financial balance of the society through serious measures of financial discipline that mainly emphasize:

- To ensure adequate funding of the system, through TUI correlation with infrastructure costs and to ensure budget resources necessary to the recovery of repair works to public infrastructure;
- Increased income from ancillary activities;
- Reduce costs and streamline their activities through best use of exiting human resources and technical facilities, attracting private

capital for maintenance and operation of interoperable railway infrastructure  
-Efficiency activities through structural reorganization of the company at different levels and subsidiaries;

All this requires other type of intervention from staff managers, namely an analysis of a socio-professional climate. In this category we included those procedures which are based on the collection and systematization of information to relevant staff on an issue, or all staff concerned, in order to achieve an objective description of a problematic situation and to identify ways to resolve or improve it.

The analysis of socio-professional climate can provide valuable information to the management unit in the form of suggestions or solutions to solve certain problems, possible levers to motivate employees' descriptions of possible future threats or opportunities for development and efficient society activities.

#### 4. Conclusions

The difficult situation that the railway infrastructure in Romania finds itself in terms of technical status is especially due to the lack of providing adequate funding from state budget funds and to the impossibility to cover requirements of the society's own sources, due to the lack of income. As a result of insufficient funding from state budget for carrying out major repair works of the public railway infrastructure, the necessary volume of annual expenditure for maintenance (whose source is the coverage rate of infrastructure paid by railway operators) is increasing, being caused by the emphasized infrastructure degradation process and by the necessity of maintaining the minimal operating parameters and the trains' security.

Following the imposition by the government, there is artificially maintained at a low level of TUI uncorrelated with infrastructure costs, unlike other railway administrations of the EU, where the tax for using infrastructure either fully

reflects marginal costs or is partially filled from the state budget, through compensation awarded to balancing income/cost. "CNCF CFR SA" has submitted to the Ministry of Transport a project to amend legislation capable to ensure compensation of TUI real cost from the budget. This initiative remained though unfinished, being rejected by the Government. Though the number of society's employees was reduced in a period of 12 years in a percentage of 40%, this diminution was not compensated with financing to ensure the refurbishment and/ or upgrading work fluctuation and also a significant increase of productivity markers. Given that the limited value of salary fund established annually through approved ICB, it restricted staff hiring for the activities with employment shortage, the conduct of aggressive "specialists theft" policy by the private sector or by companies in the railway system is noticed, through attracting and taking over the "CNCF CFR SA", mainly on salary considerations.

#### 5. References

- [1] Guzzo, R. and Noonan, K.A. – *Human resource practices as communication and the psychological contract*, Human Resource Management, Fall, 2005, pp.196-198
- [2] Kessler, S and Undy, R. *The New Employment Relationship:Examining the psychological contract*, Institute of Personnel and Development, London , 2006 pp.134-135
- [3] Rousseau, D M and Wade-Benzoni, K.A. *Linking strategy and human resource practices:how employee and customer contracts are created*, Human Resource Management, Fall, 33 (3),2004, pag. 463-489
- [4] Şimuş Viorel, *Managementul transportului feroviar*, Editura ASAB, Bucureşti, 2001,p. 23-40

# The Role of the Professional Training of the Human Resources in the Employee-Employer Durable Partnership

Alexandrina Deaconu  
*The Academy of Economic Studies*  
*alex.deaconu@yahoo.com*  
Lavinia Rașcă  
*Exec-Edu Asebuss*  
*laviniar@asebuss.ro*

## Abstract

This study aims at identifying the effects of optimizing the process of professional training and at offering answers to two main questions that concern the business world: is the professional training a decisive factor in increasing the work productivity? Is it a crucial factor in reaching the strategic objectives of a company? In order to answer these questions as appropriate as possible, our study has the following specific objectives: testing the hypothesis “attending professional training programmes influences the decrease of staff fluctuation”; testing the hypothesis “attending professional training programmes contributes to the increase of the employee productivity” and, “investigating strategies of capitalization of the investments in professional training programmes within a Romanian organization”. Processing certain questionnaires led to some conclusions useful for supporting the managerial decisions regarding the carrying out of the professional training.

**Key words:** training, human resources, decisions

**JEL classification:** M53

## 1. Professional training, work productivity and staff fluctuation

While in the past century the production-based economy was the motor of social and financial growth, in the XXI century, the knowledge-based economy is obviously the main driving force. Under these circumstances, it is important to be aware of the need of investment in innovation, in knowledge and in creativity. The success company of the future is the one that attracts the best employees and that learns how to use their individual potential. Knowledge represents the driving force of the durable development. In a world confronted with fast changes, the elements that make the difference are **education, research, innovation and creativity**.

After the reforms imposed by the world economic situation, new workplaces will appear, requiring new competences. Another aspect is the management of the transition between the workplaces as well as between the professional training and the workplaces. In this regard, **flexicurity** will have to be developed at maximum. Flexicurity is the strategic policy in European Union, aiming at the flexibility of the labour force and the increase of the social security.<sup>1</sup>(Wilthagen T., Tros F., The Concept of “Flexicurity: A new approach to regulating employment and labour markets” Pag.4.).

The challenge consists of finding the best modalities to enhance on the one hand the flexibility of the labour markets both from the point of view of work organization and of the

work relations, and on the other hand the safety offered by lifelong learning and an appropriate social protection.

In March 2000, The Lisbon European Council established a new strategic objective for the European Union: to become the most competitive and dynamic knowledge-based economy in the world. In order to attain this objective, the system of education and training should be reformed and adapted to the requests of the knowledge-based society and of the labour market. The European Council asked for the definition of a new framework of the basic skills necessary on the current labour market, a set of abilities that should be the base of the lifelong learning process. According to the Council, this set includes: computer skills, multiple language skills, social communication and entrepreneurship skills.

A significant aspect is the identification by the EU specialists of the need to pass from the “ability” term to “key competences” in defining the success elements in career. The “key competences” term refers to “a unique multifunctional and transferable combination of knowledge and abilities that allow an individual to get personal fulfillment, personal developments, social inclusion and make him easily employable. The basic competences should be developed until the end of the compulsory education cycle and should play the role of foundation in the individual lifelong learning process.”<sup>2</sup> (“Implementation of “Education and Training 2010” – Key competences for lifelong learning a European reference framework”, pag.6.).

The competences are the strengths of a person and allow him to achieve personal fulfillment through continuous development and a good integration in the society, as well as the maintaining of a high level of adaptation to the requests of the labour market. In comparison with abilities, which are strictly defined elements in concrete fields, competences are more flexible elements that can be transferred between different fields.<sup>3</sup> (Implementation of “Education and Training 2010” – Key competences for lifelong learning a European reference framework”, pag.3.)

In order to support the investments in the human capital and to reach the established objectives, the European Union created also instruments of financing, the most important being the Sectoral Operational Programme for Human Resources Development (POSDRU), a structural fund that has as the main axis “Education and professional training for the support of economic growth and development of the knowledge-based society”.<sup>4</sup> (Sectoral Operational Programme for Human Resources Development 2007-1013).

In order to confirm the priority of the professional training for the European institutions, there were a lot of investments both in the identification of the labour market current needs and in studies for finding some modalities of improving the practices in lifelong learning and professional training.

Such a programme financed by the European Union is “Education and Training 2010 work programme” that integrates all the European actions regarding education and training. It also includes references to the Bologna process that contains directives for the development of the high education at the European level. This programme will attain its objectives during 2010 and 2020. Its goals reach four important directions: implementing in the European countries the mobility concept of the competences and lifelong learning; improving the quality and efficiency of education and training; promoting equity, social cohesion and active manifestation of the citizenship; improving creativity, innovation, developing the entrepreneurial qualities at all levels of education and training.<sup>5</sup> (Communication from the Commission to the European parliament, the Council, the European economic and social Committee and the Committee of the regions” Key competences for a changing world - Draft 2010 joint progress report of the Council and the Commission on the implementation of the “Education & Training 2010 work programme”, 25.11.2009).

An essential aspect in reaching these objectives is to sustain them through the legislative framework in the labour field of each European country. Romania harmonized its labour legislation regarding the legal framework



for developing the professional training within the commercial societies.

In the specialty literature, the concept of professional training is connected with several key concepts such as “work productivity” and “staff fluctuation”. **Productivity** is defined as “*production per unit of used inputs*”. The growth of productivity appears from the increase of efficiency in the use of the capital and of the labour force.”<sup>6</sup> (Dictionar MacMillan de Economie Moderna, Ed. Codecs, pag. 317-318) In this case **labour productivity** is “*calculated either as the ratio production-work involved for attaining it, or as the ratio work expenses-obtained production.*”<sup>7</sup> (Dictionar de economie, Ed. Economica, 1999, pag. 369).

The term of **staff fluctuation** designates “*changes of the number of workplaces - hirings and layoffs.*” Employment can end either from the employee’s initiative (resignation), or involuntarily, from the employer’s initiative (firings). Fluctuation can be defined as rate of the labour force fluctuation, by adding the layoffs and hirings, dividing the sum by 2 and giving the answer as a percentage out of the total employees number.”<sup>8</sup> (Dictionar MacMillan de economie Moderna, Ed. Codecs, pag. 160).

The relation between these concepts was the topic of various scientific studies. Olaniyan<sup>9</sup> (Olaniyan, D.A., Ojo, L.B., *Staff training and development: A vital tool for organisational effectiveness*, European Journal of Scientific Research, nr24 (3), (2008) pag. 326-331) states that the relation between productivity and training has become obvious. The personnel development through training is based on the assumption that organization can grow only through enriching the employees’ abilities. Training is a method of systematic development of the employees’ knowledge and competences, used for achieving the work tasks at a performant level. The new employees have different abilities that cannot be relevant for the specific of the organization and thus training appears necessary for the harmonization of the human resources with the objectives of the enterprise. Pollitt D.<sup>10</sup> (Pollitt,D., *LTFS puts*

the sparkle back into training: Program cuts employee turnover and improves morale, Human Resource Management International Digest, Bradford (2008) Vol. 16, nr. 4, pag. 17-19) initiated a study about the effects of training within the Call Center Outsourcing firms. The conclusions of the study showed that the internal training that answers the needs of the enterprise leads to the decrease of the staff fluctuation, improves the staff state of mind and the services for the clients, increasing thus indirectly the efficiency and productivity. The condition is that the professional training programmes correspond entirely to the organization needs.

A data panel study coordinated by Danvilla del Valle<sup>11</sup> (Danvila del Valle,I., Castillo, M., Rodriguez-Duarte, A., *The effects of training on performance in service companies: A data panel study*, International Journal of Manpower, Bradford(2009). Vol. 30, nr. 4, pag. 393-407) aimed at identifying the impact of training investments on the economic performance. The study data were collected over a period of 9 years. The results confirmed that managers should see training as an investment, not as a cost. However, these results can be less obvious in small companies, without well defined professional training policies, and where generic trainings and specific ones are not correctly differentiated. A quantification of the relation between productivity and training was offered by Dearden<sup>12</sup> (Dearden,L., Reed,H., Van Reenen, J., *The Impact of Training on Productivity and Wages: Evidence from British Panel Data*, Oxford Bulletin of Economics and Statistics, Oxford (Aug 2006) Vol. 68, nr. 4, pag. 397) in the study carried out on the industry in Great Britain between 1983 and 1996, a longitudinal study that confirmed the increase of the investments in the professional specific tasks training with 1% leads to the growth with 0.6% of the added value per hour and to a wage rise with 0.3% per hour.

As regards the relation between staff fluctuation and training, the specialty studies offer us an answer. The study carried out by Munasinghe and O’Flaherty<sup>13</sup>, (Munasinghe,L., O’Flaherty,B., *Specific Training Sometimes Cuts Wages and*

Always Cuts Turnover, *Journal of Labor Economics*. Chicago (Apr 2005) Vol. 23, nr. 2, p. 213-233) investigated the relation between staff fluctuation, salary level and the specific training level. Staff fluctuation decreases as the time spent in the company is longer, but the salary level does not increase directly proportional with the time spent as an employee in the organization. The relation between the received training, salary and fluctuation is the following: as the salary level offered to an employee with trainings and abilities complying with the market requests is lower, the profit of the enterprise is higher, but the possibility that the employee could leave the organization enhances. That is why it is recommendable to update and harmonize the salary level with the productivity of the employee and his competences, taking into account that the salary level is a factor that influences the staff fluctuation.

Another data panel study<sup>14</sup> (Conti, G., *Training, productivity and wages in Italy*, *Labor Economics*, volume 12, nr.4, (August 2005), Pages 557-576) investigated the relation between training, productivity and wages in Italy and covered all the sectors of the Italian economy between 1996 and 1999. The results showed that employee trainings led to a significant increase of productivity. On the other hand, the relation between the increase of the salary and the attendance of training programmes was not supported by evidence, this meaning that firms tend to benefit from the positive results obtained by the employees after developing new competences, but do not want to reward them immediately.

## **2. Study regarding the professional training process and its effects**

As we mentioned above, the objectives of our study were the following:

The specific objective 1: testing the hypothesis “*attending professional training programmes influences the decrease of staff fluctuation*”;

The specific objective 2: testing the hypothesis “*attending professional training programmes contributes to the increase of the employee productivity*”;

The specific objective 3: “*investigating strategies of capitalization of the investments in professional training programmes*”.

In formulating these specific objectives, we started from the assumption that there is a correlation between the factors “staff fluctuation”, “productivity”, and “professional training”, as well as from the fact that there are multiple possibilities of capitalization of the investments in professional training programmes, each possibility having advantages and disadvantages. When an employee wants to leave a company takes into account more factors, including the possibilities of professional development; when an employee has performances means that he has active motivation and one of the motivators can be the need of professional development and of acquiring new skills. That is why an employee’s motivation and individual interests are decisive factors for fluctuation and productivity. Not in the least professional training is a complex process related to all the processes of human resources and management, but one of its vulnerabilities in general is quantification and capitalization of the investments. For this reason we chose to study this process especially under these specific aspects: staff fluctuation, productivity and capitalization. The process was analyzed taking into account the three main phases: training needs analysis, implementing and carrying out the process, training evaluation.

The study was carried out in January 2010 and the investigated sample was formed of 25 employees in IT field. The characteristics of the analyzed persons were the following: the age range varies between 19 and 30 years, with an average of 25 years; benefited from at least 1 professional training programme over the last 12 months; have results over average in attaining the individual objectives; have higher education (completed or in course); their work experience is between 0 and 5 years, with an average of 1.8 months.

These persons accepted to participate voluntarily to this study after they were presented briefly the objective of this research, the methods used, and were granted the anonymity.

To carry out this study we used combined research methods: the method of questionnaire-based survey, the observation

method and the method of data comparison for a certain period of reference time.

In the view of identifying the dynamic of the professional training process, the research aimed at pointing out the 3 main phases of the process, each of them with specific instruments:

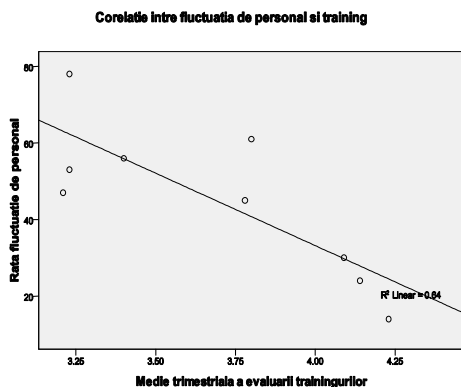
- a) Phase 1: Training needs analysis
- b) Phase 2: Implementing and carrying out the professional training process
- c) Phase 3: Professional training evaluation

Following the objectives established for this study, the evaluation of the efficiency of the training programmes was done also by analyzing the data for a reference period: 2008 and 2009 in order to obtain the differences produced by the investments made in 2009, in the process of staff professional training.

In the following we will exemplify some of the study results:

a) the specific objective 1: testing the hypothesis *“attending professional training programmes influences the decrease of staff fluctuation”*

A significant negative correlation ( $r = -0.80$ ,  $p < 0.05$ ) and a real correlation of 64% between the 2 variables were obtained. This result means a strong correlation between variables: if the quality of the training increases, the staff fluctuation decreases and vice versa. (see Figure 1).



**Figure 1** – Correlation between the staff fluctuation and the quality of the 2007-2009 training.

b) the specific objective 2: testing the hypothesis *“attending professional training*

*programmes contributes to the increase of the employee productivity”*

In order to investigate the correlation between the results obtained at the training and employee productivity, was tested the productivity expressed as a percentage per quarter and the average of the 2007-2009 training results (see Annex 1). Pearson correlation was used, leading to a significant positive correlation ( $r = 0.71$ ,  $p < 0.05$ ), and a real correlation of 50% between variables. This result means an average correlation between variables, demonstrating thus that when the training participant’s good results increase, his productivity rises too.

c) the specific objective 3: *“investigating strategies of capitalization of the investments in professional training programmes”*

Implementing a professional training programme raises some difficulties, one of them being the capitalization of the investments in training. Any manager wants results from his investment, but more than anything he aims at a quantification of these results. Creating a system of training “return-of-investment” can be difficult, but not impossible.

Here are some measures to carry out a capitalization of the investments in training:

- the provisions of the contract signed by each employee attending a training in the company.
- correlation of the productivity with the training results. If an employee does not reach the performance objectives, he will be “re-trained”. Anytime we notice a decrease of the activity indicators, the first measure is “re-training” followed by a period of monitoring and evaluation.
- another form of protecting the investment is preserving the confidentiality on the content, methods and all the information about the attended training.

The challenge to investigate the organization’s strategy of capitalization of the investment led to describing the strategies because there is no attempt to express in figures the training benefits. Until now it was not planned the “elaboration of a return-of-investment system for training, although there is a real interest for this aspect.

### 3. Conclusions

The current study approaches a topic becoming more and more important in the

present context. Ignorance can be extremely harmful. In Romania, the enterprises investments in training reach only about 11%, in comparison with other EU countries, such as Denmark (96%) and Sweden (91%). The attendance to professional training depends also on the size of the company, the big enterprises with over 250 employees, offer more training than the small ones (under 50 employees), and the companies in the finance and banking filed give the opportunity of the most professional trainings.<sup>15</sup>

While drawing up this study, we faced several problems. At the conceptual level we found out that there are few studies and statistics regarding the professional training in the south-east and central Europe, but there are European Union directives, programmes of financial and logistic support that favour the development. On the other side, the rich literature in this field began to enter the Romania market, too.

At the research level there were a few problems related to the efforts to persuade the students to read the whole questionnaire. Some of the subjects did not have patience to read attentively the question and to offer complete answers.

As a consequence of this study we consider that there are plenty of possibilities of development in the following directions: drawing up a training return-of-investment system at the company level and correlating the career management, the performance evaluation and the follow-up plan at the company level.

At national and European level we consider necessary the study of tendencies in the professional training field through scientific researches and modernization of the legislative framework regarding the occupational standards.

#### 4. Bibliography:

[1] Conti, G. *Training, productivity and wages in Italy*, Journal of Labor Economics, volume 12, nr.4, Chicago, august 2005.

[2] Danvila Del Valle, I., Castillo, M., Rodríguez-Duarte, A., *The effects of training on performance in service companies: A data panel study*, International

Journal of Manpower, vol. 30, numar 4, Bradford, 2009.

[3] Dearden, L., Reed, H. and Van Reenen, J. M., *The Impact of Training on Productivity and Wages: Evidence from British Panel Data*, Oxford Bulletin of Economics and Statistics, Vol. 68, Nr. 4, Oxford, august 2006.

[4] Dobrota, Nita (coord.) *Dictionar de economie*, Ed. Economica, București, 1999.

[5] Sava, Sorica (coord.) *Dictionar Macmillan de Economie Moderna*, Ed. Codecs, București, 1999.

[6] Munasinghe, L., O'Flaherty, B., *Specific Training Sometimes Cuts Wages and Always Cuts Turnover*, Journal of Labor Economics. Vol. 23, nr. 2, Chicago, Apr 2005 .

[7] Olaniyan, D.A., Ojo, L.B., *Staff training and development: A vital tool for organisational effectiveness*, European Journal of Scientific Research, numar 24, volum 3, 2008.

[8] Pollitt, D., *LTFS puts the sparkle back into training: Program cuts employee turnover and improves morale*, Human Resource Management International Digest, Vol. 16, nr. 4, Bradford, 2008.

[9] Sawyerr, O.O., Srinivas, S., Wang, S., *Call center employee personality factors and service performance*, Journal of Services Marketing, nr.23 (vol.5), 2009.

#### 5. References

1. "Communication from the commission to the European parliament, the council, the european economic and social committee and the committee of the regions" Key competences for a changing world (Draft 2010 joint progress report of the Council and the Commission on the implementation of the "Education & Training 2010 work programme"),25.11.2009.

[http://ec.europa.eu/education/lifelong-learning-policy/doc/joint10/com640\\_en.pdf](http://ec.europa.eu/education/lifelong-learning-policy/doc/joint10/com640_en.pdf) (accesat 20.12.2009)

2. "Document de lucru al comsiei consultare privind viitoarea strategi "UE 2020" [http://ec.europa.eu/eu2020/pdf/eu2020\\_ro.pdf](http://ec.europa.eu/eu2020/pdf/eu2020_ro.pdf) (accesat 20.12.2009)

3. European Training Foundation (EFT), „*Designing adult learning strategies - the case of south eastern Europe*”(2006), [http://www.etf.europa.eu/web.nsf/pages/A02E2126BE10D6EAC125729500335978\\_EN?OpenDocument](http://www.etf.europa.eu/web.nsf/pages/A02E2126BE10D6EAC125729500335978_EN?OpenDocument) (accesat 20.01.2010)

4. „*Implementation of "Education and Training 2010" – Key competences for lifelong learning a European referenceframework*” <http://ec.europa.eu/education/policies/2010/doc/basicframe.pdf> (accesat 20.12.2009)

<sup>15</sup> European Training Foundation, „*Designing adult learning strategies - the case of south eastern Europe*” (2006), pag.72.

5. Masson, J. -R., „*Financing vocational education and training in the EU new member states and candidate countries – Recent trends and challenges*” (2005) <http://roentgen.etf.eu.int/> (accesat 19.01.2010)

6. “*Programul operational sectorial dezvoltarea resurselor umane 2007-1013*”,  
[http://www.fonduristructurale.ro/Document\\_Files/res](http://www.fonduristructurale.ro/Document_Files/res)

[ursumane/00000030/1bjbd\\_pos\\_dru\\_romana.pdf](#)  
(accesat 20.12.2009)

7. Wilthagen T., Tros F., and “*The Concept of Flexicurity: A new approach to regulating employment and labour markets*”  
<http://www.nvf.cz/observatory/dokumenty/flexicurity.pdf> (accesat 20.12.2009)

## The Management of the Credit Institutions in the Context of the Elaboration and Implementation of the Banking Strategy

Dinculescu Elena Silvia  
Mindreci Georgiana  
*Universitatea Constantin Brancoveanu Pitesti*  
*nataliadinculescu@yahoo.com*

### Abstract

The success of a credit institution is mainly due to tenacity and to a large dose of creativity which may manifest itself both at the level of superior management and among the performers in the activity of solving the problems encountered and in the process of formulating the overall strategy. According to the international standards in order to be considered truly modern banks, the Romanian banking institutions are required to submit a strategic program, and therefore within the major commercial banks there were set up departments of strategy that deal with the elaboration and implementation of strategic programs.

**Key words:** credit institutions, banking strategy, international standards;

**JEL classification:** F33;E59;

The strategies of the credit institutions have always taken into account the nature and the major changes occurring in the global banking sector. During the post-war period, the credit institutions have benefited from a comfortable silence, due mainly to the economic policy concerns with the restoration, development and consolidation of the industry. If initially the activity of the banking institutions was conducted in terms of industrial risk, starting with 1970, when the first major monetary disturbances took place there were recorded important changes in the policy and in the vision of big banking institutions. First of all, there are modifications in the concept of banking company. Due to the revolution in the technical progress in the financial field, new banking products and services have appeared, currently

no banking institution no longer offers a single product or service, but provides a comprehensive range of activities. The progress has led to facilities such as: transmission of data in real time between units worldwide, comprehensive computerization, use of satellites, all of these leading banks to adopt development strategies that increasingly take into consideration the global costs.

In the context of an increasingly fierce competition on the banking market, the risk has increased and new uncertainties have emerged. At present one can not cope with the pressure of the competition without an adaptation to the technical progress. This evolution may lead to the restructuring of the staff, causing serious difficulties in the process of managing the human resources. For this, the strategy of each banking institution should aim to change the mentality and behaviours of the employees in a timeframe as short as possible.

In contemporary times, the banking strategy included a broad area and recorded an increased complexity, adaptation represents a continuous struggle and involves considering the transformation of the population's attitudes concerning the banking activity in general.

The banking strategy consists in ordering some objective values, of some banking policy elements, which require a constant concern for their application in various fields of credit institutions' activity.

The concept of banking strategy is characterized by defining all the components with a view to:

- the position occupied by the banking organization within the system;
- the activity of promoting the banking products and services;
- the relationships between the bank and the customers, partners and public institutions;
- strategic alternatives for penetrating the marketing, the development and the counter-balancing of the competition;
- strengthening the four pillars that stay at the basis of any banking structure: human resources, territorial units network, investments in infrastructure and in the information system.

At the level of the credit institutions, their top management presents as fundamental attribute the elaboration of the strategies and policies in order to achieve the set objectives. [1] The policy is subordinated to the development strategy of the banking organization, a strategy that covers all the aspects of the banking activity referring to: sizing and setting up the organizational and personnel structure; the banking institution's relationship with the customers having in view the likely development of the economic, social, financial internal and external environment; designing the banking products and services.

The essential objective when adopting a strategy, the national banking institutions, is to maximize the profit level, in an environment characterized by risk and uncertainty, in terms of caution and supervision regulated by the National Bank of Romania.

The process of implementing the strategies in a banking organization involves adoption some decisions that can be implemented using the tools and instruments that are found in the strategic plans, directed primarily towards: customer segments, human resources, financial resources and offer of banking products and services [2].

It can be argued that the banking management and strategy involve each other. The action of implementing a strategic program in a bank actually represents the concrete

manifestation of banking management since the strategic plan materializes by putting into practice the major decisions concerning the key areas of the banking activity.

The strategic management process follows a very simple pattern and involves three stages [3]:

The strategic analysis involves taking into consideration the set objectives, the analysis of the current situation in which the bank is found, the resources it has and not least the constraints it is subject to;

The strategic choice is to identify the options, their assessment and the choice of the preferred one;

The strategic implementation is materialized by planning the mode of action, its application, monitoring the achievement and comparing the obtained results with the initially set objectives.

The goals aimed in a banking strategy may be of economic, financial, social or political nature, they extend as time span between 3 and 5 years and take into consideration the following components [4]:

- the place on the market;
- superior management from the level of the central office or of the branches in the territory,
- indicators of efficiency and profitability,
- banking policies,
- products and banking services,
- the structure of the banking organization,
- international relations.

Carrying out the strategic management process in organizations requires the existence of both some specialized departments, which will deal with the analysis of the environment evolution and with providing prospective information to the banking decision-makers, and some departments involved in the achievement of the banking policies. These prospects play a decisive role in determining the "axes" of the banking strategy in setting the general objectives, in determining the economic and financial hypotheses of the

strategic planning process on medium or long term.

Not always a well thought process can also mean a perfect strategy. M. Porter presented the fundamental errors often committed in the strategic planning:

- restructuring as strategy - restructuring in itself is not a strategy, many banking organizations have opted for restructuring in order to successfully implement a strategy;
- attracting competition and not fighting it - this may often reduce the number of competitors, eliminating the surplus costs on the market and the increase of the owned market share, but as in the case of restructuring, it should be seen as an aspect of the strategy and not an overall strategy;
- setting up alliances – must be seen as a stage of strategy implementation. Making an alliance with another stronger and more dynamic banking company could soon make the former look weaker than to bring it long term benefits;
- imitation and not innovation – the competitive advantage is achieved just by differentiation;
- diversification for the sake of growth – it is acknowledged that, on long term, diversification in new areas only to increase the turnover makes the organization become vulnerable.

The implementation of the strategy is the latest stage in the strategic planning process and it consists of communicating the purpose and its implications in an efficient and concrete manner to the banking staff. This implies that all managers and bank employees from all the levels of the organization to know and to understand both the overall strategy, but especially how they will contribute to its successful realization.

In the case of each banking department the performance (orientation) indicators are established, which may be unique for each organization separately and they show what is necessary for the future – the market segments in which the bank is competing, the operational objectives, the individual development skills, and depending on what is found in practice, the results (gap) indicators are formulated, which tend to be generic (profitability, market share, the degree of customer retention, employees'

satisfaction) and reflect the actual situation of the banking organization. They can be grouped in a matrix to reflect on how to achieve the set objectives in four key areas [5]:

- financial: return on investment and the added economic value;
- customer area: satisfaction, maintaining the market share and the value in the account;
- operational: quality, reaction time, costs for introducing a new product;
- the human resources: employees' satisfaction, their skills and information availability.

If after the evaluation of the actual results it is shown that they were deficient in relation to the established performance indicators, it results that either the strategy has not been properly determined or its implementation manner was not adequate. If the managers and staff within the banking organization are informed on the strategic process, they can provide accurate and timely feedback in the case of situations in which problems occur or certain opportunities may be missed.

The balanced system of indicators is a tool meant to contribute to the synergy of the strategic management, and it appeared as a consequence of the need to find a method to evaluate the results of a credit institution which is not primarily based on the accounting indicators.

The goal of a balanced system of indicators of a banking organization's activity is to help its management in identifying the essential success factors that will lead to achieving the set goals. These factors depend largely on both the culture and style of the organization and on the strategy that it tries to accomplish.

This balanced system of indicators is a method that has managed to gain wide recognition and continues to be adopted by banking organizations worldwide.

## References

- [1] S. Heffernan, *Modern Banking*, Editura John Wiley & Sons, England, 2005
- [2] D.K. Dilley, *Essentials of Banking*, Editura John Wiley & Sons, Canada, 2008



[3] A. Olteanu (coord.), Management bancar. Caracteristici, strategii, studii de caz, Editura Dareco, Bucuresti, 2003

[4] A.O.Berea, Strategia bancara, Editura Expert, Bucuresti, 2001

[5] G.Manolescu, Moneda si credit, Editura Economica, Bucuresti, 2003

# Optimization Strategy to Capitalize on the Romanian Tourism Potential

PhD Lecturer Dindire Laura  
PhD Reader Dugan Silvia  
“Constantin Brancoveanu” University of Pitesti  
[lauradindire@yahoo.com](mailto:lauradindire@yahoo.com)

## Abstract

An important direction of the improvement of promotional activities achieved both by the decisional governmental and non-governmental organisms within the tourist services sector and by the tourism firms, both on an intern and international level, is the promotional strategy. Consisting in the mastership of obtaining the best results, through organizing, coordination, prediction, communication and control activities, the promotional management means knowing and understanding the intern and international promotional strategies typology, in a way that we could choose the best option. By the comparative presentation of the main international strategies regarding the promotion of tourism, such as the standardized and the adapted promotion, we aimed the development of knowledge and abilities regarding the adaptation of the tourism promotion process to different cultural and national backgrounds.

**Key words:** capitalize, romanian tourism potential, promotional strategy.

**JEL classification:** R19;

## 1. Introduction

Strategic development of tourism country is imperative, especially in the current context of global economic crisis, to overcome the obstacles generated by the lack of liquidity, by strong growth in unemployment, by the current instability on the international market. Tourism could be an opportunity to relaunch the Romanian economy and the escalating negative effects and consequences of the crisis, because does not require large capital investments such as other fields such as industry. Course to achieve such boosting economic targets on tourist activity, it must be integrated within a coherent macroeconomic policies, should have

competent human resources, strategies well grounded and adapted to domestic and international tourism market .

## 2. Context of European tourism

Worldwide noted, in 2009, a decrease in consumer demand of tourism products, registering significant decreases in the number of visitors. According to Eurostat, in the first six months, compared with the same period on previous year, in European countries, the decline was 7.4%, topping Romania is among countries most affected, with a decrease of 18%, outpaced only by Latvia, Lithuania and Cyprus [1]. Falls off, so, the next idea: poor recovery of the tourism potential of a country which has many tourist attractions, but, because of inadequate infrastructure, often of a non-specialized personnel and training summary, of a faulty promotion and a unfavorable internationally country image, failed to assert a high-value sector, that of tourist services. European Commission, through the policies applied, gives a clear support of European tourism, this contribute to the major EU objectives such as sustainable development, economic growth, employment and economic cohesion - social. Even the contribution to the Lisbon goal of creating more and better jobs, is evident, because in the European tourist industry are employed about 8 million people, representing 4% of total employment and a rate of over 4% of EU GDP, and if taken into account and related fields, resulting an occupancy percentage of the workforce of about 12%, which generates indirectly, 11% of EU GDP [2].

### **3. Support tourism performance by using the most appropriate policy strategies and promotional techniques”**

**We can customize the promotion of tourism as the interdependent whole of all methods, procedures and promotional media, used both at the microeconomic level (travel agent) and macroeconomic (at governmental, or NGO profile, the civil society) that have a synergistic effect: to make known the tourist potential of a geographical area or a country or region, in order to improve tourism activity. In tourism, promotion is intended to make known areas, regions or countries, to boost and diversify of tourism activity, to improve the image of domestically and internationally tourism products and services, with major and profound implications for managers of country image.**

The strategic vision of promoting tourism is of high importance in the current economic context. Irrational use, on empirical bases, without a systemic structure of the diverse promotional techniques, researches have proved that they cannot lead to performances in the economic agent's activity anymore. However, the majority of books, especially Romanian, focus on the promotional techniques presentation, without highlighting their interdependence and their synergetic effect used in order to draft the strategy. In the foreign profile literature, strategy has a proved role, but rather in advertising creation specific tourist activity, in the public relations process, in marketing study and choosing different media for promotion of tourist activity, which are very important, but not enough to conceive the tourist promotional strategy.

The predicting activity for establishing the tourist promotion strategy must start from investigating the consumers' perception on the company, on the tourism products or services offered. The importance of management activities on the scientific basis of the development of a strategy is presented by specialist Jack Trout, as "the use of appropriate strategies is how to survive in a world of fierce competition and to resist the so-called tyranny of choice " [3]. Strategies should be high on the priority list of every facility manager [4].

Both at the microeconomic level, the travel agency, but also at government level, tourism

promotion should be made based on the strategy. As appreciated Altstie and Grow [5] even in small companies, setting strategy should be one of the responsibilities of the person designated to promote your business, along with: research, establishing contacts with clients, identify the advertising agency that will carry out production, public relations process.

So, travel agencies and organizations and specialized institutions in the tourism sector have to graft promotion on attending the following process: setting clear as to promote and to budget, the decision on the choice of environments that can adapt best tourism product and budget, designing promotional messages so as to based on the brand and attracting attention, testing promotional messages, and finally, after it was believed that the message works or promotional campaign, following its implementation [6]. But not necessarily, a large budget allocated to ensure effective promotion is a good measure; developing and implementing strategy remains an important element of success in this environment [7].

The strategy is based on positioning the tourism product or service and the differentiation from competitors. They are an important element in building tourism promotion strategy on which company's efforts need to focus.

The strategic approach of promoting business is also regarded as a strategic triangle and includes: the segmentation of the target audience, the foundation of the functional, emotional benefits supplied by the brand, which provide the valuable in the market segment (brand value proposition) and the axis of the persuasion instruments that will be used to reach for promotional goals [8]. To develop a tourism promotion strategy, therefore, one should clearly set the objectives. These may be: to provide information to stimulate the demand, to differentiate the tourism product, to emphasize the value of the tourism product and to increase the sales using a promotional mix to ensure the achievement of all the promotion objectives [9]. The variety of means through which travel agencies can promote their products make it difficult to

choose optimally the promotion strategy. A variety of means of promotion: television, press, promotions based on the product itself provides various promotion strategies for each company [10]. Glazer and Kennedy feel that success derives from the diversification of the promotional message and its transposition in as many environments as possible so as to achieve a greater range of consumers [11]. Belch noted the need to use all the promotion instruments by companies, based on the strategy so as to convey a unified message to consumers [12]. The main promotional techniques, that can be used successfully in tourism, in the opinion of various authors and practitioners are: advertising, sales promotion, sales force, public relations [13], or advertising, public relations, participation in exhibitions and tags [14] or advertising, sales promotion, public relations, sponsorships, exhibitions. In the specialized literature there has appeared the hypothesis according to which the promotion effect in an environment, for example TV, depends on the level that the company has in another environment, for example, in the newspapers (media interaction effects), this interaction can be positive or negative [15]. The advertising strategy also has an important place in the researchers' and practitioners' study in the field [16], [17], [18]. The full structural integration of all the techniques, promotional methods and means in the promotion strategy requires channeling the investigative approach in this direction as well.

**The main techniques in tourism promotion policy**, which can be used to promote Romanian tourism are: **tourist information**, held in the permanent or occasional information centers within exhibition salons, telephone and through printed information (brochures, proposals, catalogs etc.), **tourism advertising** done in newspapers, on television, radio, Internet, etc., **public relations** in tourism [19] (consisting of organization of events in tourism: promotional days or weeks, gastronomic events, commercial days or weeks, managing relations with the media, country image building etc.), **participation in national and especially international tourism fairs and exhibitions, sponsorship**. Also can be used **promotion incentives**, which take effect in the short term and whose activities are materialized in discounts and rates, promotional offers, sales group. They involve offering packages that include transportation, meals, accommodation,

other tours and visits to places of entertainment, organization of competitions, games, raffles. These techniques should be integrated into well-grounded promotional systems to achieve a successful tourist promotion. Independent utilization in isolated actions without taking into account the complex of similarities and differences existing in international tourism, does not produce the desired results.

One of world class advertisers, **David Ogilvy**, proposed 14 specific ways to reinvigorate demand for tourist services. The most important include:

- highlight differences, the elements of exclusivity; people travel to get rich with new experiences, to see what they can not find in their country;
- if you saw a product at a good price, place this statement since the header;
- use specific facts, avoid generalities whereas only conduct client determines to buy without seeing;
- present product as a first, very high quality;
- not hide the best arguments of the sale, place them in the header, otherwise the ad will go unnoticed among all other ads;
- intelligently choose pictures that are twice as important, more meaningful than the text;
- always predict in advance which documents will notice a positive impact on demand;
- in advertising for the little-known countries is very important to provide the wealth of information [20].

Another decision the company must focus its efforts on is when the promotion strategy is being built, is the choice between using the **adapted promotion or the standardized one**. Management leaders such as **Theodore Levitt** from Harvard and **Kenichi Ohmae** from Mc Kinsey have brought arguments in favor of some products and global marketing efforts. They notice that tastes and styles are becoming more homogeneous throughout the world, a key argument in the use of standardized promotion being the fact that one can make savings on a large scale regarding promotion [21]. On the other hand, the use of adapted local promotion is based on considerations such as: the existence of traditions, consumption habits and local symbols.

**Standardized tourist promotion** requires that planning, execution and implementation in tourism promotional campaigns to achieve in a global context, the text is being translated without intervening creative elements. In this respect, it committed a promotion agency which has the central responsibility to conduct tourism promotion.

**Promoting tourism adapted** is to achieve tailored strategy and promotional messages according to specific local tourist market. The company appeals to promote agencies services in each country, so that promotional campaigns to be tailored to the needs and culture of each area. Most often, in this situation, organizational control it is decentralized.

In fact, few companies use one of these two strategies in pure form, but they must be sufficiently flexible to be able to adapt promotional methods, techniques and instruments to the linguistic differences, cultural, social and economic, depending the country who want to enter. The following example of international standardization error used to promote Romanian tourism is significant in this regard. It derives from cultural barriers, the incompatibility of promotional messages to local culture, of language differences. It is Romania's tourist promotion slogan, "The land of choice", which has negative connotations for the American public. It seems that in the U.S., free translation of the expression is "country where abortion can be", which bring great disadvantages Romania, causing confusion among the American public. A more appropriate approach would be, according to the American diplomat, Glenn Carey, "the land of many choices, which means the country with many opportunities: Black Sea, Carpathian Mountains, Danube Delta, Transylvania, Bucharest, medieval monasteries in Moldova etc. as for Americans, the word "choice" can have connotations which disadvantages such slogan [22].

**So, it must choose the most appropriate international tourism promotional strategies.**

#### 4. References

- [1] Eurostat, *Tourism in Europe during the first half of 2009*, [Online], available at: <http://ec.europa.eu/eurostat>
- [2] Eurostat, *Supporting European tourism*, [Online], available at: <http://ec.europa.eu/enterprise/sectors/tourism>
- [3] Trout, J., *Trout despre strategie: cum să cucerești piața și să ocupi un loc în mintea consumatorului*, Brandbuilders Grup, Bucharest; 2005, pp. 15
- [4] Cotts, G. D.; Roper, O. K. and Payant, P. R., *The Facility Management Handbook*, AMACOM Div, 2009, pp. 490.
- [5] Altstie, T.; Grow, J., *Advertising Strategy – Creative Tactics From the Outside/In*, Sage Publications Inc, California, 2006, pp. 4;
- [6] Strauss, D. S., *The Small Business Bible*, John Wiley& Sons, Inc., New Jersey, 2008, pp. 330;
- [7] Hitt, A. M.; Ireland, R. D. and Hoskisson, E. Robert, *Strategic management: competitiveness and globalization: concepts&cases*, Cengage Learning, 2008, pp. 7;
- [8] O'Guinn, T.; Allen T. C. and Semenik, J. R., *Advertising&Integrated brand promotion*, Cengage Learning, 2009, pp. 220;
- [9] Bonne, L.; Kurtz, E. D.; Mackenzie, H. F. and Snow, K., *Contemporary Marketing*, Cengage Learning Inc., 2009, pp. 493;
- [10] Anderson, D.R.; Sweeney, D.J.; Williams, T.A. and Martin, K., *An Introduction to management science – quantitative approaches to decision making*, Thomson Higher Education, 2008, pp. 259;
- [11] Glazer, B.; Kennedy, D., *Outrageous Advertising that's outrageously succesful*, Morgan James Publishing, 2009, pp. 267;
- [12] Belch, G., *Advertising and promotion: an integrated marketing communications perspective*, Mc Graw – Hill Inc., 2008;
- [13] Cruceru, A. F., *Tehnici promotionale*, Publishing Uranus, Bucharest, 2009;
- [14] Puiu, A., *Management in afaceri economice – Promovare, Negociere, Contractare*, Publishing Independenta Economica, Pitești, 2008;
- [15] Jagpal, S., *Fusion for profit – How Marketing & Finance can work together to create value*, Oxford University Press, 2008, pp. 601;
- [16] Marcenac, L.; Milon, A. and Saint – Michel, S., *Strategii publicitare*, Publishing Polirom, Iași, 2006;
- [17] Mooij, M., *Global Marketing and Advertising – Understanding Cultural Paradoxes*, Sage Publications, Inc., 2010
- [18] Vollmer, C.; Precourt, G., *Always on Advertising, Marketing and Media in an Era of*

*Consumer Control*, Mc Graw – Hill, SUA, 2008;

[19] Moarcăs, O., Dindire, L., Țerbănică and C. Morozan, C. *Relații publice sectoriale*, Publishing Independența Economică, Pitești, 2007;

[20] Ogilvy D. *Ogilvy despre publicitate*, Publishing Ogilvy&Mather, București, 2001;

[21] Aaker, D., *Managementul capitalului unui brand*, Publishing Brandbuilders Grup, București, 2005, pp. 332;

[22] Jurnalul Național, 27.10.2009, “*Sloganul turistic al României are conotații negative în SUA*” [Online], available at: [www.jurnalul.ro](http://www.jurnalul.ro).

## MOBILE MARKETING - TRENDS ON THE ROMANIAN ADVERTISING MARKET

Dinu Cristina,  
*dinu.cristina@gmail.com*  
Iatagan Mariana,  
*iatagan.mariana@yahoo.com*  
Natalia Manea  
*nataliamanea@yahoo.com*

*Spiru Haret University, Faculty of Marketing and International Business*

### Abstract

In these times of economic crisis, the advertising market goes through a difficult period, as companies reduce marketing budgets drastically trying to reduce their costs. For some companies, mobile phone can be a very effective communication channel because mobile adds are much cheaper than classic advertising, offers many advantages as a means to promote and may become an "ally" of those companies that support sustainable development and social responsibility.

The article presents a SWOT analysis of the mobile marketing medium and it proposes ways to develop wide-scale mobile marketing, given that, at the present, promoting this environment is viewed with skepticism both by companies and consumers at the same time.

**Key words:** mobile marketing, advertising, communication channel

**JEL classification:** M37

### 1. Introduction

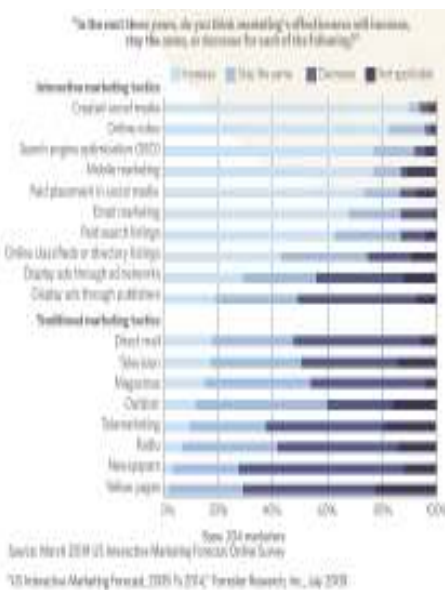
According to the Mobile Marketing Association, "Mobile marketing is a set of practices that enables organizations to communicate and engage with their audience in an interactive and relevant manner through any mobile device or network."<sup>1</sup> Mobile Marketing uses mobile phone as the communication channel with the target audience.

Nowadays, mobile phones are used for much more than just making and receiving

calls. Besides voice services, mobile users send Short Message Service (SMS) and message picture, use Multimedia Messaging Service (MMS), Bluetooth and the Mobile Web. These are four most prominent mobile marketing tactics. Because these media channels carry both content and advertising mobile phone offers advertisers many attractive possibilities. The playing field is wide open.

Applying strategic thinking and creativity when employing mobile marketing tools and tactics can provide endless opportunities for innovation. According to US surveys mobile marketing will become increasingly effective in years to come.<sup>2</sup>

**Figure 1. Future mobile marketing evolution<sup>3</sup>**

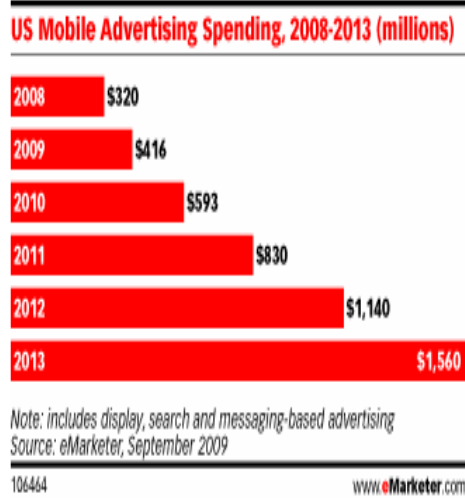


<sup>1</sup> ([mmaglobal.com/.../mma-updates-definition-mobile-marketing](http://mmaglobal.com/.../mma-updates-definition-mobile-marketing))

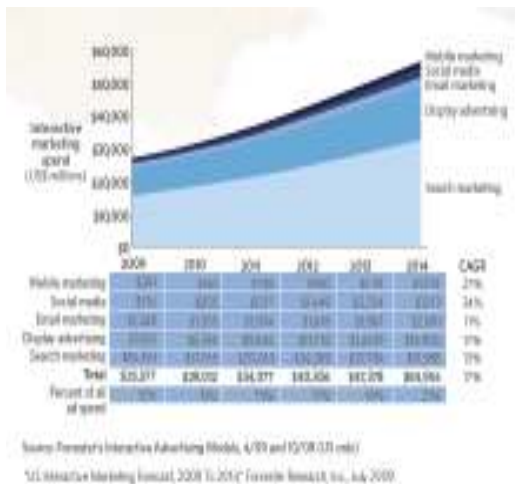
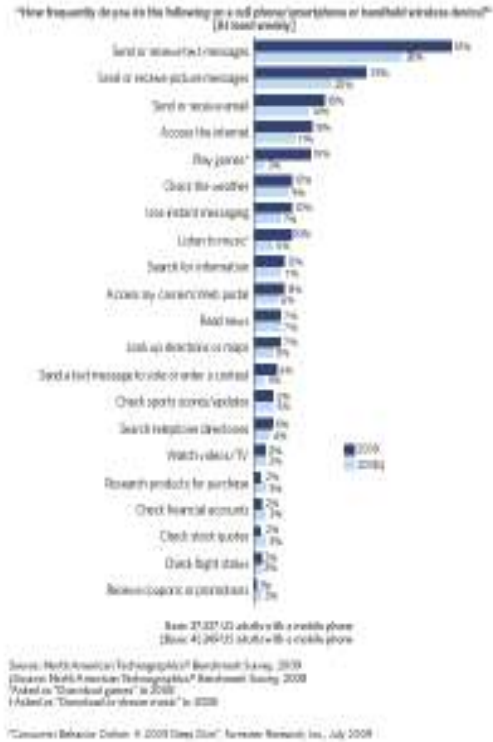
<sup>2</sup> ([http://www.kodak.com/US/images/en/corp/aboutKodak/onlineToday/Mobile\\_Media\\_12-11aSP.pdf](http://www.kodak.com/US/images/en/corp/aboutKodak/onlineToday/Mobile_Media_12-11aSP.pdf))

<sup>3</sup>idem

**Figure 2. US Mobile Advertising Spending<sup>4</sup>**



**Figure 4. Consumer Behavior Online<sup>6</sup>**



**Figure 3. Interactive marketing spend<sup>5</sup>**

According to Forrester Research, one-third of Europeans surveyed have use their mobile phone to play a game, one-third have sent MMS/picture messages, nearly two-thirds have taken pictures, and 80 percent have sent an SMS/text message. The graph above shows the number of European mobile internet users in 2014 is projected to be triple what it was in 2008. In addition, 3G-enabled mobile phone usage is projected to grow from 46 percent to 81 percent in the US and from 34 percent to 70 percent in Western Europe from 2009 to 2014, making even more advanced features and tactics possible.

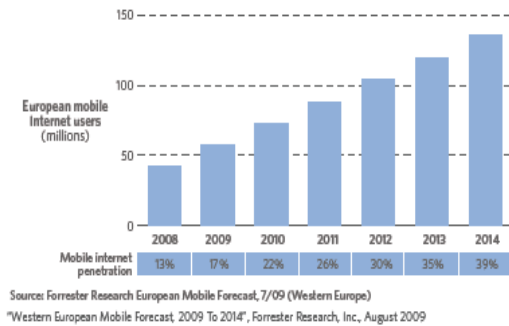
<sup>4</sup> [www.emarketer.com](http://www.emarketer.com)

<sup>5</sup> [http://www.kodak.com/US/images/en/corp/aboutKodak/onlineToday/Mobile\\_Media\\_12-11aSP.pdf](http://www.kodak.com/US/images/en/corp/aboutKodak/onlineToday/Mobile_Media_12-11aSP.pdf)

<sup>6</sup> idem



**Figure 5.**  
**European mobile Internet users<sup>7</sup>**



Launched in 2007 in Romania, mobile advertising remains at an early stage. Now, in conditions of crisis, marketers have noted this environment being that constrained to find a cheaper way to target potential customers and more efficient.

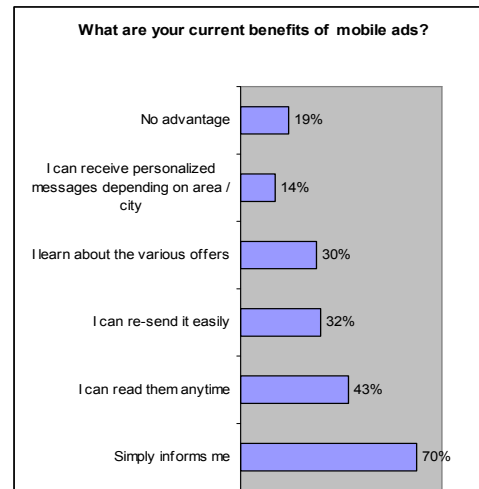
How a marketer can send an ad to young people aged 19-25 years who go to the movies on Sunday night in the Vitan area ? .. or how can he send an ad to employees of a business centers at noon ? At that time, the targets we are talking about can not access TV or radio, or press, not even the Internet. Surely, they have a phone... and they are ready to pay attention to it. In the next period may gradually become an important component of the communication strategy for many Romanian companies.

Considering that the advertising market becomes more crowded and the consumer is bombarded with advertising messages on all channels, the Unlock Research company's study wanted to see what is the Romanian consumer attitude towards mobile advertising, as a new communication channel. The sample was composed of 150 persons, mobile users, women and men, aged between 19 and 45 years who normally reside in Bucharest, with a high income and education. According to this study, the main

<sup>7</sup>Unloc Research, "Overall potential of mobile marketing concept- Quantitative research -When numbers tell a story" ,October 2008 available at [www.slideshare.net/confirm/MjQ1NTk1MTU7ZGludS4=/1271863-f45407bf89ac6d2203c49fa8393900f3c17f98ca-slideshow](http://www.slideshare.net/confirm/MjQ1NTk1MTU7ZGludS4=/1271863-f45407bf89ac6d2203c49fa8393900f3c17f98ca-slideshow)

advantage that offers mobile advertising is to inform.<sup>8</sup>

**Figure 6. Benefits of mobile ads<sup>9</sup>**



## 2. Strengths

Mobil marketing offers many benefits :

- mobile phone is an always-on devices and create a personal communication channel. One mobile phone typically has one unique user. The relationship we have with our mobile phone is more intimate. The phone is an accessory that we do not borrow anyone as it can happen with your PC and the customer has the feeling that the ad it addresses only to him/her. So, the communication is direct, highly personalized, bidirectional, fast and efficient in terms of cost
- mobile is valuable as a stand-alone medium for advertising, but it's also well suited for a vital role in fully integrated cross-media campaign plans, including TV, print, radio, outdoor, cinema, etc.
- this is a fresh, innovative way to reach your customers and give them access to your brand at any time, wherever they are.
- practice has shown that an SMS campaign combined with the mobile Internet, can generate click-rates are up to

<sup>8</sup> idem

<sup>9</sup> idem

20-25% higher and purchase rates over 10%, unlike simple online campaigns.

- marketers recommend that a company should turn to mobile marketing when this wants to increase sales, because it may be the most effective form of direct marketing, if it is properly implemented. And who does not wants to increase sales in these times.

- besides helping to increase sales, mobile marketing achieve other objectives related to brand reputation, creating a database of customers or potential customers, the onset of viral mechanisms - SMS is easily passed on when the offers is tempting. Besides, the text messagin include many advantages : it is reliable, it is quick and easy, it is cheap, it is discreet and confidential, etc.<sup>10</sup>

### 3. Weaknesses

Because the phone is seen as a very personal communication channel, users feel inconvenienced, resent the advertisements would not be interested. Even those who want to receive messages will be resent if they receive more than 5 messages per day, as shown and Unlock Research study.

- 27% of the respondents who want to receive mobile ads consider that the optimal number of messages received on mobile is between 2-3 messages per day, 25% believe a message/day is optimal, only 5% of respondents considered that 5 messages per day would be the optimal number

- the company that act in this sector have to respect a compilation of accepted industry practices. The Mobile Marketing Association's (MMA) Consumer Best Practices (CBP) committee strives to implement policies that encourage the growth of the off-net industry but the primary focus is on consumer protection and privacy.<sup>11</sup>

### 4. Opportunities

- Despite sometimes limited creative space, ads are usually easy to develop

- Once displayed, messaging ads can engage users directly in various ways, such as interactive message reply/forward, click-to-Mobile Web and click to call.

- Mobile marketing has the ability to measure channel usage, unique ad exposure and obtain detailed campaign results analysis. Campaign results can be easily measured. Marketers may have access to real-time response information and may modify the campaign according to the results, long before a campaign terminates.

- Unlike sending an email, sending an SMS is not a free operation, and this means that spam is more difficult to invade the mobile space.

- In Europe, mobile penetration rate registred is between 80-120%, depending on each country. SMS is 100% compatible with mobile terminals that are sold today, WAP site with 70% of them, and MMS's with 50% of the terminal. In other words, SMS marketing campaigns can reach everybody and even a mobile Internet campaign can reach about half of the population, i.e. just like any email marketing campaign, the Internet price<sup>12</sup>.

- As major companies such as Apple and Google invest in technology development introducing whole new mobile devices and buying up ad firms specializing in the small screen, this area has great possibilities for development ( ex. Google opened up their AdWords platform for advertisers wanting to target the iPad).<sup>13</sup>

### 5. Threats

- Mobile phones have all the attributes for successful communication campaigns, but continue to encounter problems that lead including a greater reluctance of users

<sup>10</sup> Alex Michael, Ben Salter, "Mobile Marketing : achieving competitive advantage through wireless technology", Elsevier Ltd., 2006, pg. 19

<sup>11</sup> "U.S. Consumer Best Practices Guidelines for Cross-Carrier Mobile Content Programs, April, 22, 2010, version 5.0 available at <http://www.mmaglobal.com/bestpractices.pdf>

<sup>12</sup> Roxana ONEA, "Avantajele marketingului și ale publicității mobile: spam redus, personalizare mare", 2007-03-20, , available at [http://www.comunic.ro/article.php/Avantajele\\_marketului\\_%C5%9Fi\\_ale\\_publicit%C4%83%C5%A3ii\\_mobile\\_spam\\_redux\\_personalizare\\_mare/2860/](http://www.comunic.ro/article.php/Avantajele_marketului_%C5%9Fi_ale_publicit%C4%83%C5%A3ii_mobile_spam_redux_personalizare_mare/2860/)

<sup>13</sup> <http://www.mobilemarketingwatch.com/google-quick-to-adapt-adwords-to-the-ipad-6100/#more-6100>

towards mobile advertising. In Romania, the users' perception of mobile marketing messages depends largely on how wrong the advertisers choose their target audience for such campaigns. This is a big problem considering the weight of which is occupied by each element of the promotion in a direct marketing program, as was shown by Stone and Jacobs: 15% text, 40% the list of those who agree to receive mobile messages, 30% the offer and 15% how the offer is made.<sup>14</sup>

- Unlike other forms of marketing, mobile marketing has a special characteristic : it requires the express consent of the consumer to receive future communications. Strong consumer privacy standards are essential to the success of mobile marketing by protecting mobile users from unwanted communications on their mobile devices. For one thing, some marketers remain worried about trying it, for fear of annoying consumers by intruding on their personal space.

- As revealed research conducted by the firm Unlock Research, one of the main limitations of this channel of promotion is a low adoption of MMS in Romania's - is one of the few services that have not been successful domestically, as opposed to growth of SMS traffic to mobile Web. More than 50% of those surveyed use modern technology (internet or bluetooth). SMS is the most common mobile data service.

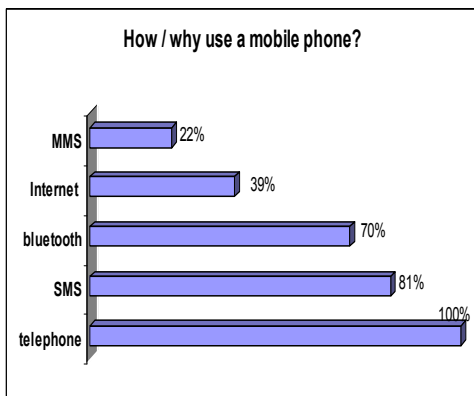


Figure 7. How/why use a mobile phone<sup>15</sup>

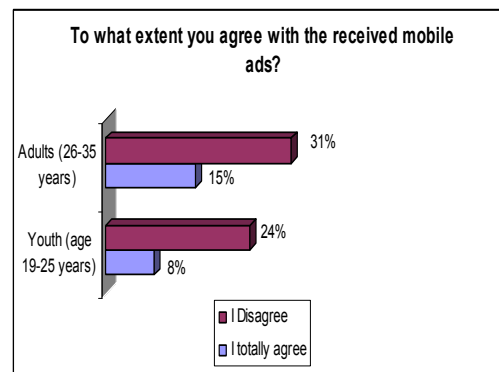
<sup>14</sup> Bob Stone si Ron Jacobs, "Metode de Succes in Marketingul Direct", Ed Arc, 2004, pg 9

<sup>15</sup>Unloc Research, "Overall potential of mobile marketing concept- Quantitative research -When numbers tell a story", October 2008 available at [www.slideshare.net/confirm/MjQ1NTk1MTU7ZGludS4=/1271863-](http://www.slideshare.net/confirm/MjQ1NTk1MTU7ZGludS4=/1271863-)

- Besides technical limitations, in Romania there are still a few companies that have their own databases, limiting their lack of exploitation possibilities of mobile marketing services

- Attention that the users give to mobile ads. The study results of the Unlock Research company reveals that 29% of the respondents asserted that disagree with the idea of mobile advertising and only 13% are really agree with it. Only 8% of young respondents and 15% of adults agreed to receive ads on mobile.

Figure 8. Agree/Disagree with mobile ads<sup>16</sup>



- Not involving mobile operators in supporting and developing the field. Vodafone was the first mobile operator in the world which launched services in just 135 days of license approval (1997) and in Romania is and Romania is the most active proponent of mobile marketing, organizing conferences and having many projects with direct marketing Romanian companies. Operator which launched the first 3G mobile portal in Romania (June 2005).<sup>17</sup>

## 6. Conclusions

Mobile marketing is so new and evolving so fast, we're still learning. In conclusion, we make several recommendations that would lead to the development of mobile marketing field in Romania :

f45407bf89ac6d2203c49fa8393900f3c17f98ca-slideshow

<sup>16</sup> idem

<sup>17</sup> <https://www.vodafone.ro/despre-vodafone/descriere-si-istoric/detalii-despre-istoricul-companiei/index.htm>

- Mobile Marketers should target and limit mobile messages to that which users have requested.

- Mobile messages should provide value to the user. Value may be delivered in multiple ways, including : product and service enhancements, reminders, sweepstakes, contests, requested information, entertainment, or discounts. According to Unlock Research study, the response when subjects were asked "what would you change for the better perception regarding mobile ads?", 98% of the people who did not wish to receive mobile ads said they are motivated by service unlimited send / receive MMS, service unlimited send / receive SMS (84%), 71% want to receive a material reward for every advertisement received and 67% said they would encourage free Internet access on mobile.

- Mobile Marketers must take every steps is necessary to ensure that user information they collect for the purpose of delivering targeted advertising is handled responsibly, and in compliance with applicable law.

- Mobile Marketers must implement reasonable technical, administrative and physical procedures to protect user information collected in connection with mobile marketing programs from unauthorized use, alteration, disclosure, distribution or access.

- Mobile firms and advertising agencies should be more involved in promoting this channel of communication and to inform users on the benefits they can bring. This actions should benefit of the ARMAD's (Romanian of Direct Marketing Association support

- Companies should engage in creating and managing databases of customers and potential customers

## 7. References

- [1] [www.mmaglobal.com](http://www.mmaglobal.com)
- [3] [www.kodak.com](http://www.kodak.com)
- [4] [www.emarketer.com](http://www.emarketer.com)
- [5] Unloc Research, "Overall potential of mobile marketing concept- Quantitative research -When numbers tell a story", October 2008
- [6] [www.slideshare.net](http://www.slideshare.net)
- [7] Alex Michael, Ben Salter, "Mobile Marketing : achieving competitive advantage through wireless technology", Elsevier Ltd., 2006
- [8] "U.S. Consumer Best Practices Guidelines for Cross-Carrier Mobile Content Programs, April, 22, 2010, version 5.0
- [9] [www.mobilemarketingwatch.com](http://www.mobilemarketingwatch.com)
- [10] Roxana ONEA, "Avantajele marketingului și ale publicității mobile: spam redus, personalizare mare", 2007-03-20,
- [11] [www.comunic.ro](http://www.comunic.ro)
- [12] Bob Stone si Ron Jacobs, "Metode de Succes in Marketingul Direct", Ed Arc, 2004, pg 9
- [13] [www.vodafone.ro](http://www.vodafone.ro)

## Intercultural -a Successful Key- Factor in International HR?

Dumitraşcu Elena

Ovidius University of Constanța

*e-mail:* [elena\\_mam2006@yahoo.com](mailto:elena_mam2006@yahoo.com)

Mărunțelu Carmen Liliana

Ovidius University of Constanța

*e-mail:* [liliana\\_maruntelu@yahoo.com](mailto:liliana_maruntelu@yahoo.com)

### Abstract

Information transmission and exchange between interlocutors and cultures seem to be real communication problem. Indeed, with the present internationalization context, any enterprise is forced to master the fundamental concepts of intercultural communication. Moreover, throughout their communication process, managers use a multitude of language manners that are necessary in order to transmit and receive correct information, at a verbal, non-verbal or para-verbal level, while each communication form is strongly influenced by factors of cultural nature.

**Keywords:** intercultural, cultural dimension, collective programming, cultural models, intercultural communication.

**JEL classification::** M12, F24, J24.

### 1. Introduction

Communication appears to be an administrative strategy at the level of enterprises, groups and individuals. Cultural influences become a stake with a great additional value. This excerpt tries to shape some of the influences of intercultural communication by answering basic questions related to the subject, such as: "How is the notion defined?", "Is perception an extra obstacle?", "How did teams around the world adapt to intercultural communication?". In this competitive international environment, one of

the faster ways to remain competitive is to look for strategic collaborations. One of the factors that characterize contemporary enterprises is probably the need to have under control the growing feeling of incertitude. Moreover, it seem that the communication style within enterprises has changed as the new forms of cooperation modified their working style (internal and external) thus making collaboration more powerful.

### 2. Factors that increased the importance of intercultural communication

The beginning of the twenty-first century brings new challenges in all scientific fields, as well as in communication. The political and social events that shattered the world left a print especially on people and the way they communicate. People are becoming more open, willing to get to know other people, to communicate and relate to them. Intercultural communication is at its climax of consciousness and mediatisation.

Perhaps the most important factor that led to the extension of intercultural communication is people migrations. *Migrations* represent an essential point in the emergence and development of intercultural management. Migrations represent the movement of a great number of people belonging to a certain ethno-cultural origin, different than the one specific to the place they establish or transit. The last century brought new form of migrations, most of the movements having been imposed on

individuals by professional or university development, the research development within a multinational team, by professional migrations in order to find a work place as well as systematic tourism. In this manner, intercultural areas, where people use hybrid languages and form new “traditions”, were created.

Another factor consists of the *competition* between great corporations, also encountered in IMM's, lead to the pursuit of proper solutions in order to keep their place on the market and to conquer new markets and new collaborators. One of the solutions involved getting to know the cultural element from the local area where branches of the company were situated, taking into account that the client would be easier to influence once his/her customs, traditions, behaviours etc. were taken into account while his/her employee, the local manager is better motivated to act for the company.[7]

The extension of business forced companies to use specialist from other countries, which led to a process called –free circulation of specialists. This decision turned out to bring challenges especially for the human resources departments in companies, as the new comers belonged to different cultural areas and sometimes failed to adapt to the new conditions and also in reaching the company's goals. Therefore, the relationship between employers and employees belonging to different cultures became an issue of great importance in contemporary management. [10].The spectacular evolution of informational and communication technique and technology favoured this exchange of specialists at an international level and lead to the continuous need of knowledge, of discovering new opportunities, evolving, succeeding. In this his manner, intercultural training and shaping of managers started playing a very important role in a firm's activity.

The problem of communication and the implication of identity in the intercultural field are meant to lead to a deep analysis of the relationships between communication, society

and politics in the context of the changes generated by the technological and informational revolution. It is considered to be extremely important the fact that cultural roots remain an essential point for the individual and society, especially because the cultures' connection owed to telecommunications, businesses, tourism, immigrants' circulation, endanger the coexistence between nations.

### **3. The impact of enterprise evolution on intercultural communication**

Within everyday language, the notion of *culture* is used with a broader meaning in order to describe a number of different concepts as well as a pattern of thinking, acting and expressing feelings. Culture thus refers to the specific way of spiritual existence and social behaviour of a group a community or society. The definition of culture gains more and more attention in the social and human sciences, but also in fields like international management, marketing, advertising, tourism, etc.

As far as the field of business is concerned, the culture of the firm enters a conflict with other entities cultures (clients, competitions) so that the management activity takes place in an environment characterised by *cultural diversity*. When the firm's business take place at a global scale, the importance of culture for management conception and practice distinguishes itself on more than one level: global, when regional cultural differences are taken into account (Western/Eastern society); international, when differences between national cultures are considered (e.g. American management/ Japanese management); corporation, when the connection between firms' culture is analysed .

Business is one of the fields in which intercultural communication is frequently considered. The relationship between employers and employees belonging to different cultures became an issue of great importance in contemporary management. The study of cultural differences in management starts from defining the notion of culture and

the establishment of connections between national and enterprise culture.[3]

*Intercultural* and comparative studies are also becoming more and more important to the global business environment. Contact and communication with other cultures are dominant features of modern life. *Intercultural communication* comprehends the inseparability of culture and communication concepts, referring not only to the understanding of a new group, but also to the acceptance tolerance of differences. [1]

As far as Romania is concerned, communication and the problem of identity within the intercultural plan imply the existence of interest for the Romania popular customs. Traditions are considered to be picturesque folklore manifestations, including as well the relation created between people and nature, the surrounding environment. Customs present social life and its significant aspects. Therefore, custom as a cultural communication act establishes a connection that involves change of information, possessions, and services its partners.

Communication is one of the most frequently discussed issues also in the workplace. Every day we interact with others in an attempt to communicate; lack of communication may create misses of the target, anger or frustration, mistakes, and more.

#### **4. Identifying mechanisms of intercultural misunderstandings**

The coexistence of cultures became an issue of citizens' equality in the majority of democratic countries where this phenomenon was present. The most powerful manifestations of culture, whether through the number of those who possess it, or the political and economical power of these people, tend to dominate, to monopolise, and finally to annihilate all other cultures found in the same space.

*Communication barriers* have a special role in the process of internal communication, their analysis having a great importance for the

international management strategy. Communication could be affected in the international environment by barriers such as: *failing to understand the communicated language*; *cultural impact* (the inability to understand or accept people that have different values, standards, lifestyles), *ethnocentrism* (meaning the belief that one's culture is superior to all other cultures), *lack of openness*, due to a formal and rigid attitude that affect free exchange of opinions. [2]

An essential aspect in the intercultural exchanges is *language*, the common code that makes communication possible. The key element of the language policies in Europe is the *national language*. The majority of the European states made the uniqueness of the national language an expression of the national and political unity, therefore including language in the very principle of the national state. Obviously, minorities and immigrants are those who have to learn the mother tongue of their adoptive country, needed especially in the work field, leaving the pleasure of exercising their own language among members of their previous community.

Stereotypes represent another limitation and perturbation causing factor to the intercultural communication. For instance, throughout movie- history, African-Americans were portrayed as being unintelligent, lazy, or violence-prone. As a result of viewing these stereotyped pictures of African-Americans, prejudice against African-Americans has been encouraged. Without any doubt this perception of African-Americans also represented a disadvantage as far as finding a work place is concerned. [2] Stereotypes concerning Romania also travel outside our boundaries. Unfortunately, due to the acts of violence that come against low in any country, some members of the Gypsy community that emigrated from our country laid a negative perception of all Romanian population. Understanding the nature of prejudice, stereotypes, and discrimination is the first step in combating these practices.

*Ethnocentrism* also represents an intercultural misunderstanding, having as

purpose the conservation of culture and civilization, not only by overestimating one's own culture but also through more aggressive means such as of extension, domination or constraint. Alongside ethnocentrism, *perception* of cultural difference is another factor that makes people aware of diversity, whether it relates to language, customs or style. The business field is again probably the wake up call in this process of diversity perception.

### 5. Ways of improving intercultural communication

In order to achieve intercultural competence that would finally lead to a successful dialog between cultures specialist are drawing attention towards elements and languages of intercultural communication. Intercultural competence, an imperative basic feature that individuals must possess today requires the following aspects: *changing of human behaviour* by accepting cultural influences, the perception of different cultural patterns other than one's own, selectively *adopting* standards from other cultures, *engaging* in positive relationships with people belonging to other cultural spheres, with cultural legacy and cease all intercultural conflicts.[6] Therefore, *intercultural communication competence* represents the capacity to negotiate cultural significations, to manifest efficient communication behaviours, to express positive attitudes and solve communication problems between cultures in diverse contexts.[5]

The cultural and intercultural context of communication can induce different stages of understanding and reciprocal acceptance or confusion, denial, rejection, conflict. Taking into account the meaning of communication only through *verbal and written language*, is quite restrictive and can create contradictory interpretations in the case of relationship between different cultures, which is why people must gradually learn to master signals of *non-verbal communication* as well.[2]

Intercultural training could be followed by a successfully recruitment of highly appreciated

specialist belonging to other cultures if simple rules are taken into account throughout the interviews held by human resources departments. Anyone recruiting people will have one identical aim - to hire the best. It is crucial for the recruiters to gain some intercultural insight into interviews.[4] The key to any successful intercultural interview is to overcome assumptions about people. Assumptions can relate to many things but in the context of the interview they are really about: assuming how someone should respond to a question, behave or act. Communication styles differ too, from culture to culture. In an intercultural interview one needs to bear in mind that people give information in different ways. Explicit communicators put all the meaning into their words. On the other hand implicit communicators use other subtle ways of getting their message across such as body language, tone, eye contact and inference. Some of the questions that can be encountered in intercultural interviews are: "*How does your life here compare to the life you had in your country*", "*Have you had any challenges after you came here?*", "*How did you pick up your cross-cultural skills?*" or "*Could you give me any advice about learning from experience?*".

With the present internationalization context, any enterprise is forced to master the fundamental concepts of intercultural communication. Moreover, throughout their communication process, managers use a multitude of language manners that are necessary in order to transmit and receive correct information, at a verbal, non-verbal or para-verbal level. Working in a global team and dealing with business partners or customers across cultures, raises challenges and demands new attitudes and skills. Without the right approach, cultural differences greatly reduce the effectiveness in the early stages of a relationship. But active management of the internationalization process and a conscious effort to acquire new skills will release fresh sources of competitive advantage.



## 6. Conclusion

People around the world have been confronted with intercultural problems long before the issue was defined, thought about or taken into consideration. Present issues such as globalization, as well as human interdependence and culture development taking place throughout the world forces people not only to take into account intercultural problems but also to find viable solutions

The image of cultural world has become more complex due to the process of social development and transformation (linguistic and demographic changes, mobility, relationships with other people). The concept of multicultural society in Europe's context, becoming everyday more unified, are some of many issues, but also opportunities. The historically built European societies, where national symbols and ethnic attributes lay at the basis of their identity, are forced to accept cultural pluralism.

As far as multi-international enterprises, the issue of communication within the firm becomes even more complex as it is influenced by many factors, such as: the national culture of the original country of the firm, the national cultures of the host countries of branches and their organisational culture. Due to the activity that branches have been carrying in diverse cultural environments and to the communication relationships that have been established, internal communication gradually becomes intercultural.

## 7. References

- [1] Budeş, C.M., *O istorie a comunicării interculturale*,  
(Source: [http://www.interculturel.org/files/proiecte/II/Budes\\_C\\_M\\_O\\_istorie\\_a\\_comunicarii\\_interculturele.doc](http://www.interculturel.org/files/proiecte/II/Budes_C_M_O_istorie_a_comunicarii_interculturele.doc))
- [2] Bull, A., Lorinard, S. & Sulmona M-M, (2005), *La communication interculturelle. Gestion nécessaire*  
*ou préoccupation superflue?*. Mémoire-MBA-Management des Ressources Humaines", Université Dauphine de Paris.  
Sursa : [http://www.dep.dauphine.fr/pages/mba-rh\\_fichiers/MEMOIRES-MBA-RH-2/MEMOIRE-communication-interculturelle.pdf](http://www.dep.dauphine.fr/pages/mba-rh_fichiers/MEMOIRES-MBA-RH-2/MEMOIRE-communication-interculturelle.pdf).
- [3] Hofstede, G., (1996), *Managementul structurilor multiculturale*, Editura Economica, Bucuresti.
- [4] Holden, N.J., (2002), *Cross- Management Cultural*, Prentice Hall.
- [5] Lavrits, P., Boldea, M., (2009), *The Importance of Intercultural Business Communication*, Source: Studia Universitatis "Vasile Goldiș" Arad, Economic Sciences, Anul 19/2009, Partea a III – a, pp. 13-18. (on [www.cceol.com](http://www.cceol.com)).
- [6] Năstase, M., (2007), *Lideri, leadership și organizația bazată pe cunoștințe*, Editura ASE, București.
- [7] Năstase, M. (2004), *Cultura organizațională și managerială*, Editura ASE, București,
- [8] Popescu, D., (2006), *Cultura organizațională și etica în afaceri*, Editura ASE, București.
- [9] Taylor, E.W. (1994), *A Learning Model for Becoming Interculturally Competent* in Journal of Intercultural Relations", International Journal of Intercultural Relations, Elsevier Sciences, Vol.18, No. 3, pp. 389-408, USA.
- [10] Sauquet, M., Vielajus, M. (2007), M., *L'Intelligence de l'autre : Prendre en compte les différences culturelles dans un monde à gérer en commun* (Broché), Ed. Charles Léopold Mayer .
- [11] Sarlat, L. (2001), *Multiculturalism liberal*, Editura Polirom, Iași.

**Electronic sources :**

<http://www.csus.edu/indiv/h/hurners/HTML%20Supports/Intercultural%20Dyad.htm>;  
[http://www.akteos.com/index.php?id=recrutement\\_multiculturel](http://www.akteos.com/index.php?id=recrutement_multiculturel);

<http://www.google.com/books?hl=ro&lr=&id=H0Supports/Intercultural%20Dyad.htm>  
=  
<http://www.csus.edu/indiv/h/hurners/HTML%20Supports/Intercultural%20Dyad.htm>

# The SWOT Analysis in the Surgery Section: Instrument of Elaborating the Management Strategy Oriented Towards Marketing

Dumitru Graziella Corina

*The Academy of Economic Studies Bucharest, Romania*

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

Bâtcă Viorel

*The University Titu Maiorescu, Bucharest, Romania*

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

Irimescu Alina Mihaela

*The Academy of Economic Studies Bucharest, Romania*

[curpan\\_alina@yahoo.com](mailto:curpan_alina@yahoo.com)

## Abstract

This work was supported by CNCSIS – UEFISCSU, project number 224 PNII – IDEI code ID 793/2007).

Within the context in which nowadays the health services suffer changes that have never been met before concerning in significant reforms in progress, having a new approach in providing the services, the hospital has to face up with major challenges within an obsolete and difficultly undertaken system. The external pressure but also the internal one obliges the hospital to make structural changes, efficiency changes and changes made in their service and quality, in the care safety, in the technology used and in the degree of the patient's satisfaction. The asymmetry of the information, the rigidness of the offer, the rigid price politics, the resources penury make all these changes to seem impossible and incompatible with the exigency of the quality and of the performance. Starting from a constructive research (literature review), the paper proposes the realization of a SWOT analysis within a surgery section, which aims at emphasizing the main difficulties with which the sanitary management services confront when increasing the efficiency and the quality of the medical act as a premise of the improvement of the population's general state of health.

**Key words:** SWOT analysis, surgery system, sanitary amangement strategy;

**JEL classification:** I11;M11;

## 1. Literature review: the concept and the analysis of the SWOT analysis

**SWOT analysis** is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture [7]. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited to *Albert Humphrey*, who led a convention at Stanford University in the 1960s and 1970s using data from *Fortune 500* companies.

A SWOT analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic planning model. Strategic Planning, including SWOT and *SCAN analysis*, has been the subject of much research.

**Strengths:** *attributes of the person or company that are helpful to achieving the objective(s).*

**Weaknesses:** *attributes of the person or company that are harmful to achieving the objective(s).*

**Opportunities:** *external conditions that are helpful to achieving the objective(s).*

**Threats:** *external conditions which could do damage to the objective(s).*

Identification of SWOTs are essential because subsequent steps in the process of planning for

achievement of the selected objective may be derived from the SWOTs.

First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

Practically, the SWOT analysis **starts with the realization of an inventory of the internal qualities and weaknesses** afferent to an organization. Then the **external opportunities and the menaces** which can affect the organization are identified, basing on the market and the environment. There are though other options, meaning that some authors suggest the accentuation of the external opportunities and menaces before qualities and defects.

In each of the four zones the factors that seem more relevant are taken into evidence. The main purpose of the SWOT analysis is to identify and associate each factor, negative or positive to one of the four categories, fact that allows us to see the business with an objective eye. The SWOT analysis will be a very useful instrument in the development and the confirmation of the marketing strategy.

### **Strong points**

**Strong points** concern the positive internal aspects of the business and add value and offer an advantage in the case of a competition, being an opportunity for the management to revise the value of the business. As a consequence, they describe the positive, tangible and intangible internal attributes of an organization which controls them: What are we doing well? What resources do we have? What advantages do we have in front of the competition?

**For example**, strong points can include the positive attributes of the humans involved in the business, including their acquaintances, their past, education, references, contacts, reputation and capacity which come inside the business together with them. Strong points also include the tangible goods as the available capital, equipment, credit, stable clients, existent channels of distribution, materials with author rights, patents, information and processing systems, and other value goods from the organization's business [2].

### **Weak points**

**Weak points** concern the negative internal aspects of the business which diminish from the offered value or place the organization on a concurrent disadvantage. As a consequence, these represent factors which are controlled by the organization and which delays it to obtain or to maintain a competitive quality: *Which zones should be improved to compete with the strongest competitor?*

**For example**, weak points could include the lack of experience, limited resources, and the lack of access to technology or capacity, inferior service offer or a weak location of the business [3].

### **Opportunities**

**The opportunities** evaluate the external attractive factors that represent the reason of the existence and of the prosperity of a business: *What opportunities are there in the market sector of the organization or around it from which we can hope to benefit?* Therefore, these opportunities reflect the potential that can be realized by implementing the marketing strategies. Identifying the opportunities which will be internal to the organization and which are controlled by it will be classified as strong points.

**For example**, the opportunities can be the result of the market increase, of changing the life style, of solving the problems associated to a current situation, of the positive perception over the business of the organization or of the capacity to offer a higher value[4].

### **Menaces**

**Menaces** include factors outside the control of the organization which could jeopardize the marketing strategy and even the business. These are external factors on which the organization has no control, but it can anticipate them if it elaborates an emergency plan.

**A menace** is represented by the challenge created by an unfavorable trend which could determine the diminishing of profits.

**For example**, the current or potential concurrence, the increase of the prices by the

providers, the governmental settlements, the negative effects of the media, the changes in the behavior of the consumers who determine the diminishing of the sales and the introduction of a technology much more advanced that leads to the moral usage of the products, services or equipments [5].

## **2.SWOT analysis – application for the surgery section**

The analysis will allow us to use in the advantage of the entire section the talents, the abilities and the opportunities supporting this way its development within the hospital. By understanding the weak points of the section, we could solve and eliminate the risks easier. In addition, regarding us and our competitors through this analysis, we will be able to create a strategy which will allow us to distinguish ourselves on the market of the hospital medical services in our area.

The proposed strategy has as main objective the creation of a professional surgery section, performing from all the points of view, safe and trustful for all the patients, no matter the age, sex, the social environment from which they originate. We propose to analyze this by:

1. Obtaining good financial results by optimizing the expenses for the maximum satisfaction of the patients, taking into consideration the financial constraints connected to the price systems; obtaining increasing profitability by introducing with success some new operatory techniques, medical machines of the last generation with the help of whom the patients will receive new services.

2. Offering some high quality services from a medical, hotel and administrative point of view; the insurance of the patients' rights to information, security, confidentiality, trust; the maximization of the patient's degree of maximization.

3. The insurance of solving rapidly the patients' requests (work schedule, waiting time between the processes, the planning of the operator block resources) with better results than in the similar sections from other hospitals and the creation of a working environment which encourages the team spirit and the opened communication.

4. The continuous perfecting of the medical and auxiliary staff and the obtaining of a competitive advantage basing on the competences and knowledge.

For the effective realization of the SWOT analysis we started from the formulation of the following questions, whose answers have included the points of view of the collective and of the patients [1].

### ***Strong points:***

1. What advantages has the surgery section?
2. What surgical interventions do we perform better than in other similar hospital sections?
3. What are the unique resources that we have?
4. What are the diminished prices that we have?
5. Marketing?
6. Innovative aspects?
7. Qualification, certification?
8. Procedures, IT, communication?
9. What do our patients identify as being our strong points?

### ***Weak points:***

1. What could we improve?
2. What should we avoid?
3. What do other patients regard as weaknesses?

### ***Opportunities:***

1. Which of the opportunities can we identify?
  2. Which are the important tendencies?
- The opportunities could come from elements as:
1. Technological modifications
  2. Legislative changes
  3. Modifications of the patterns or of the social habits, of the lifestyle, of the population profiles
  4. Local, regional events

### ***Menaces – risks:***

1. What obstacles expect us that menace our surgery section?
2. What do our competitors do?

3. Do the specifications of the profession or services modify?

4. What problems of financing do we have?

5. Which of the weaknesses could affect seriously the surgery section?

The other steps are to be found below which represents the SWOT analysis for the surgery section:

**Strong points:**

1. In the section, there are performed sufficient surgical interventions both regarding the typology and their number.

2. The improvement of the satisfaction level of the patient regarding the offered medical services (The rate of mortality within hospitals in sections; The proportion of deceased patients 24 h after their hospitalisation per section; The proportion of the deceased patients 48 h after their surgical intervention per section; The rate of nosocomial infections per section; The rate of the re-hospitalized patients (without a previous planning) for 30 days from their discharge; The index of concordance between the diagnosis given at the hospitalisation and that given at the discharge; The percent of the hospitalized patients and transferred in other hospitals.)

3. Higher degree of trust of the patient regarding the surgical services that we offer (The number of the patients' complaints; Loyalty degree of the patients (coming back for check-up)).

4. Competitive advantage, based upon knowledge, abilities and aptitudes of the medical and auxiliary staff.

5. Solving in time all the processes to which the patient is subdued (hospitalization, investigations, surgical intervention, treatment, discharge).

6. The respecting of the budgets (Budgetary execution to the approved expenses budget; The percentage of personal incomes of the section of all incomes of the hospital).

7. The efficient usage of the resources (The structure of expenses on each type of intervention depending on the income sources).

8. Optimizing the expenses for maximum satisfaction of the patients (The percentage of the expenses on medication of the section of the

entire sum of expenses of the hospital; The percentage of capital expenses of the entire sum of expenses of the hospital; The percentage of personnel expenses of the section of the entire sum of expenses of the hospital).

**Weak points:**

1. Poor computerized medical equipment.

2. High hospitalization costs in the case of surgical interventions.

3. The lack of an integrated informatics program to interconnect all the sections.

4. The lack of hotel optimum conditions.

5. The existence of some equipments morally and physically used.

6. The lack of a modern functional circuit of the sick people, of the aliments, of the wastes and visitors.

7. The migration of the medical staff.

**Opportunities:**

1. The definition of some precise standards for each task realised by the employees of the medical and executor –operational branch; The learning of those standards by the employees and the checking of the degree of their awareness concerning the expected results; The elaboration of the following mechanisms of standardization: the guide regarding the surgical operator protocol; the protocol for the prevention of the infections caused by operatory plague; specific guide for the circuit of laundry in the hospital; The protocol for effectuating the daily cleanliness in the hospital, for the cleanliness in rooms, in other locations; The elaboration of the protocol for the attributions of the sanitary stuff in the prevention and control of the nosocomial infections; the protocol used to prepare the surgical instruments for sterilisation; the collection and weighing protocol of offal; The elaboration of the protocol of the aseptic technique in the operator block.

2. A new approach of the relation with the patients in surgical services; The realization of a procedure capable of solving the complaints and its permanent execution; The development and the implementation of an improvement plan of the patient's confidence; Benchmarking regarding the patients loyalty.

3. The creation of the department Public relations which contains: large public (patients, community), volunteer groups, mass-media: groups of journalists who present the realisations(difficult operations, innovations), permanent actualisation of the web page; The strategy of counteraction of negative publicity (complications and deceases presented in an exaggerated manner in the press, unsatisfactory work conditions and attempts to gain profit in illegal ways.

4. Introducing the total system of Preventive Maintenance; The supplementary equipment of the salons with alarm systems for each bed for emergency cases.

5. The improvement of the awareness of the medical and auxiliary staff concerning the safety problems through training and communication; The intensity of controls regarding safety; The introduction of security supplementary personnel especially in the night; The stimulation of the patients' involvement regarding public safety through communication (offering brochures).

6. A construction of the operatory program regarding the time; A construction of the daily operator program; Time management in the operator block.

7. Identifying the causes of the failed surgical interventions depending on the type of intervention, sex and age groups; The elimination of the causes, respectively of outdated procedures, outdated instruments, of the consumable materials and inappropriate medicine, the avoidance of human mistakes by permanent clarification of the stuff.

8. Introducing a privatization system of paid hotel services.

9. The analysis of the processes of acquisition of the consumable materials and of medication and also its best execution; The realization of a department of Clinic engineering to ensure the continuity of the logistic system having a technical nature of medical activity and to optimize the cost of activities; Adopting the maintenance of the medical technical systems (preventive, systematic preventive, conditioned).

10. The usage of operatory techniques less expensive.

11. The externalization of catering activity; The introduction of the budgets for types of surgical intervention .

### Menaces – Risks:

1. The precarious financing due to the period of crisis.

2. The lack of staff due to the phenomenon of aging and the emigration of labor.

3. Legislative instability.

4. The competition of the private hospitals.

5. Low standard of living due to the high rate of unemployment. Diminished possibilities of using the co-payment services.

6. The increase of the costs of the medical costs

7. The diminishing of contact if no optimal accommodation conditions are created.

8. The staff politics sometimes dictated by the tutelary forums.

9. The social pressure through the lack of personal possibilities of house treatment or care of the patients.

10. The prolonged sub-financing of the performed services and the lack of investment funds to continue the consolidation-modernization works till present, affects not only the capacity of adaptation to the European norms, but also the current development itself of the medical act (its quality).

### 3. Conclusions

1. The theme remains open for reflection and controversy in the **public business world**, excepting the medical sector in which the notion of marketing is easier to notice and assimilate.

2. To optimize the functionality and the performances of such a public institution – expressed under the name of “gain” – gain for all those who made supply and demand, providers (doctors), patients, administration and budget, we consider that the **SWOT ANALYSIS**, although not compulsory, is necessary because it views the practice from an objective manner as “a systematic, critical analysis of the quality of the medical act”, or as “an attempt to improve the quality of the medical act.”

3. **The SWOT analysis** in the hospital environment uses scientific methods to establish explicit criteria for the good practice, it measures the performance, it selects the cases, it compares the results and evaluates the actions of

improvement, this being realized at several levels:

The care structures – the organization of the activities, the equipments and the competences of the medical staff are analyzed.

The care procedures – the degree of correctness is analyzed in the application of the medical protocols

The care results - the degree of cure and bettering of an affection as well as the absence of complications

The orientation of the sick person in the demand for care – the accessibility to a certain type of service is appreciated.

#### 4. References

- [1] Armean, P., “Managementul calității serviciilor de sănătate”, CNI Coresi, București, 2004.
- [2] Becker, B. E., M.A. Huselid, D. Ulrivi, “The HR – Scorecard: Linking People, Strategy, and Performance”, Harvard Business School Press, Boston, 2001.
- [3] Broek, L. van, R. van der Giessen, and A. van Oers – van Dorst, “Performance Management”, Alphen Rijn, The Netherlands: Samson, 2000.
- [4] Chang, R and M. Morgan, “Performance Scorecards: Measuring the Right Things in the Real World”, Jossey – Bass, San Francisco, 2000.
- [5] Hubert K Rampersad, “Total Performance Scorecard Fundamente; Management Consulting-Instrument practice de aliniere și îmbunătățire organizațională”, Editura Didactică și Pedagogică, R.A., București, 2005.
- [6] Opincaru, C., Gălețcu, E., și Imbri, E, “Managementul calității serviciilor în unitățile sanitare”, CNI Coresi, București, 2004.
- [7] Rădulescu, V., “Marketingul serviciilor de sănătate”, Editura Uranus, București, 2008.



## “4P” Versus “STAP” Adapting Modalities in the Medical System

Dumitru Graziella Corina

*The Academy of Economic Studies Bucharest, Romania*  
[corinnadumitru@yahoo.com](mailto:corinnadumitru@yahoo.com)

Bâtcă Viorel

*The University Titu Maiorescu, Bucharest, Romania*  
[batcaviorel@yahoo.com](mailto:batcaviorel@yahoo.com)

Irimescu Alina Mihaela

*The Academy of Economic Studies Bucharest, Romania*  
[curpan\\_alina@yahoo.com](mailto:curpan_alina@yahoo.com)

### Abstract

This work was supported by CNCIS – UEFISCSU, project number 224 PNII – IDEI code ID 793/2007).

As the services have distinctive features which differentiate them of the manufactured products, the services marketing is different of the product marketing. Due to the fact that initially they were designated to the marketing goods, the traditional “4P” of the marketing combination (**product, price, placement and promotion**) have proved to be inappropriate for the services marketing and more for the medical marketing, not addressing to the distinctive characteristics of the services and not taking into consideration the importance of the human element. **STAP** – **service, tariff, access, promotion** – is a pretty new term which is due to the fact that the medical institutions have been through the latest organizations of performing the services that applied the modern marketing in their activity. Starting from a constructive research, the paper proposes to realize a research destined to the adaptation of the STAP concept within the medical system.

**Key words** :product ,price; placement, promotion,service,tariff,access,promotion,medical system;

**JEL classification:** I19; M31;

### 1. The basic characteristics of marketing: the concept of the “4P”

In the specialty literature, the traditional “4P” of the marketing combination are defined this way [7]:

**1. The product** is represented by *a good or a service which satisfies the necessities of the client.*

**The product politics** represents an ensemble of techniques and strategies that aims at the dimensions, structure and the evolution of the services scale that constitutes the object of the activity of the organization and which includes a multitude of activities:

The innovation – it refers to the creation of an appropriate climate in all the compartments of the unity for: research and the diversification of the services scale.

The modeling of the service – it consists in its conceiving and report at a certain qualitative standard.

The legal insurance of the performed services.

**2. The price represents the value received in the exchange of the product**

**The price politics** is an ensemble of strategies, tactics and techniques that allow the organization to model the prices depending on the demand, conjuncture and the market dynamics.

**3. The promotion** is defined as a *modality of communication between the buyer and the seller.*

**The promotion politics** represents an ensemble of actions meant to facilitate the

communication of the enterprise with its exponents in the external environment, totalizing a series of activities meant to attract a large number of consumers towards the offered products, releasing the action of buying on one hand, and on the other hand, meant to contribute to the increase of the economic efficiency.

**4. The placement** is the process of distribution of the product by the consumer.

By the **politics of placement** or distribution we understand the effectuation in the basis of a well determined plan, of a pluralism of specific actions which develop within the interval between the closing of a performing process of the service and its entrance in the possession of the final consumer.

## 2. The marketing of medical assistance and the STAP concept

In what concerns the politics of the “4P” this takes the form of the STAP concept - Service, Tariff, Access, Promotion within the marketing of the medical system [7].

**1. The service. A first aspect** which must be taken into consideration is represented by the **characteristics of the medical services**:

**(a) The intangibility** – it aims at the immaterial aspect of services, consisting of the fact that these cannot be seen, tasted, felt or smelt before being bought.

**(b) The inseparability** – it refers to the characteristic of the medical service that cannot be separated of the performer, being realized only through direct connection doctor-patient.

**(c) The invariability** – it refers to the fact that a medical service cannot be repeated more than once identically, being determined by the pathology of the patient, by the medical staff that administrates the treatment and by the material and medical support which stood at the basis of the treatment.

**(d) The perishableness** – it refers to the fact that the medical services cannot be stocked to be ulterior reused.

**A second aspect** is represented by the fact that one of the demands of formulating the marketing strategy is represented by the identification of the necessities and the patients’ desires, **the necessities** being defined as “*a psychological feeling originated from a need*”,

and **the desires** as a “*need appeared from the patient’s personality*”. Within the current context, the concept “desire” becomes an element more and more important. The simplest example would be the **interaction patient-medical assistance, as a phenomenon having two sides: the need – the health problem – and the desire – characteristic to entertainment, comfort and to the level of communication**. The priority of the services offered by the medical system comes from the identification of the needs and desires.

Mainly, for the patient’s satisfaction, **the relation doctor-patient presupposes at the same time [7]:**

**(a) A medical dimension** – referring only to the medical act itself. The patients’ satisfaction means cognitive evaluation and emotional reaction to the elements of the structure (human, material and financial resources and the hospital environment), of the process (technical aspects), as well as to the results of the provided medical services. Further on, the researches in the domain demonstrate that the satisfaction interacts with the perception of the technical aptitudes, the intelligence and the qualification of the medical staff. Though, the patients appreciate mainly the interpersonal communication aptitudes of the medical staff.

**(b) a dimension of communication** – which must aim at the information of the patient both in what concerns the diagnosis, the treatment, the recuperation and the consequences on the quality of his life which, not of few times, can be shocking. The patients must be asked what are their expectations concerning the doctor. A frequently studied aspect of medical care is the extension and the accuracy of the communication doctor-patient. The patient’s satisfaction is strongly dependent on the clarity of the offered information, and this could be an important sign of the quality of the doctor-patient communication.

**(c) An affective dimension** – which must exist during the hospitalization and which must aim at the care of the medical staff not only concerning the medical actions, but also the recognition of the new “statute”, that of patient, which passes quickly from the healthy man to the sick man. Taking into consideration the fact that in general a surgical intervention is

perceived as being complicated, the affective dimension is necessary in order to maintain the patient's equilibrium (example interdisciplinary teams surgeon – psychiatrist – psychologist).

First of all, the patients' needs need to be identified so that the medical staff foresees them, using adequately the medical techniques and procedures.

One of the most important directions and current moments that are connected to the medical assistance is the patient's placement in the center of care and attention. This is why the opinion of the patients can be considered a key in the evaluation of good or insufficient activities in the context of the marketing strategy. The quality of the sanitary services refers equally to the increase of the client's/user's satisfaction, to the professional audit and to the improvement of the efficiency or the reduction of the costs, being approached differently by each category of doers involved in the sanitary systems: the government, the patients, the professionals and the management of the sanitary organizations.

Due to the fact that nowadays in the sanitary systems a high importance is given to the idea of reaction to the response of the client/user of medical services and to the idea of offering to him what he desires, the methods and techniques of study of the patient's satisfaction are used at a larger and larger scale within the sanitary organizations.

**2. The tariff** represents the equivalent of the price in the general marketing and is defined as *the value attributed to the product or the procured system*.

Transposed in the hospital universe, **the tariff of the sanitary service** can be defined as *an ensemble of methods of fastening and constructing the prices which are to be paid by the patients in the exchange of different services that we will receive*.

Thus, **the tariff** generally consists in *fastening the price of the consultations and of the medical acts on one hand and in fastening the prices concerning the hotel services on the other hand*.

**The consultations** represent the services provided to the patients to diagnose and prescribe medical services. **The price of the consultations** should be fixed depending on the *level of competence of the doctor and on the*

*price of the foreseen recovery*. We ascertain that the difficulties connected to the determination of a structure of these prices justify the fastening of the price of these consultations.

**The price of the medical and paramedical consultations** represents the price of the medical act itself performed by the doctor on the patient during his hospitalization. These prices **should be determined depending on the nature of the medical acts: laboratory, radiology, stomatology, surgery, etc.**, depending on a general nomenclature of these acts. To each service or medical act a so called **key letter** corresponds to which a value is associated. These key letters correspond in fact to the medical acts mentioned previously: A=laboratory, B=radiology, C= stomatology, D=surgery...etc. Further on, the price of a service is obtained by multiplying the coefficient of the key letter corresponding to the service with its relative value.

**3. The access** represents the equivalent of placement, and the current tendency regarding the medical assistance is the diversification of the places of performing the service – home medical assistance, mobile unities (medical control, diagnosis, etc.) – or the increase of the reserve of the service at the “classical” place – the increase of the number of the hours of consultation, the work during the days of rest etc.

For the exemplification of the access we present the a public proposal of politics which aims at ***the improvement and the development of the quality of the lives of the dialyzed patients' lives by creating facilities for the transportation, treatment and psychological consulting of the patients coming from the disfavored rural environment***.

**Purpose:** **The creation of equal opportunities for the dialyzed patients in the rural environment regarding the access to the medical services and to the social assistance equivalent with those existent in the urban environment.**

**General objective:** The improvement of the access of the dialyzed patients coming from the rural environment to the medical services and to social assistance and the making environment to the medical services and to social assistance and

the making responsible the authorities in this regard.

**Specific objectives:**

1. The structuring and the organization of a network of transportation of the dialyzed patients until the end of the year 2013 in all the counties of the country.

2. The increase of the specialty medical staff's number who look after the sick in the peritoneal dialysis program at their homes in the rural environment.

3. The modernization of the dialysis center by involving the private capital, within the private public sector in this domain. The usage of modern, performing machines which offer medical and technical safety, superior conditions of monitoring, adequate diet and superior conditions of socializing.

4. The organization of services of social assistance for their patients and families.

5. The development of the social function of these patients with the help of the psychiatrist or of the social educator.

6. The implementation of the program **Holiday dialysis** through which the patients in Romania can spend the holiday at the seaside, at the mountains or abroad, benefitting of booking of the dialysis sessions in the nearest personal or partner center.

**Direct beneficiaries:** the dialyzed patients in the rural environment.

**Indirect beneficiaries** and categories affected by the implementation of the politics: The families of the dialyzed patients; The sanitary and social assistance corps in the counties' hospitals; The firms of transportation and maintenance of the means of transportation.

**The variants of solving which were proposed are rendered below:**

**Variant 1: The creation of a network of transportation in the rural environment to take the dialyzed patients from their homes and to ensure their transportation to the counties' hospitals.**

**Impact 1**

**Social:** The development of an adequate specialized system of transportation to respond the best possible and in due time the needs of the dialyzed sick.

**Economic:** It promotes a financing system that goes from Ambulance to the private sector.

**Risks:** Exceeding the costs initially anticipated.

**Variant 2: The creation of a network of specialized social assistants who go and look after the sick in the program of peritoneal dialysis at their home in the rural environment.**

**Impact 2**

**Social:** It allows the care of the dialyzed patients in their familial environment; It eliminates the discrimination in what concerns the different way of treatment of the patients in the rural and urban environment; It determines the increase of the number of the social assistants.

**Economic:** It presupposes exceeding the limits of the budgets of the County Hospitals to sustain the network of social assistants.

**Risks:** The over sizing of the social assistants' network does not insure their performing.

**Variant 3: The creation of some zone dialysis centers.**

**Impact 3**

**Social:** It allows maintaining the dialyzed patients in their social environment.

**Economic:** The diminishing of the costs when talking about treatment, exception making the transportation, the hospitalization, etc.

**Risks:** It determines the increase of the investment costs.

**The recommended variant of solving: Variant 1 is the variant recommended for the implementation.**

**Motivation:** a network of transportation will be created in the disfavored rural environment which will transport the dialyzed patients from their homes to the county hospital and back, network which will insure equal rights and non-discriminating for the dialyzed patients in the rural environment. The acquisition and the administration of the ambulances will be realized by the winner of the auction's organizer.

**Direct beneficiaries:** the dialyzed patients in the rural environment.

**Indirect beneficiaries:** The families of the dialyzed patients; The sanitary and social assistance corps in the counties' hospitals; The firms of transportation and maintenance of the means of transportation.

**Social:** The development of a specialized adequate system of transportation endowed with performing devices for the dialyzed patients; The development of a system which responds in due time to the needs of the dialyzed patients; The development of a system which responds in due time to the needs of the dialyzed patients; Easy access to the medical services of dialysis; The insurance of some equal rights non-discriminating for the dialyzed patients in the rural environment.

**Economic:** It promotes a financing system which goes from the Ambulance to the private sector; The management of the hospitals will register a significant diminishing of the transportation expenses for the dialysis, appointing this way in the limit discounted by the County House of Health Insurance for the non-medical transportation; Capacity of efficient administration of the bought ambulances; The respecting of the program schedule of functioning of the dialysis centre and the avoidance of this one due to delays.

**Risks:** Exceeding the costs initially anticipated; Delays in the development of the activities due to some unpredicted events (unfavorable meteorological conditions); The reticence of the families regarding the safety of transportation (road accidents).

**Performance indicators:** The increase of the number of the dialyzed patients coming from the rural environment who benefit from these transportation services; The number of the dialyzed patients entered for the first time in the program; The diminishing of the number of dialyzed patients who renounced to the program due to abandon or death; The degree of occupation of the jobs approved for the medical staff who will function on the ambulance; The degree of satisfaction of the dialyzed patients basing on the evaluation questionnaire, approved by the order of the president of CNAS (NHHI-National House of Health Insurance – 1 questionnaire/semester).

**4. The promotion** consists in informing the patients on the type of services, the purpose and their quality, the place and time of performing the services as well as the medical tariff. As in the case of the general marketing, the purpose of the promotion does not consist only in offering the information, but also in the creation of a

reputation and images (the creation of an atmosphere similar to the “brand name” in the general marketing)

Example: the main objective of publicity will consist in announcing the patients about the spectrum of the services offered by the surgery section and the obtained successes (new surgery techniques, difficult interventions which saved the patients’ lives, etc.)

### 3. Conclusions

**1. The medical marketing based on the concept SPAP** has as **purpose the increase of the quality of the offered services to increase the patients’ satisfaction** and in the final **the improvement of the health condition of the population.**

**2. The main objective of the medical marketing based on the STAP concept** is the **offering of qualitative health services**, insuring progress regarding the offered treatments, of the medical used equipments and of the medical staff trained and oriented towards the patient

**3. The purpose of the medical marketing based on the concept SPAP** is to make the medical service more **accessible to all the patients no matter the age, sex or social environment they come from.**

**4. The purpose of the medical marketing based on the concept SPAP** is to **adapt the medical service to the patients’ expectations and to present it to them** taking into account **the asymmetric information of the patients** due to the social environments they come from.

### 4. References

- [1] Armean, P., “Managementul calității serviciilor de sănătate”, CNI Coresi, București, 2004.
- [2] Becker, B. E., M.A. Huselid, D. Ulrivi, “The HR – Scorecard: Linking People, Strategy, and Performance”, Harvard Business School Press, Boston, 2001.
- [3] Broek, L. van, R. van der Giessen, and A. van Oers – van Dorst, “Performance Management”, Alphen Rijn, The Netherlands: Samson, 2000.
- [4] Chang, R and M. Morgan, “Performance Scorecards: Measuring the Right Things in the Real World”, Jossey – Bass, San Francisco, 2000.

[5] Hubert K Rampersad, "Total Performance Scorecard Fundamente; Management Consulting-Instrument practice de aliniere și îmbunătățire organizațională", Editura Didactică și Pedagogică, R.A., București, 2005.

[6] Opincaru, C., Gălețscu, E., și Imbri, E, "Managementul calității serviciilor în unitățile sanitare", CNI Coresi, București, 2004.

[7] Rădulescu, V., "Marketingul serviciilor de sănătate", Editura Uranus, București, 2008.

# The Organizational Framework of Modern Companies – Present and Forthcoming Tendencies

Dura Codruța

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

Cucu Ioan

[cucuioan2002@yahoo.fr](mailto:cucuioan2002@yahoo.fr)

*University of Petroșani*

## Abstract

The need to reorganize the classic structure of contemporary companies is generated by the occurrence and manifestation of cross-correlated trends and phenomena such as: markets globalization; accelerate internalization of economies; profound technical and technological changes, the informational “explosion”, the diversification of demand together with the “personalization” of commodities and so on. Thus, the emergence of innovative approaches regarding strategies and organization is very appropriate knowing that contemporary business organizations will have to achieve multiple goals (i.e. economic, social, moral, technological and ecologic objectives) and that technologies hard to imagine nowadays can become familiar in the future.

The strategies of the third millennium in correlation with the immediate structural development call into requisition the original concept of development as a series of waves of change, revealed by Alvin Toffler in his well-known book “The Third Wave”. Starting from this metaphor, the paper makes a survey of some relevant theoretical approaches regarding the unprecedented transformations that will occur within organizational structures of future companies in the near future.

**Key words:** modern companies, organizational framework, tendencies;

**JEL classification:** M19;

## 1. Introduction

Dynamic and unpredictable, the contemporary strategic environment has changed

a lot during the last decades, so that continuous changes and the complex characteristic are now the background against which companies develop. This situation is the result of the often cross-correlated new phenomena and tendencies, which are considered challenges even by companies that are 3-millennium old. Here are some of the following phenomena and tendencies: the tendency of market globalization; the globalization and internationalization of economies which leads to an interconnected economy in a world “without frontiers”; important technical and technological changes; information blast; the intensification of international competition, as well as the shifting of emphasis from price to quality and technical level; the diversification of demand, doubled by the “personalization of consumption”; the limited character of resources and exigencies regarding environment protection and ensuring the ecologic equilibrium; the cost and high mobility of capitals, etc. The changes mentioned above, together with other tendencies, are not only trouble makers, but they also have the ability to open new doors for companies and managers who prove to be creative and flexible in conceiving strategies [7].

Under the circumstances, the improvement of global strategies becomes a necessity, especially for international companies; in this context, this process represents a refinement of present and future strategies, subject to the necessity to diminish the uncertainty and to capitalize the changes; this process has the role to indicate the evolution trajectory towards multiple accomplishments of contemporary businesses (this does not imply only the traditional economic dimension, but also the social one, the moral, technological or the ecological ones). The emergence of innovative approaches regarding strategies and organization

is more plausible knowing that technologies hard to imagine nowadays can become familiar in the future, and the demographic structure of labor power is already experiencing spectacular changes [4].

Global communications, information networks, laptops and other technological innovations allow people from different corners of the Earth to interact. It is highly probable that in the future, a mere access code to the computer network of an international company would be the only clue to its status. Allowing for these realities, management specialists unanimously admit that organizational structures of the future companies will have very different configurations compared to the present ones [2].

## 2. Various Approaches Regarding Organisational Structures and their Relationship with Managerial Strategies

Efforts to conceive the innovative organizational structures have as reference point *the classic frame of reports between corporation strategies and organization structures*. The American specialist Alfred D. Chandler was the first to analyze this in his book "Strategies and Structures" [1]. Based upon the study of the structural development of 70 great American companies (among which we must mention the names of some notorious international companies like General Motors, Du Pont, Sears or Standard Oil), Chandler postulated the unique sense of the relation between strategy and structure: "*structure follows strategy*", that is to say that strategy changes are the ones that shape the organizational structure. The experience of the studied companies demonstrates that their structure followed, in the long run, the coordinates imposed by the development strategy that was chosen. This process has the following steps: originating a new strategy; the occurrence of administrative problems; economic revitalization of the company. During the same period, there were also authors who disagreed with the idea of determining the structural configuration only through the chosen strategy; they gave examples of situations in which the relation between strategy and structure was quite the opposite [3].

In 1980s, the two approaches reached an agreement: the researches performed determined a mutual influence between the strategy of a

company and its structural organization; they were both integrated in the company's managerial system. However, there are several axioms which were validated by the management of the big companies, for example the quick forming of the most appropriate "*structure*" based on the chosen strategy has substantial competitive advantages; some strategies had been allotted specific structural "*recipes*" (for example, market differentiation is associated with divisional organization structures) [3].

The strategies of the third millennium in correlation with the immediate structural development call into requisition the original concept of *development as a series of waves of change*, revealed by Alvin Toffler in his well-known book "*The Third Wave*" [6].

In his book, Toffler describes three types of societies, based on the concept of 'waves' - each wave pushes the older societies and cultures aside.

- *The First Wave* is the society after *agrarian revolution* which replaced the first hunter-gatherer cultures thus ensuring the material and spiritual conditions for the development towards a superior level.
- *The Second Wave* is associated with the *industrialization* phenomenon and it still covers an extended area on the Earth. The main components and values of the Second Wave originate from materialism and the supremacy of the individual power; from this also originate competition, self-conservation, consumption, security as a characteristic of financial wealth, etc. A series of problems were brought about by these values: pollution, crime, mass and ecosystem destruction, consumption of natural resources, unbalance between incomes and living standards, etc. This phase of development is synthesized by the following saying: "*we are separated so we must compete*".
- *The Third Wave* is the post-industrial society and is still in competition with ideas from the previous wave. The components of the Third Wave are: preoccupation for equilibrium, cooperation and mutual support. The "*breakdown*" of the Second Wave value system is reflected by the attention paid to



some preoccupations like reducing ecological risks, supplying services for others, creating possibilities for development and professional satisfactions, in the detriment of certain “conventional variables” like severe competition or money. The slogan for the Third Wave is “*we are connected so we must cooperate*”.

The metaphor of the “waves” of change was later extended because of the emergence of a *Fourth Wave*; its central axis represents the integration of every life dimensions and responsibilities into a unique system with a common identity. The values of the Fourth Wave are synthesised in the saying: “we are all in one and we choose to create together”. These values are: self-confidence, interconnection, global thinking, cooperation as the only way to create a promising future for the entire Planet [5].

### 3. Classic Organisational Framework Versus Innovatory Structures

From the contemporary strategic management point of view, the connection to the changes imposed by the Third and the Fourth Wave implies the improvement of the relations between strategies and structure due to flexibility, dynamism and adaptability. At first, managers had to work to improve and renew the organisational elements characteristic for companies that still function according to the Second Wave. The organisational structure characteristic for the Second Wave is *the classic industrial bureaucracy*, formed as a pyramidal system, at the top of which stands a management that controls a chain of permanent and functional departments, often inflexible and incapable of immediate reaction to changes. The values of the Second Wave are “*borrowed*” from the army and they are the following: *survival, auto conservation, eliminating competition, victory* and so on. The development strategies for companies from the Second Wave are conceived for a relatively short period of time of 5 – 10 years. This classic form of business organisation led to separation, destructive conflicts, rigidity and inefficiency.

A better and improved alternative for the traditional hierarchical structure is *the matrix organisation* which is based on the principle that generates synergies between permanent

functional departments and work teams. This is not necessarily a very efficient structure: it divides the decisional process because of the double subordination of employees; reduced credentials; managers play a double role, they are not very flexible and this brings about important competitive disadvantages. Just like the traditional hierarchical structure, the matrix structure is based on a central management. In fact, regardless of the organisation structure – bureaucratic or matrix structure –, the role of the manager within Second Wave companies is the traditional one, that is to say that he has the role of supervisor and judge according to his knowledge and status, ignoring the fact that the company should be “teaching school” for employees from all levels.

Nowadays, the shifting from the matrix structure to the *business unit* organisation is considered a major development, despite the fact that the latter is also associated with the Second Wave. Autonomous groups of businesses, which form the basis for this organisational structure, have several advantages: autonomy, loyalty, a common unique objective – identifying and satisfying the needs of the market – and flexibility. Companies with a matrix structure reject this decentralised form of organisation because the transition towards this structure implies the “demolition” of pyramidal structures and especially sacrificing the managerial powers. Moreover, the strategy of dividing plans into autonomous groups of businesses, implemented by IBM in the year 1991, is interpreted as an identifier of flexibility and prompt reaction towards this organisation structure.

Putting the Third Wave in perspective, the team work was planned; *team work* is based on cooperation, trust, integrity and equal rights of team members. Managers, elected by team members, are both trainers and “servants” of the team and they represent the interface between that team and other work groups. The advantages of team work are: autonomy, flexibility, democratic character of the decisional process and the ability to solve the problem of diversity through an immediate reaction to market changes. Companies that implement such organisation structures have a tendency to become flat because multiple hierarchical levels are eliminated and the decisional process is handed over to team members. According to this approach, administrative levels, which are very

few, focus on supervising activities and ensuring longer periods of time for “*strategic coordinates*” that must be implemented and improved. Although great efforts have been taken by big avant-garde companies – Hughes Aircraft, X.E.L. Communications, Weyerhaeuser, etc. - in order to assimilate this organisational structure, small and medium size companies from America have the tendency to “*revolutionize*” their own administrative systems which lead to the Third Wave.

The Fourth Wave company will be structured according to a *communitarian organisational model*, which from a spiritual point of view is based on the changes registered in people’s conscience. This organisational structure will be a democratic and a participative one, subject to its objective to serve clients and the community. Future strategies, associated with an extended period of time (which includes generations or better yet, centuries), will be unanimously determined using either predominant intuitive processes and techniques or logic and rational methods familiar to classic management. Because of the total absence of hierarchy within this organisation structure, decisions, principles and the system of values will be agreed upon by community members [5].

Most big and medium size companies which function in Europe and in the United States are faced with the so-called “*implosion*” phenomenon; this phenomenon represents the gradual clearance of patrimonies, the reduction of the production capacity, of technologies, of research work, of market development programmes and of the number of employees, in favour of achieving the maximum income during a short period of time [5]. The strategic solution in order to avoid the risk of implosion is a severe change in the business philosophy of companies; this means shifting the attention of companies from production to *servicing clients, employees and the community*.

The message of these changes is obvious as far as organisational structures are concerned, develop and attend to others. The strategy of the company in the third millennium will gather together a set of characteristics which are different from the present ones: it will be subject to the new type of “*servicing*” organisation, generating moral effects; it will transform the company into a “*welfare community*” as the stakeholders’ interests come to an agreement; it

meaning that companies will have to completely revise their organisation structures. Thus, *the adaptable company*, oriented towards global serving of clients, is considered a permanent “*frame*” which links a set of temporary module units, associated with team values. According to Toffler, “*modules*” can be formed up either of external independent organisations or of internal semi-autonomous agents; they can be re-organised or even cleared, according to needs, since they go “*with the wind of change*”[8].

The Fourth Wave will be based on the objectives of contemporary economic activities. The new system of post-economic values will force companies to take interest not only in economic performances, but also in social achievements and in splitting responsibilities so as to ensure the welfare of local, national and global communities. The globalisation concept is extended due to the integration of some problems which go beyond national borders – ecologic destructions, environment pollution, gaps between regional life standards, international terrorism. For the sake of global serving strategies, international companies will direct, for example, their resource availabilities and infrastructure towards re-positioning some spare physical installations in several areas or towards identifying infrastructures and maintenance processes which developing countries will find easy to implement. In such a context, “*clients*” will identify themselves with an entire country or region. The idea, subject to “*global servicing*”, is that the production capacity should cover the material needs of the inhabitants of the Planet; a system of values, which equally distributes production, is also necessary.

At this point of development, the adaptable company does not have a single economic objective; it becomes a “*multi-objective*” organisation which is perfectly integrated in the social, moral and physical-ecologic environment, “*a means*” through which humans

will bring forth local action plans considering the new economic concept of globalisation; it will have flexible, democratic organisation systems to guide it though the implementation process; it will integrate and achieve complex objective; it will promote research activities in the advanced technological field etc. [9].

#### 4. Conclusion

Most of present companies, still blocked in the Second Wave of changes, have a centralized and hierarchic structure which focuses on material values like profit, efficiency and development. The variety of activities performed by these companies is reduced to economic and technological processes, while the “*globalization*” concept is limited to the perception of economic investments in foreign countries.

The transition from the Second to the Third Wave implies, according to Toffler, the setting up of adaptable companies; therefore, managers will have to “decentralize” companies, that is to say that they will have to divide them into smaller and various businesses, which are capable to meet the variety of consumers’ requests. Thus, it is considered that if the company with the most efficient production outrivalled competition in the past, nowadays the company which promptly decentralizes itself in order to satisfy each client, is on top of the wave of change.

The Fourth Wave will be based on new values that will urge the managers of future companies to be concerned not only in economic outcomes, but also in social achievements and in splitting responsibilities as to ensure the welfare of local, national and global communities. Thereby, at the

beginning of the third millennium, the adaptable company will have to develop new flexible organisational systems in order to bring together the above mentioned characteristics of serving organisations.

#### 5. References

- [1] Chandler, A.D., Strategy and Structure: Chapters in the History of the American Industrial Enterprise, Massachusetts Institute of Technology, Cambridge Mass., 2000
- [2] Dunning, J. H., Lundan, S. M., Multinational Enterprises and the Global Economy, Edward Elgar Publishing, 2008
- [3] Dura, C., Management strategic, Editura Universitat, Petroşani, 2007
- [4] Harrington, H. J., Harrington, J.S., Management total în firma secolului 21, Editura Teora, Bucureşti, 2000
- [5] Maynard H. B., Merthens S., Al Patrulea Val. Dincolo de Alvin Toffler, Editura Antet, Bucureşti, 1996
- [6] Toffler, A., The Third Wave, New York Morrow, 1980 (Toffler, A., Al treilea val, Editura Z Bucureşti, 1996)
- [7] Toffer A., Previziuni. Premise, Editura Antet, Bucureşti, 1996
- [8] Toffer A., Corporația adaptabilă, Editura Antet, Bucureşti, 1995
- [9] Toffler, A., Powershift: Knowledge, Wealth and Violence at the Edge of the 21 st Century, Bantam Books, 1991

## Customer Relationship Management

Conf. univ. dr. Enache Elena  
e\_enache2005@yahoo.com  
Asist. univ. drd. Marin Carmen  
krmen\_maryn@yahoo.com  
Conf. univ. dr. Vechiu Camelia  
cameliavechiu@yahoo.com

Universitatea „Constantin Brâncoveanu” Pitești  
Facultatea Management Marketing în Afaceri Economice Brăila

### Abstract

The most significant changes in the practice of marketing during the last decade in the shift in emphasis from a transaction orientation to the customer relationship management (CRM).

Customer relationship management is a strategy of organization to identifying the main desire of the customer and the behaviour commercial business, the beneficial use of information acquired in order to improve relations with these factors, with the objective of increasing customer satisfaction requirements.

**Key words:** customer relationship management, customer behavior, customer satisfaction;

**JEL classification:** D12;M31;

### 1. Introduction

The approach by the client has always been a base principle of the marketing. Kotler says that “the marketing people and the customers must work together in order to find out how the client can be satisfied better”.

The acronym of CRM entered recently in specialist’s language.

Most specialist’s use CRM to refer to customer relationship management. Other use CRM to mean customer relationship marketing.

Another group, in the belief that not all customers want a relationship with supplier, omit the word relationship, preferring the term customer management.

In the 1990’s companies began to improve the CRM, with the premise of forever changing the way business small and large interacted with their customer bases.

At the end of 1990’s, CRM ended up high on a agenda of many a top manager, thanks to the marketing efforts of software companies, as well as other factors. Their IT system enable companies to interact with large groups of customers on an individual basis and at a relatively low cost. As a result, companies may accumulate individual customer knowledge which they may use in offering customized solutions and in developing long-lasting, mutually profitable relationship. On the one hand, these solutions improve the operational excellence of organization’s front offices, and on the other, they offer the potential to develop a long-lasting relationship with customer. To date, companies experiences with CRM are somewhat disappointing, and this may be for a variety of reasons. Too many CRM initiatives are still dominated by technology and the strategic and organizational aspects of CRM tend to fall by the wayside insufficient attention is focused on the interpretation of the marketing strategy: who are the right customers and what do they want; how each organization dialogue with them ?

On the other hand, too much energy is invested in the creation of the communication infrastructure and the orchestration of the dialogue with the aid of IT.

In the years between 2000 and 2004, CRM was a constant topic of corporate discussion.

Today, CRM is still utilized most frequently by companies that rely heavily on two distinct features: customer service or technology. The three sectors of business that rely most heavily on CRM, and use it to great advantage and financial services, a variety of high tech corporations and the telecommunication industry.

## 2. Definition and elements of CRM

The concept was defined as a software product, a data collect method, a sales strategy or a data analyze. CRM totalize this definition and many others depending on each user necessity.

Ed Peclen, in his book "Customer Relationship" says that "CRM is a business strategy and therefore more than a functional strategy alone. It affects the organization as a whole: marketing, IT, service, logistics, finance, production and development. HR, management.

Another definition – CRM – is an information industry term form methodologies, software, and usually internet capabilities that help an enterprise manage customer relationship in a way.

Paul Greenberg, in his book "CRM at the Speed of Light: Essential Customer Strategies for 21<sup>st</sup> Century", says that "CRM is a philosophy and a business strategy, supported by a system and a technology, designed to improve human interactions in a business environment."

## 3. Elements of CRM

The realization of a CRM strategy depends on a number of components or competencies. Perhaps the most obvious competency is related by the ability to create the infrastructure, which makes it possible for customer and supplier to recognize one another and to be able to interact in "real – time".

The four cornerstones of CRM must be mentioned first are:

- a. Customer knowledge
- b. Relationship strategy
- c. Communication
- d. The individual value position

### a. Customer knowledge

Knowledge of the individual customer is essential in order, ultimately, to develop a long –

term relationship and to supply customization. Customers, but also prospects, must be identifiable; it has to be possible to determinate who someone is. At the some time, the customer's profile must also be known. What has the customer purchased, how does he or she prefer to communicate and how may he or she characterized further? Without this type of knowledge, it would be unthinkable to attempt to build a long – term relationship with the customer.

Companies must develop the competency or capability to develop this type of individual customer knowledge for a large number of customers. Databases will have to be filled with correct and current data which will be transformed by analyses into individual customer information. Individual customer data will have to be supplemented by outcomes of anonymous market research so that a more complete image of the customer may be created.

### b. Relationship strategy

The individual customer information must be used to develop a long – lasting customer – supplier relationship. In the other words, a marketing or other type of strategy must be implemented which truly differs from a strategy which merely focuses on the simulation of transactions and thus requires other competencies. Companies that concentrate on the stimulation of sales became proficient in the art of "seduction". They have a certain means of communication, a short – term horizon and a limited interest in the customer. They measurer their success by their sales and the number of completed transactions. Market share represents a very important criterion for success.

On the other hand, organizations with a relationship strategy in place have a long – term horizon, "tell" and "listen" more than they "sell", and have a broader and deeper interest in the right customers.

### c. Communication

In the communication between customer and supplier, the relationship strategy will have to prove itself to a great extend.

## 4. Implementation of CRM

The Financial Times report identifies the major components for the successful implementation of CRM as:

- a front office that integrates sales, marketing and service functions, across media (call center, people, stores, internet);
- a data warehouse to store customer information and appropriate analytic tools with which to analyze the data and learn about customer behavior;
- business rules developed from the data analysis to ensure the front office benefits from the firm's learning about its customers;
- measures of performance that enable customer relationship to continually improve;
- integration into firm's operational and support (or back office) systems, ensuring that the front office is promises are delivered.

## 5. Banks and the CRM

Banks seem more and more interested to introduce CRM, which allow them to guide their activity according to the customer's request. A person can be a possible or a real customer, may come in contact which the bank through a multitude of methods, such as:

- Bank's advertising;
- Press announcements;
- Information requested by phone;
- Information requested in writing;
- Asking at the front office;
- Accessing the bank's

In consequences, the banks have obligation to select the personnel and train it to have the appropriate behavior; best advertising for the bank is the favorable impression its personnel gives to the possible and real customers. Bank-customer relationship is a continuous process that has as main subject satisfying the customer's demands in order to maximize the bank's profit. Priorities of the customer relationship management in the banks area are:

- the necessity to bring in new customers;
- the growth of the deposits' quantum and the member of opened accounts for credit;
- the growth of the member of eligible clients for the proposed loan policy;

- the growth of the money circulation through the customer's accounts;
- the diversifying of takings and paying and the growth of incomes from commissions;
- higher degree of loyalty.

The bank must design a database with information on every single customer that needs to be upgraded periodically in order to acknowledge and evaluate the clients from economical and financial point of view.

The bank – customer relationship has for main target to bring additional value to both partners on the basis of following principles:

- the mutual relationship must bring growth of both partners;
- the bank must focus on assisting a reasonable number of clients, the loyal ones before others. This attitude brings a “premium” for the bank;
- value means transparency and continuity in satisfying the basic banking necessities for the client;
- the customer should compensate the bank by swinging of cooperation opportunities;
- the customer expects cooperation from a healthy, strong bank system that should offer a large category of banking services.

## 6. References

[1] Kotler Philip – „Kotler despre marketing – cum să creăm, cum să câștigăm și cum să dominăm piețele”

[2] Purcărea Teodor, Rațiu Monica – “Comportamentul consumatorului – o abordare de marketing”

[3] \*\*\* [www.ectop.ro](http://www.ectop.ro)

[4] \*\*\* <http://books.google.ro>

[5]\*\*\* [www.steoradea.ro](http://www.steoradea.ro)

## Communication During Human Resources Recruitment, Selection and Integration Processes in Organizations

Florea Nicoleta Valentina  
*Valahia University of Targoviste*  
*floreanicol@yahoo.com*

### Abstract

Organizational communication is becoming more and more important in attracting, maintaining and motivating human resources, gaining strategic role and function. The different functions of communications are explained through the transformations that have marked the modern organizations in an environment in continuous change. In this article is presented the efficiency of communication which allows the organization to make known its mission and its objectives in obtaining success. The strategic advantage of an organization is recognized as being obtained through people- these are becoming the key resource to obtain competitive advantage. To make known its vacancies the organizations must create the advertising so, to attract a sufficient number of competent candidates, not-discriminating, giving real and relevant information according to the principles of organizational ethics.

**Keywords:** communication, recruitment, selection, integration

**JEL classification:** M51

### 1. Communication in recruitment processes

In any domain it is sustained the idea that people are “the most precious thing “of an organization. Human resources recruitment is an essential and a difficult activity and has an important influence over the whole activity. Knowing the personal necessary allows carrying on of recruitment process in good conditions and with more chances of success.[9] If the recruitment process is made efficiently, than the selection process is much more easier to make.

On employment advertise bases is staying the personnel specifications and job description. [3,4] The formulation of recruitment advertising must not only inform about the main features of the vacancy, but to attract the potential candidates. To attract the best candidates and to achieve its objectives, the organization launches the recruitment advertising, in the country or abroad, depending on finding the best prepared candidates.

The content of a recruitment advertising must: present the organization name and profile (its main activity) with brief references, because is a form of indirect advertising and the organization may become known; the organization with a good reputation will attract valuable candidates[12]; provide enough details regarding the main features of the job. It won't be detailed the job responsibilities, but expressing the main directions of the job will help the potential candidates to identify if they are matching with their interests; summarize the basic attributes that should have the job holder; make necessary references to any desired attributes of the candidates to make them understand if they are incompatible with the job; set out the main conditions for employment and the desired advantages for the organization; establish to whom must be sent the papers required for a vacancy, the way to contact the organization (now is used more and more, besides phone and fax, the mail address, as affordable and fast application method, advantageous for the employer and for the candidate, too; respect the legal regulations(on the bases of ethics principles, equitation, equal opportunities and nondiscrimination[14]).

In the end the advertise must contain information about where, how and until the candidate can apply for the vacancy. The advertise details must be short but comprehensive. The advertise form vary,

depending on the importance of the organization and the discrimination must be avoided.[7]

The composition of these advertising is also an important factor which contribute to the efficiency of recruitment.[12] So, the human resources specialist must have the right technology and the art to communicate efficiently. The biggest danger for the organization is to show an eronated image about itself and not keep its promises made in the recruitment process - Gunther Everart, recruitment manager.

*Advertising* - is the most efficient method of attracting the candidates. The question is where should appear the advertising, and if the recruitment must be made by the organization or by recruitment agencies.[1]

The publication of a recruitment advertising may be a costly activity.[8] When is made an advertising, the organization must take into account certain factors: -the number and the place where are the potential candidates; -the cost of advertising- to be effective the advertising must attract a sufficient number of prepared candidates; -the frequency- the frequency that an organization wants to publish its advertising is important in choosing the publication; -themes and range of movement of the publication- an economic publication will be read by those who search working in this domain, and a general interest publications will attract more candidates and less prepared. The moment of appereance of the advertising is very important, especially if the chosen method are specialized newspapers and publications.

*Publicity* - is a vital element of recruitment process and is the most clear method of attracting the candidates.[11] When is used this method, it must take into consideration three criteria: the cost, the speed and the probability to find the best candidates.

The main instruments of employment advertising are: local newspapers; national newspapers; technical/professional periodicals; centers of professional integration; other agencies; posters at the factory entrance[4]. Organizations from United Kingdom to strength its market position in terms of advertising for employment, publish in the daily national certain categories of posts in a certain day of the week [4]. For example, The Times and The Daily Telegraph publishes advertising for managerial positions in each Thursday. The Guardian

publishes vacancies in education only Tuesday, and from public sector only on Wednesdays. This system comes to help the organization which is looking for employees, and the employees who seek a new job, because both know exactly when is the "market day" for the followed type of the job. Specialized magazines usually appear once a month and address for a specific group of interests. Due to their predictable nature and their access to specific groups of potential employers, magazines represent an important tool in recruitment advertising. Another important advice is that section where the advertising appears must be on the odd page because they are generally read more often than from even page. The efficiency of an employment advertising can be appreciated about : -the number of information asked by the candidates ; -the number of applications ; -the degree of compatibility between the employees and their conditions.

When an organization make an advertising, it risks in a certain manner its own reputation and its public image. That is why some organizations make important efforts to establish a quality standard for all its employment advertising.

The success of advertising is highlighted by four steps(AIDA) :

- Attention- because on the work market there are other competitors who look for good candidates, the advertising must capture the attention of target audience.

- Interest- the advertising must be made to keep awake the candidate interest[8] and to read all the content, to communicate interesting and attractive information about the job, the organization, employment conditions or the requested qualifications. It must be created the interest over the job, but it doesn't be unduly praised nor be overstated.[1]

- Desire- the advertise must arouse the reader's desire to take the opportunity offered.

- Action- the message must be written in a certain manner so to attract the look and to encourage to read it till the end, and to receive a sufficient number of applications.[1]

A recruitment advertising should begin with an irresistible title and contain information about organization, the job and personnel qualifications (courses, experience), the wage and the location. The title is very important. The most simple and obviously approach is the describing of the job with bold letters. To attract



attention, is recommended to specify the wage and the benefits. It is proven that the wage and the car are the most important in attracting the candidates, that is why must be specifically mentioned.[1]

## 2. Verbal and nonverbal communication during the selection process

From the moment that the organization managed the recruitment activities so that to attract a sufficient number of suitable candidates from the external labor market, the selection must identify those competent and suitable candidates for the tasks in job descriptions [3]. The selection represents a biunivoc process: not only the organization make an evaluation of the candidates but also the candidates evaluate the organization. For organization, the selection represents an operation of "marketing and sales", as the recruitment.

During the interview it is established a relationship between vacancy requirements and competencies of each candidate. Almost in all cases of selection, takes place the interview and in some cases it represents the only used technique, but not the most irrelevant technique in terms of interviewer subjectivity. It is used for any hierarchical level, for promotion of staff, transfer within the organization and employment outside the organization.[10] Applicants should prepare very elaborate and sell their talent, skills and competencies to be chosen from all the competitors. But also the recruiting team should be well trained in "the art of questioning" the candidates and to read their reactions. Performance of selection process is given by the degree of specialization of the interviewing team. The team should be better prepared to lead successfully the selection process: it must study carefully all the relevant documents (job descriptions, personnel specifications, applications, recommendations) and it must be aware of his subjectivity. Necessary competencies to lead a interview in order to obtain performance is: adequate preparation, not discriminating, listen carefully, not interrupte, take notes, to have the capacity for analysis and synthesis, for empathy, the ability to ask open questions, the ability to analyze a candidate's image, provide relevant information without boring the candidate, to transmit a good image of the organization, maintain a relationship of

communication with candidates, manage permanently the discussion with tact and diplomacy.[10]

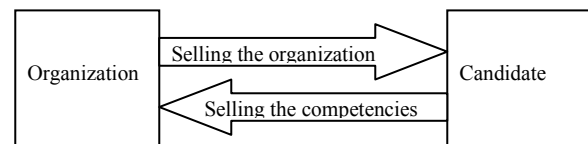
*"The ability to find the right question is more than half of the fight to prepare the response"*  
Thomas J. Watson.

In the end of the interview, should immediately make the evaluation in a candidate assessment sheet[4]. To be effective, the interview must be used to identify those qualities of the candidate that can be analyzed best through methods such as dress code, language, motivation and nonverbal behavior. The interview should be structured in stages, in order to allow the interviewer to make a complete picture of the candidate, to facilitate sorting. The interview should take place in a relaxing atmosphere, in which the candidate should not feel pressured, stressed or in inferiority.

Communication in the interview is to inform the candidates about the organization, vacancy and its demands, being an instrument of public relations of the organization and give the candidates the opportunity to provide more detailed information on their professional past and their future aspirations.[10]

Interview selection is a form of communication with specific characteristics resulting from its specific purpose. The message needs to pass from transmitter (interviewed) to receiver (interviewer) and must convince by using the techniques of argumentation and persuasion.[11]

*Fig. 1. Biunivoc character of communication in interviewing time*



If the organization wants to transmit information effectively, it must first analyze the situation of communication. The adaptation of the message must be continuous, because every time are observed and analyzed the candidates reactions: non-verbal language, changes of physiognomy, gestures, words, inflexible of the voice, which is representing clues about a candidate. Simple and concise phrases, carefully chosen with a clear language, without becoming

precious are considered essential in choosing candidates and sorting information.

It is important, in the interviewing time to analyze the human behavior, because it is considered the truth behind the words.[5] Knowing the body language make possible using language of our own body, and the interpretation of the behavior collaborators, having so the opportunity to react efficiently in these relationships.[9]

If the resume and letter of intent was elaborated without stress, the interview involves a spontaneous speech, with elements of improvisation and changes of scenario, developed in conditions of maximum stress.

The interview will be structured so that to cover all the important aspects related to candidate:

*A. the plan in seven points[Alec Rodger, 1998]:*

1. physical aspects - has this person physical constitution necessary for the job?
2. knowledge - he has the experience, the academic and the professional qualifications necessary for the job?
3. IQ level- how intelligent is this person and how he can use this quality?
4. specially skills- what skills he has which can be used ?
5. interests- what is his motivation for the new job?
6. disposal- what kind of personality has he and what are the implications for the new job?
7. circumstances- what effects has the events over his careers and how can these influence its work performance?

*B. The plan in five points [John M. Fraser, 1998]:*

1. the impact over the others- what kind of reactions he generates and what kind of behavior has he?
2. the qualifications and the experience- has he the necessary knowledge and skills for the job?
3. natural skills- how rapidly can he think and what are the implications for the job?
4. motivation- what kind of work is better for the candidate and how much effort is he disposed to make?
5. emotional adaptability- how rapidly can he adapt of a new situation and what are the implication ?

Usually during the interview has an impact the first and the last impression. The first

impression depends on the way the candidate is dressing, the way he is smiling and looking, the speech fluency, the verbal and nonverbal language. The psychological mechanism is that the first impression will act like a filter, and will let passing only the information which sustain the first impression. That is why is good to take advantage of the primary impression and the last impression, beginning and ending the interview in force.[11]

An appreciated quality to a candidate is the speech fluency. The studies show that this quality is making the candidate more intelligent and having especially interpersonal skills. The interview ends by informing applicants with the decision taken, but also candidate informs the employer[13] and [6].

*"If you are rejected from a job that you know you can do it, put it on account of a inexperienced interviewer, not to an error of yours"* Phil Boyle, CEO Ramsey Hall Limited.

If after the interview organization decided not to hire the candidate, it is better to transmit immediately or after a reasonable period, by letter or by e-mail that he was rejected, but will be retained in the organization database.

### **3. The communication during integration process of new employees**

Socio-professional integrating represents the assimilation of a person in the professional environment, adapting to the demands of work and the behavior of group in which is working, accommodation and the adequacy of his personality to the group.[11]

Integration is when the new employee become familiar with the organizational internal regulations, working time, breaks and social activities. Successful organizations will make sure these processes are treated as important and allocate them sufficient resources.[8]

The main reason is that new employees who browse an effective programme of professional adaptation increase their chances of reaching a good performance on the job, faster than those whose accommodation was not done properly. They are less likely to leave the organization in an early stage compared with those who have not done an adaptation program. These phenomenon are called "crisis of adaptation" and signify

phases of dissatisfaction relative to the post, the organization or both.[8]

A nice receiving doubles the chances of maintaining the new employee into organization for a long time.[7] A special attention should be paid to those who have just graduated school and have never been employed, those who return to work after a long period of time, people with disabilities, minorities and those promoted or transferred. [8]

Professional integration is familiarity with the new place and conditions of employment, accommodation of new employee with the group work, creating an atmosphere of safety, privacy and belonging, so that the new employee and to acquire confidence in their ability to perform job duties.[10]

Integration means not only the aid granted to the employee but also a longer observation after employment, thereby identifying the attitudes, interests and aspirations, progress, responses to different stimulus, satisfaction in work, the team spirit and participation in achieving the organization objectives. Forcing the rhythm of professional integration can lead to growth of staff fluctuation, with negative effects on organization. The period of integration of a new employee is required because he can not work effectively without a knowledge of the organization and complexity of tasks make impossible their fulfilling without an initiation in advance. Some organizations do not take into account these arguments and require the employee to work from day one. For the employee appear a stressful situation, on professional and in the relationships plan.[11]

To prepare a programme of professional integration should be taken into account motivation, requirements and behavior of potential employees, who is in continuing change. Responsibility of professional integration will be divided between the manager (chief hierarchically superior) and the Department of Human Resources.

Direct boss has the duty to make his general training and should also reserve some time from his work for staying with the new employee in his first day of work. He will adopt a friendly, optimistic and relaxed attitude. [11] Among the integration methods we can include professional visits within the organization led by hierarchically chief, providing information necessary for the proper fulfillment of tasks,

maintaining a permanent dialogue between employee and boss, providing "a welcome map", which contains information about the organizational structure of the institution, the daily work programme, formalities of evaluations, internal regulations, data on safety and accident prevention.[16]

A person who knows what to expect is more probable to remain on the organization, in spite of some unfavorable aspects, but anticipated. Integration can be considered finished when the new employee has reached maximum capacity to perform the job tasks. The rhythm of integration varies from a few months to a year, depending on the employee's personality and temperament, the experience, the complexity of work and efficiency of the integration. The efficiency of this process can be evaluated by tracking feedback map integration (which is done by filling in unsigned questionnaires for new employees, periodic interviews, group discussion with new employees, etc.) and by a large number of processes and methods that differ from one organization to another (new employee manual, for guidance counseling, training, video training, working under the tutelage-mentoring, coaching).[10]

Integration may be direct (for executive functions) and indirect (for management positions), through the organization discovery and entrust of some missions.[11]

Even if there is a coherent strategy for integration into an organization, it can reorganize, depending on the situation, in order to face successfully the challenges of the moment.[12] Because of the organizational integration importance and complexity it is necessary to create specific programmes of integration, who can ensure the problem solving of both sides.[17]

#### 4. Concluzions

«The word is the messenger of human thought» (T. Vianu).

Business communication is a fundamental feature of organizations existency. All the managerial functions, including the human resources management are sustained by the communication, like a process of understanding between people, transferring the information.

This optics is used in many organizations and in personnel recruitment domain it borrows

many of the elements specific to advertising. Knowing to behave right and knowing to communicate appropriate and efficiently is representing, next to professionalism, factors of professional success[11]. Attracting «the right people at the right time and the right place»[15] is made through an effective advertise to obtain results and to achieve its objectives.

The communication into the interview time has the role to inform the candidate about the organization, the vacancy and its demands, being a tool of organization public relations and give the candidate the opportunity to present information about its professional past and its perspectives. In the opinion of many experts in the field, nonverbal communication is stronger than words, because reveals how things really are, and the emotional part of our communication.

The research shows that interlocutors are impressed by the words used at a rate of 8%, by the intonation at a rate of 23%, and by body language at a rate of 69%. «Our body has something to say when communicate, and sometime only our body is communicating».[2]

Respecting the legal regulations, based on the principles of ethics, equity, equal opportunities, and nondiscrimination make the organizations communicate efficiently and attract a sufficient number of competent candidates who can obtain competitive advantage and to achieve the organization objectives.

## 5. References

- 1.Armstrong M., *Managementul resurselor umane*, Editura CODECS., 2008;
- 2.Birkenbihl F.V., *Semnalele corpului. Cum să înțelegem semnalele corpului*, Editura Gemma Pres, București, 1999;
- 3.Bogathy Z., *Manual de psihologia muncii și organizațională*, Editura Polirom, Iași, 2004;
- 4.Cole G.A., *Personnel management*, Editura CODECS, Bucharest, 2000 ;
- 5.Deep S. and Sussman L., *Secretul oricărui succes: să acționăm inteligent*, Editura Polimark, București, 1996 ;
- 6.Jay R., *Interviuri de mare succes*, Meteor Press, 2008;
- 7.Lakhdar S. et al, *Gestion de ressources humaines*, Universite de Boeck, Canada, 2001;
- 8.Martin M. and Jackson T., *Practica de personal*, Editura CODECS, Bucuresti, 2008;
- 9.Manolescu A., *Managementul resurselor umane*, Editura Economică, Ediția a 4-a, București, 2003;
- 10.Omer I., *Psihologia muncii*, Editura Fundația România de Măine, Bucharest, 2003;
- 11.Păus V.A., *Comunicare și resurse umane*, Editura Polirom, Iași, 2006;
- 12.Pănișoară G. and Pănișoară I.O., *Managementul resurselor umane*, Ghid practic, Editura Polirom, Iași, 2007
- 13.Pell A., *Managementul resurselor umane*, Editura Curtea Veche, București, 2008;
- 14.Peretti J.M., *Ressources humaines*, Editions Vuibert-Gestion, France, 2003;
- 15.Petrescu I., *Managementul resurselor umane*, Editura Lex Libris, Brașov, 1995 ;
- 16.Radu E., *Conducerea resurselor umane*, Editura Expert, București, 2001;
- 17.Vărzaru M., *Resursele umane ale întreprinderii*, Editura Tribuna Economică, București, 2000.

## Role of Public Relations in the Information Society

Forfolea Mariana

*Free International University from Moldova*

*marianaforfolea@yahoo.com*

### Abstract

Systematic effort to create and maintain goodwill of an organization's various publics (customers, employees, investors, suppliers, etc.), usually through publicity and other non-paid forms of communication. These efforts may also include support of arts, charitable causes, education, sporting events, etc. Public relations are the opposite of advertising. In advertising, you pay to have your message placed in a newspaper, TV or radio spot. In public relations, the article that features your company is not paid for. The reporter, whether broadcast or print, writes about or films your company as a result of information he or she received and researched. Publicity is more effective than advertising, for several reasons. First, publicity is far more cost-effective than advertising. Even if it is not free, your only expenses are generally phone calls and mailings to the media. Second, publicity has greater longevity than advertising. An article about your business will be remembered far longer than an ad. Publicity also reaches a far wider audience than advertising generally does. Sometimes, your story might even be picked up by the national media, spreading the word about your business all over the country. Finally, and most important, publicity has greater credibility with the public than does advertising. Readers feel that if an objective third party—a magazine, newspaper or radio reporter—is featuring your company, you must be doing something worthwhile.

**Keywords:** broad-based public affairs, planning, budgeting.

**JEL classification:** H83

### 1. Introduction

Public relations is now a profession with a scientific body of knowledge. In addition, public relations become a managerial

function rather than a communication technique. Problems and challenges that public relations will face in the future are manifold. We agree with the fact that public relations now have a scientific body of knowledge and that quickly becomes a managerial than technical communicational function. The authors say that the strongest trend in public relations is a strategic move towards a managerial role. Ironically, the key problems and challenges are closely intertwined forces limiting the role of public relations and development management body of knowledge of the discipline. The first problem that public relations have to face the confusion caused by what is actually means strategic public relations. The idea that public relations should be strategic rather than tactical is very popular today in professional circles. [2] However, Swiss scientists, led by Francesco Lurati University of Lugano, noted that most practitioners public relations define public relations as strategic communication supports rather implement organizational objectives. Using Lurati's words: "From this perspective, strategic corporate communication is considered when pursuing objectives that are simply the corporate line. Term strategy does not change the nature of the tasks performed by tactical communication ... communicative function has no contribution to defining the strategy corporate.

We believe that this misunderstanding of the concept of strategic public relations is most prevalent among practitioners who are guided by what we call the interpretive theory of public relations. Believe that there are two major theories contrasting public relations, both in practice and in academia. These perspectives can be called symbolic

paradigm, interpretive, and strategic management paradigm or behaviorist..

## 2. Literature Review

Scholars and practitioners following the symbolic paradigm generally assume that public relations tend to influence how the public perceives the organization. These perceptions are theorized in cognitive concepts such as image, reputation, brand and identity impressions. Practitioners following the interpretive paradigm emphasize advertising (publicity), relations with media and media effects. Communication tactics, which they maintain this theory, creates an impression in the minds of publics that allow the organization to be separated from its environment, using theories of Cees van Riel, Danish specialist in communication. Separation involves creating an "artificial screen" positive message to mask the true organizational behavior, which allows the organization to establish a behavior. Unlike the symbolic, behavioral paradigm, strategic management, focusing on participation by public relations directors in making strategic decisions to help manage organizational behavior. According to the scholar Van Riel, the public relations function of a connection than separation. Intended for building relationships with stakeholders rather than a set of activities aimed at separating transmitting messages to their organization. The strategic approach, public relations directors are involved in managerial decisions. Their role is to identify potential consequences that decision might have on stakeholder consequences that create audiences. They communicate before making decisions and with audiences, because they may have reasons for decisions and to take account of their interests. PR people build relationships with these audiences to improve the quality of managerial decisions and to reduce risks and costs of these decisions. Interpretive paradigm is the belief that strategic rather than tactical appears in discussions on public relations evaluation. For example, research firms have tried to establish the idea that favorable media placements are closely linked to business objectives, such as sales, profits or consumer preferences. Others have tried to demonstrate that money spent on publicity have a higher investment return than money spent on advertising. In contrast, strategic management

approach necessary measurements are deceptively simple. Should measure the nature and quality of relationships between organizations and publics and should monitor the value of public relations. It is necessary to evaluate public relations strategies and tactics to determine which are most effective in building these relationships. This difference in thinking on the strategic role of public relations and the controversy is the link between public relations and marketing and management. Communication has always been a part of public relations specialist and practitioners are obviously more of a marketing budget. However, such research, including Strategic Public Relations Center at the University of Southern California shows that it is unlikely that public relations executives to play a strategic role and be understood and appreciated by other executives when relations limited public support to a management role. In general, when public relations are limited to marketing support, do so by emphasizing a role separately messaging. Research shows also that public relations should not avoid collaboration with marketing. Rather, public relations seem to play the most important strategic role when marketing public relations component is part of a greater strategic role (integrated communication) public relations rather than be subsumed Marketing (Integrated Marketing Communication) .

## 3. Methodology Research

I therefore consider that there are three key challenges that public relations profession has to face: 1) change the way in which practitioners, their colleagues and customers perceive the public relations management from an interpretative role, insulator, a role strategic management, 2) conducting a survey to identify theories and tools to perform a strategic role management, and 3) educating both practicing and future managers on the strategic role of public relations and management tools of its application.

Socio-political role of the public relations profession. Currently, most companies / organizations have too high expectations from public relations professionals. Most

people seem to perceive public relations as having a symbolic function, interpretive and that their aim is to prevent them understand how they may affect corporate actions, governments and other organizations. The general public assumes that public relations is immoral and unethical nature. We believe that companies should expect to provide public relations publics a voice in decisions affecting them. We believe that companies should expect profesioniștii public relations advisers to the ethics of taking decisions, both consultation on the consequences that their decisions may have on others and on moral obligation to communicate with those affected by those decisions.

Public relations are to develop relationships, and society is a network of relationships. As individuals, have fewer conflicts in life if we develop good relationships with spouses, children, neighbors, colleagues, bosses, teachers, friends and even our enemies. The same is true for organizations that interact with each other and with audiences in society. In general, both individuals and organizations develop better relationships (characterized by trust, control exercised by both parties, commitment and satisfaction) that, if they communicate and interact with each other, using certain strategies. Communication should be characterized by openness, authenticity and transparency - what we call symmetric communication. Should also behave in a responsible manner and in a way to serve both the interests of others and their own. Thus, the strategic role of public relations management is a socio-political role. Public Relations develops relationships with audiences and organizations in society, interacting in the political system to determine decisions in a collective manner, serving to meet the interests of as many elements of a democratic system.

If the dialogue - or debate - is the rule of the game in a democracy - where transparency is the elixir of the information society. Courage comes from a sound knowledge of the power of belief and acceptance of our role by others. Most professionals today lack at least one, if not more of the conditions needed to develop the courage to be what we call "an activist in-house [6]. As an activist in-house, a public relations professional would support transparency and authenticity in communication. He or she would appeal the decisions of socially irresponsible and unethical behavior. And when he or she would think that management is mistaken, suggests that

publics welfare. Although many have the courage to play that role should go martyrs of the cause rather than champions of public relations profession, if not enhance their knowledge, faith in their beliefs and if they do not accept others to him. PR professionals should develop more knowledge on social responsibility, ethics, strategic management and symmetrical communication. You must really believe in these values of the profession of public relations, to develop confidence in their beliefs, joining the public relations firm. Equally important is to convince the others - both managers and organizations in the population itself - that it is their role.

Journalists, academics and many critics dispute the value and values of public relations. We believe that most journalists dispute the value and values of public relations as all practitioners are guided by the symbolic paradigm, interpretive public relations. As I explained in an earlier response, we believe that many practitioners follow and believe in this interpretative approach. When practitioners follow this approach indeed, journalists and scholars disputing critics are right values and behavior of public relations people. Meanwhile, journalists and academics same critics refuse to recognize that there is a type of practitioner seeking behavioral paradigm, strategic management. Their criticism is focused on the most unethical and efficiency of practitioners, thus overshadowing the company valuable role played by the best practitioners. Thus, we believe that their critical attitude of many practitioners reflect actual behavior which in turn is based on a lack of understanding of excellence in public relations.

This behavior of practitioners and how the profession can be exchanged is understood. We demonstrated that the interpretative approach to public relations was established in the minds of most practitioners of public relations. PR community must work to be restored as a strategic management function. Establishing long lasting. One can only gradually changing our course. And we think we can do this by changing the behavior of many public relations practitioners by changing how public relations are described in textbooks and university curricula and

society gradually showing that this is a responsible and valuable profession, by providing a number of increasingly great examples of responsible practices.

#### 4. Conclusions

If we see public relations as a management function that uses communication to cultivate relationships with audiences who have a say in the conduct of the organization. Today's public relations help in management decisions socially responsible. Edward Bernays demonstrate that: "Public relations is the practice of social responsibility." We agree with him. We believe that the ideal public relations organizations to be more socially responsible. Identify and realize the negative consequences of their decisions and behavior management on publics. "Negative" are clearly the result of decisions and irresponsible behavior. Profesioniștii PR can identify negative consequences only listening and communicating with audiences before deciding to identify explaining the possible consequences and nature management consequences publics. Scenarios can be developed on the consequences of which affect how the public and affected public can organize to address these consequences through litigation, legislation, adverse publicity, etc..., Actions that have negative consequences for the organization. These scenarios can be used to help management make decisions knowingly. Profesioniștii public relations can then arrange symmetrical communication programs to assist management and the public to negotiate reciprocal behavior, so as to minimize mutual behavioral consequences. I really think that modern public relations can be public "activist in-house which helps the management to adopt socially responsible decisions. However, to do so, practitioners must develop knowledge, confidence and belief in their acceptance by the other things described.

We underline, that practitioners who are addressing the symbolic, interpretive programs often perceive very different way. Instead of seeing CSR as something related decisions and behavior daily management, they see corporate social responsibility as philanthropy or business image with very little to do with strategy and organizational behavior. In this approach, CSR activities are only used to create positive messages in hopes of protecting the organization from accusations and criticism of irresponsible or unethical behavior. Such image making activities should not equated with corporate social responsibility. There is nothing wrong in doing charity, but charity should be made for strategic stakeholderii that are valuable as employees, communities, consumers and government and not only because it provides positive publicity.

#### 5. References

- [1] Grunig James E., *Exceelență în Relații Publice și Managementul Comunicării* (Excellence in Public Relations and Communication Management). Hillsdale, NJ. Publication Year: 1992.
- [2] Grunig James E., *Ghid managerial de exceelență în PR și managementul comunicării* (Manager's Guide to Excellence in Public Relations and Communication Management), Routledge, July 1, 1995.
- [3] Grunig James E. Todd T. Hunt, *Managementul Relațiilor Publice* (Managing Public Relations), Hardcover - New Edition, 1984.
- [4] Grunig James E., *Organizațiile eficiente și exceleanța în relații publice: un studiu de managementul comunicării*. B,2008.
- [5] Grunig James E. *Tehnici de Relații Publice* (Public Relations Techniques), 2005.
- [6] Derina Holtzhausen. *Public Relations as Activism*. University of Johannesburg Hardcover, 2009.
- [7] <http://www.pr-romania.ro/interviuri/experti-internationali/96-despre-provoca>.



## Methods of penetration in foreign markets

Lector Univ. Drd. Franca Stancu  
*Universitatea "Tibiscus" din Timișoara*  
[francadumitru@yahoo.com](mailto:francadumitru@yahoo.com)

### Abstract

The decision on how a firm penetrates a foreign market segment is one of the most important decisions that can be made by the management of the company. Once the penetration method was chosen, its implementation will have significant implications on the firm that makes the decision, as well as on the market segment that it wishes to enter.

A firm's program of penetrating a foreign market is mostly determined by the method chosen in penetrating that market.

The company should consider all possible options, positions, the possibilities of losing control over how the product is presented to the final consumer and all the risks involved in penetrating foreign markets. Once he was chosen the method of penetration, management must provide strategies, objectives and time in which they should be achieved.

**Key words:** foreign markets; penetration method; management;

**JEL classification:** F23; M19;

### Generic strategy

For a company involved in operations on the international market, there are the following general strategic options [1]:

A. Maintaining a national basis (in a country) to produce goods and export them using the distribution channels of the controlled foreign company or the foreign ones controlled downstream. In this way, the company expands its international market.

B. Multiple markets strategy is also an extension of the market. In this case, the company focuses on two aspects.

The other aspect is to draw specific strategies for each market so that they match the needs of

the buyers and the competitive conditions in each market that the company operates on.

C. Global Strategy. The starting point is the global vision of the market, without taking into account national and regional differences. Global Strategy does not mean the same approach for each company. Various global markets have different needs and the company's competitive position and its internal resources influence, in turn, the global strategy.

D. Low cost strategy

Low cost strategy is based on scale and experience. Therefore, companies using such a strategy resort to sets of coordinated strategies, especially in manufacturing and marketing, focusing on scale economies and rapid accumulation of experience or both.

Experience may be obtained using one of the following strategic alternatives:

- Gaining market share in one market;
- Gaining market share in several markets;
- Combining the first two alternatives;
- Introducing new technology or components by appealing to the benefit of experience.

The chosen alternative depends on company's resources, the competitive situation of the market or markets and firm's desire to lead the competition.

E. Differentiated strategy.

The company chooses marketing variables based on the markets or market groups. The changes in products are made to suit the market and to differentiate from competitors. Differentiation may be unique in terms of physical characteristics or quality, a particular type of service or network of intermediaries.

F. Focused strategy

In this case, the efforts are focused on satisfying a segment of the international market, or a reduced number of markets. Focused strategy is a special case of differentiated strategy. The concept of a market niche means occupying a part of the market that competitors, especially new ones, do not have access on.

International focus is most useful when it is costly or difficult for competitors that seek satisfaction in multiple markets / market segments to satisfy the specialized needs of niche markets, while other rivals don't try to specialize on the same target market segment, when a company doesn't have the necessary resources and when the sector in which the firm is active has many areas, allowing the interested companies to select an attractive segment to measure forces and capabilities.

### **Global generic strategy**

The strategies [2] adopted by companies targeting global opportunities are essentially four types: dynamic high technology strategy, low or stable technology strategy, advanced management skills strategy and strategies streamlining production and marketing activities for the international market.

#### **A) Dynamic strategy in high technology**

In certain sectors, companies can become market leaders by developing different skills in technological innovation. This places them in a strong negotiating position with local governments.

#### **B) Low or stable technology strategy**

Although some firms are in sectors with low and stable technological innovation, they become market leaders by developing distinct skills in other competitive areas such as brand identity or know-how of the production.

Nevertheless, because their technology is widely held, they are not in a strong position for negotiating with local governments as described above. The main advantages that companies should have in order to adopt and use this strategy are the reputation, know-how in the production, economies of scale and the capacity to deliver standardized products and globally interchangeable components.

#### **C) Advanced skills management strategy**

Companies can become market leaders also by developing different skills in management such as marketing and coordination.

#### **D) Strategy to rationalize production and marketing**

Companies can become market leaders in their sectors and export to other markets to increase global markets. They can also streamline marketing activities so that they have a competitive advantage over competitors. A

firm that adopts such a strategy must meet four requirements of commercial importance, namely:

- The product should have a relatively high ratio between the value and volume or weight to compensate the transportation costs from the place they are produced to the market where they are consumed;

- Parts of the production process have to be intensive in labour force and separated from the rest of the production process for placing these activities that require more work in markets with low costs of the labour force;

- Control over the production process is essential to ensure coordination and maintenance of various production units and to maintain the quality standards required by the finished product and the destination market.

Company must [2] exert a close coordination of its international marketing organizations and logistics with access to one or more national or great trans-national markets. For example, controlling the distribution channels and the influence on price are often obtained by known brands.

### **Strategies for market presence**

Depending [3] on the companies objectives in terms of market presence, it may use several strategies that are influenced on the one hand by the competitive ability of the company and, secondly by the market situation and developments.

The main strategies that can be used by a firm which intends to report its competitive dynamic between capacity and market development are:

#### **Development strategy**

The company seeks market expansion in order to have greater market share. To this end, it expands the product range, distribution network and promotional activities.

#### **Consolidation strategy**

It complements the previous one. Such a strategy is followed when the company has grown to a point that is sufficient to his purpose. Therefore, if doesn't develop anymore, a company must strengthen its market position and does so by using the entire arsenal of marketing activities and tools.

#### **Maintenance strategy**

When firms [1] use this strategy they no longer have competitive advantages or the

competitive power required for the possession of a strong market position.

### **Restriction strategy**

This strategy is necessary when the company can not meet the market's requirements and loses customers and its market share is diminishing.

### **Competitive strategies**

That firms operating in international markets face two major problems in terms of competition: competitive behaviour and response to actions by competitors.

Given the way the company behaves a market can distinguish the following:

### **The role of advertising, trade and industrial exhibitions in entering foreign markets**

Starting from the complexity of the policy components of the promotion and the marketing objectives pursued, this activity must meet certain requirements:

- Providing information to the buyer about new products, their utility and to re-sellers to be able to offer information to their potential customers,
- Stimulate demand by accelerating awareness of needs, the cultivation of desires and aspirations;
- Product differentiation. With how a brand is more individualized compared to others from the same category, the bidder can count on a higher success, but, actually the buyer makes a difference.;
- Even relative loyal customers should be currently and regularly advised about the

benefits of products not to change their preferences, especially in conditions of competition by novelty

- Combat bad information, especially by rumours spread that can harm the companies and the product's image;
- Smoothing demand situation especially in low season for certain products;

Dedicated marketers consider that the advertising message performs its functions if they respect the C.I.D.D. principle. Meaning:

C = calling attention

I = inciting interest in product

D = desire challenge

D = to determine product purchase.

It has a number of advantages, especially when it is promoted to media centres, when the

- Influence of opinion leaders, people in positions of responsibility, the decision-making even at government level;

- Influencing public attitudes, especially through public interest campaigns against habits as alcoholism, smoking behaviour on public roads, etc.

### **A) Advertising**

The term is of Latin origin "publico – publicare" - to address the public, to notify the public.

The forms of advertising are based on a number of factors and it diversifies in line with the increasing competition between operators.

A. advertising product that essentially aims to stimulate consumer demand by doing the following:

- Informative advertising on the occurrence and presence to the market of a new product
- Conditioning advertising when the presentation focuses on conditions, conditions that facilitate the identification of products in the overall mass of the offer that the company is in competition with;
- Comparative advertising in which the presentation is sometimes subtle used compared to competing products- usually a repudiated and forbidden practice
- Resuscitation publicity, the desired strengthening effect of previous advertising activities;

B. Brand advertising (brand publicity), with the emphasis on brand image highlighting the product being offered.

C. Institution advertising which aims to establish a positive attitude, even an attachment towards the business or the enterprise.

To influence an immediate purchase and an early use of a product is used:

### **B) Publicity**

Time is of Latin origin and it makes sense "clamare" - calling, urging the purchase.

product may be known nationally. But the costs are very high and very difficult to customize.

### **C) Techniques and means of advertising**

It has a very wide range taking into account the developments in sociology, psychology and especially in the media, rightly called the industry. The major Medias used to support the transmission of the message are: print, radio, television, billboards and outdoor posters, promotional prints.

- Print media

Is the main means of transmission of advertising messages with a number of advantages that start with a good efficiency as far as territorial distribution, time of publication, access to a various category of socio-professional readers, circulation, sale price of the space, print quality, etc.

**D) Sales Promotion**

As noted, by sales promotion means using media and techniques to stimulate, enhance and increase the sales of goods and services that form the business offer at a certain time.

The most frequently used promotional schemes prove to be:

- Promotional price reduction with an undeniable effect and it is used in different situations such as: elimination of purchase reluctance, for some consumers for whom price is considered too high;
- Reduction in stocks of slow or difficultly sold products;
- Maintain sales levels of efficiency especially in reflux periods of demand;
- Stock lots of the products that will be replaced;
- Counter competitive actions and use the opportunities offered by certain cyclical market situations.

**E) Public Relations (Public Relations)**

It was recently established as a separate activity and it involves the cultivation of consistent and systematic direct contacts with different audiences, with influential people, with the media, with representatives of the public and opinion leaders, that may be treated as lobby actions.

**Conclusions**

Depending on the companies objectives in terms of market presence, it may use several strategies that are influenced on the one hand by the competitive ability of the company and, secondly by the market situation and developments.

**References**

- [1] Danciu, V., *Marketing international. Provocari si tendinte la inceputul mileniului trei, editia a II-a*, Editura Economica, București, 2005.
- [ 2 ] Niculescu Elena (coord.), *Marketing modern*, Editura Polirom, Iași, 2000.
- [ 3 ] Sasu, C., *Marketing international*, Editura Polirom, București, 2005.

# The Improvement of the Company's Management Using Econometric Techniques

Cornelia Gaber  
*Universitatea Petrol-Gaze, Ploiești*  
*dinugaber@yahoo.com*

## Abstract

During the managerial process of making decisions, it is necessary to have information about the future events, and this kind of information can be obtained by using different prediction techniques. This study presents the use of the Box-Jenkins predicting technique, used to prognosis the make of a product and to underline the impact the method has on the decision making process.

**Key words:** managerial decision, prediction, development

**JEL classification:** M19, C5

## 1. Introduction

The productive activity that takes place at a certain level involves creating a base (production capacity, labour resources, and technology) for reaching the same level, at least during the future period of time. Therefore, part of the economic processes depends on the previous performances, and the idle behaviour is emphasized using the autocorrelation. The particularities of the economic behaviour and the quantification and prognosis possibilities for the lag and auto-adoptive models have allowed the American econometric experts George E.P.Box and K.G.M.Jenkins to create the stochastic prognosis models.

The planning and control are key managerial elements considering that for making a decision the time variable changes from a few years to a few days or even hours. The information about the future events can be obtained using the prediction techniques, whereas the presented plans depend on the future expectations [2],[3].

## 2. The Box-Jenkins method

The purpose of this study is to present the use of the Box-Jenkins prediction technique [1],[6],[8] in order to forecast the make of a close necessary product.

The analysis and prognosis of the chronological series using the Box-Jenkins modelling methods is specific for the stationing series (a result of a stochastic stationary process) having some constant elements, that repeat themselves during the process, that offer a solid base to the prognosis and that make performance possible if they are kept as a model [5],[7].

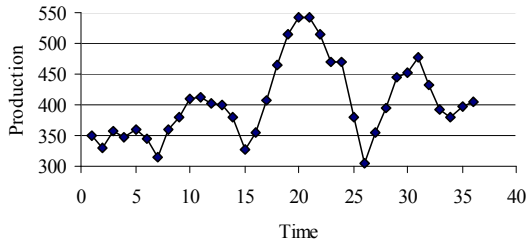
The data series used for the actual make of the Box-Jenkins modelling consists of the created quantities of the "P" strictly necessary product, during a 3 year period of time. The records are monthly reported and they are presented in Table1

*Table 1. Statistical data*

Time	Production (kg)	Time	Production (kg)
1	2499	19	4162
2	2304	20	4425
3	2570	21	4443
4	2468	22	4143
5	2590	23	3686
6	2451	24	3692
7	2138	25	2792
8	2608	26	2050
9	2804	27	2534
10	3087	28	2952
11	3123	29	3462
12	3028	30	3532
13	2989	31	3766
14	2799	32	3315
15	2275	33	2920
16	2543	34	2799
17	3084	35	3084
18	3640	36	3692

The shape of the graphic that is presented in figure 1 indicates the non constant characteristic of the data series

Fig.1. Production in terms of time



The auto-correlation function, that represents the key element for the entire prognosis stochastic modelling process can be estimated using the auto-correlation coefficient [4]:

$$r_k = \frac{\sum_{t=1}^{n-k} (y_t - \bar{y})(y_{t+k} - \bar{y})}{\sum_{t=1}^n (y_t - \bar{y})^2}$$

where  $r_k$  represents the estimator for the auto-correlation coefficient

$k$  – the lag.

Following the calculations these certain values are obtained  $r_1 = 0.822153$ ,  $r_2 = 0.512862$ ,  $r_3 = 0.201263$ ,  $r_4 = -0.06326$ , and the values for the auto-calculation function are  $c_1 = 0.822153$ ,  $c_2 = -0.5131$ ,  $c_3 = -0.07789$ ,  $c_4 = -0.13037$ .

The  $r_k$  coefficients follow a normal allocation. The average value is 0 and the value for the variance is  $\sigma_{r(k)}^2 = \frac{1}{n}$  meaning

$\sigma_{r(k)}^2 = \frac{1}{36}$ . For a probability of 0.9545 one must determine the limits of the reliable interval which are  $\pm 2\sigma_{r(k)} = \pm 0.33$  and it can be noticed that  $r_1, r_2$  are not part of the interval which means that the series is non-stationary. Therefore, it is necessary to differentiate the original series in order to reach stability. The values for the differentiated series are presented in the following table (table 2).

The auto-correlation coefficients obtained for the new values of  $y_t$  and presented in table 2 are  $r_1' = 0.347$ ,  $r_2' = 0.049$ ,  $r_3' = -0.156$ , and the result of the statistical testing of these coefficients is:  $t_1 = 1.9936$ ,  $t_2 = 0.25116$ ,  $t_3 = -0.80463$ . The fast decrease of these coefficients to values close to 0 attests the state of stationary series. The partial auto-correlation coefficients are the resulted values of the Tule - Walker equation system [9].

Table 2. The values of the differenced series

Time	Value	Time	Value
1	-	19	522
2	-195	20	263
3	266	21	18
4	-102	22	-300
5	122	23	-457
6	-139	24	6
7	-313	25	-900
8	470	26	-742
9	196	27	484
10	283	28	418
11	36	29	510
12	-95	30	70
13	-39	31	234
14	-190	32	-451
15	-524	33	-395
16	268	34	-121
17	541	35	285
18	556	36	608

$$c_1' + 0.347 c_2' + 0.049 c_3' = 0.347$$

$$0.347 c_1' + c_2' + 0.347 c_3' = 0.049$$

$$0.049 c_1' + 0.347 c_2' + c_3' = -0.156$$

By solving the prior system, the following values are obtained:  $c_1' = 0.347$ ,  $c_2' = -0.082$ ,  $c_3' = -0.167$  and the result of their statistic testing is:  $t_1' = 1.9936$ ,  $t_2' = -0.4686$ ,  $t_3' = -0.9619$ . A sudden decrease can be noticed after the increase of the lag, where the increase is equal to 1.

An ARIMA model [6] can be suggested for the analysed series following the previous analysis. The equation is

$$y_t - a_1 \cdot y_{t-1} = u_t - b_1 \cdot u_{t-1}$$

The auto-covariance must be determined for the initial estimation of the parameters for this model. This is presented in table 3.

The value for the residual variance and the value of the  $a_1$  and  $b_1$  parameters that have been obtained following an iterative process are: 119224,  $a_1 = 0.1403$ ,  $b_1 = -0.2367$  and the initial model is:

$$y_t - 0.1403 \cdot y_{t-1} = u_t + 0.2367 \cdot u_{t-1}.$$

Table 3. Auto-covariance

136511	-44953
47375	-15289
6648	4594
-21340	19686
-48955	4278
-52450	42233

Using the criteria of minimizing the residuary squares one can determine the final estimations for the  $a_1$  and  $b_1$  parameters, not forgetting to mention that by using the initial estimations for  $a_1$  and  $b_1$ , the sum of the residuary squares has the following value: 114503.

The final values chosen for  $a_1$  and  $b_1$  in order to reduce the value of the residuary square sum are  $a_1 = 0.0029$  and  $b_1 = -0.648$ . The reduced value for  $a_1$  is the consequence of the fact that the partial auto-correlation function has a crown and after that it is cancelled. The same thing can be said about the auto-correlation function, which indicates the existence of a weak correlation between the values of the series. The final equation of the model is:

$$y_t - 0.0029 \cdot y_{t-1} = u_t + 0.648 \cdot u_{t-1},$$

and the obtained residues, for this particular case, are presented in table 4.

The sum of the residues square is 55.24 in this case. Validating the model presumes the calculation of the auto-correlation and partial auto-correlation functions for the residues. The results are presented in table 5, along with the values of the corresponding t test. It must be taken into account the fact that  $|t| < 1.25$  for the 1, 2, 3 values of the delay and  $|t| < 1.25$  for the other values.

Table 4. The residues of the analysed periods

-	0.17	-2.72
0.196	-0.45	0.47
1.383	-1.00	3.67
-1.104	2.38	-0.19
0.67	0.82	0.27
-0.78	0.05	-1.32
-0.52	-0.10	0.49
2.35	-0.78	-2.06
-0.82	-0.74	1.35
0.26	-0.95	-0.45
-0.74	-0.47	0.80
-0.39	1.38	1.39

Table 5 Auto-correlation functions for the residues

fac-rez	t-val	facp-rez	t-val
- 0.21	-1.18	-0.21	-1.18
- 0.10	-0.57	-0.15	-0.88
0.04	0.24	-0.01	-0.08
- 0.19	-0.87	-0.18	-1.04
- 0.07	-0.36	-0.16	-0.89
- 0.19	-1.03	-0.33	-1.91

It can be clearly seen that the „fac-rez” and „facp-rez” values are mainly insignificant from the statistical point of view.

The test that Ljung and Box have developed takes into account the calculated value,

$$Q = n \cdot (n + 2) \cdot \sum_{k=1}^m \frac{1}{n - k} \cdot \hat{r}_k^2 = 10.53$$

which is lower than the critical value of Q for 9 degrees of freedom and a significance level of 0.25 that is 11.4.

Taking everything into account, the ARIMA model (1, 1, 1) is proper for the analysed series. The quantity of the strictly necessary product obtained using the ARIMA model is of 2957 kg.

### 3. Conclusions

A concern of high importance is represented by the prediction of the economic phenomenon, as a consequence, the managerial decision takes considers the reach and exceed of the previous results during the period of time that follows.

Assuming that the manager uses the prediction methods for planning the short time activity of the company, the method can be of great support for the managerial decisions. The results that are obtained by using the Box-Jenkins technique, along with the results that are obtained by using other predicting techniques lead to the building of a complex method of making decisions, and it is an important managerial instrument that can be used for the proper development of a company's activity.

The company's management can benefit from the information provided by the prognosis models for making the activity more efficient.

### 4. References

- [1] Voineagu V., Țițan E., Șerban R., Ghiță S., Todose D., Boboc C., Pele D., *Teorie și practică econometrică*, Ed.Meteor Press, 2007, pp.385-395.
- [2] T.-C. Dosesu, C. Raischi, „Modelarea econometrică, modelarea microeconomică”, *Studii și cercetări de calcul economic și cibernetică economică*, Nr.2, A.S.E. București, 2005, pp.41-52.
- [3] Jarrett J., *Business forecasting methods*, Basil Blackwell, Oxford, 1991.
- [4] Jula D., *Introducere în econometrie*, Ed. Profesional Consulting, București, 2003.
- [5] Pecar B., *Business forecasting for management*, McGraw-Hill Book Company, London, 1994.
- [6] Pecican E. Ș., *Econometrie*, Ed. ALL Beck, București, 1994. pp188-216.
- [7] Peracchi F., *Econometrics*, John Wiley & Sons, Chicester, New York, 2001.
- [8] Popescu T., Demetriu S., *Practica modelării și predicției seriilor de timp. Metodologia Box-Jenkins*, Ed. Tehnică, București, 1991.
- [9] Andrei T., Bourbonnais R., *Econometrie*, Ed. Economica, 2008, pp.367-382.



## The Romanian Market of Ecological Products

Gangone Andreea-Daniela  
Chirila Camelia-Andreea  
„Constantin Brancoveanu” University - Pitesti  
andreeagangone@yahoo.com  
cameliachirila2004@yahoo.com

### Abstract

The preoccupation to preserve the integrity of the natural environment for the benefit of the future and present generations, generated by the creation of an ecological awareness for more and more people, represents the foundation of the ecological products market.

In Romania, this market is still at an early stage, its development being stopped by a series of factors such as: the legislative ambiguities, the lack of ecological education with the Romanian consumers, the lack of subsidies for the ecological agriculture, the reduced number of ecological processors, the lack of an adequate commercial infra-structure, a reduced level of living.

Resolving these issues cannot be made on a short term and fundamentally involves the increase of the living standard and the ecological education of the Romanian consumers.

**Key words:** ecological products, consumers, market

**JEL classification:** Q57

### 1. Introduction

The decrease of the quality of the natural environment and the perspectives of its accelerated degradation, on one hand, and the considerable diminution of the natural resources on Terra, on the other hand, up to the point in which the specialists may approximate when a part of these resources will be completely finished, constitutes the support of the **ecological movement**, which appeared and developed as a reaction to the negative impact of the human activities upon the natural environment.

The ecologists are worried about the damages produced to the ecosystem by the surface mining, the forest cutting, the fall of acid rains, the reduction of the ozone layer,

the inadequate storage of the toxic waste and garbage, the reduction of the recreation zones

in the open air as well as the multiplication of the health problems caused by the poor quality of the air, the water pollution and the chemical treatment of food products [1] etc.

These issues are not recent, but they intensified along the XXth century, in the period of the so-called “wild capitalism”. Thus, Jean Jacques Cousteau stated, in 1996, that, in this century, the environment has been more affected than in all the other altogether and has considered that in this situation it has been determined by the free market system and the explosive increase of the population.

*The market system, considered Cousteau, harms the planet since everything has its price but nothing has a value. Since the long term does not have a price on the market today, the fate of the future generations does not get in the economic equation.*

The factors previously mentioned started a „revolution” in classifying the consumers’ values, as they have become aware of the importance of approaching the issue regarding the completion of their own needs and desires from an ecological perspective, respectively in a manner that treats the environment with respect. In other words, the consumers have acquired **ecological awareness** and have started to exercise a series of pressures upon the economic organizations so that they could assume a series of ecological responsibilities.

In the last decades, the **environment protection** became “a major social task of the humankind”, in order to secure the quality of life for the future generations [2]. This attitude reflects the preoccupation of the economic organizations to keep into account, when establishing their medium or long term objectives, the obligatory necessity to protect the natural environment by promoting a sustainable development.

According to the World Business Council for Sustainable Development, the **sustainable development** “wants to satisfy the needs and the aspirations of the present without compromising the chances to satisfy those of the future. Without any suggestion to stop the economic development, this concept admits that the problems of poverty and underdevelopment cannot be solved in the absence of a new era of economic increase, within which the developed countries could play a major role and get the intended results” [3].

In this vision, the sustainable development thought as the reconciliation between the economy and the environment, reconciliation which involves a sustainable support of the human progress, not only in few places of the world and for a couple of years, but for the whole planet and for a long future [4].

According to this approach, the major purpose of any economic activity is no longer the maximization of profits, of consumption or customers’ satisfaction but **the maximization of the life quality**.

## 2. The concept of ecological product

Such a general objective can be reached only by reconsidering the importance of the organizational purposes, in the sense of placing the sustainable development in the avant-garde of the results expected by the organizations.

Consequently, the companies are forced to find new methods to produce the non-polluting goods and some non-recyclable or biodegradable wrapping, new methods to control pollution more efficiently and at lower energy consumption [5].

The results of the ecological production process are the ecological products. Regarding this aspect, we must underline some terminological and content details.

From a terminological point of view, the European Union considers as being synonymous the notions of *ecological product*, *biological product* and *organic product*, each member state choosing to use legally one of this notions. In our country, we use the notion of ecological **product** [6].

We can also observe the Romanism consumers’ confusion in what regards the usage of the notions of ecological product (biological or organic) and the notions of natural or naturist product, confusion which is created, on one hand, from the lack of consumers’ poor ecological information, on one hand, and the

economic agents’ abusive behavior, who resort to all kinds of unreal presentations and promotions wishing to increase their sales.

From the point of view of the contents of the notion of ecological product, the situation is not simpler, because of the relativity of the concept. The relative character of the notion of ecological product is determined by the fact that, in reality, there are no pure ecological products, but only products which affect to a smaller extent, the integrity of the natural environment.

Thus, the **ecological product** can be defined as *that product which fulfills the same functions like the similar conventional product and brings less prejudice to the environment along its life cycle*.

In other words, an ecological product implies a combination of three attributes: it satisfies the consumers at least as good as the traditional product, it does not affect the company’s economic efficiency (it generates profit) and it affects the natural environment in a smaller measure.

The compatibility with the ecosystems is not a purpose; it is realized to satisfy the consumers’ needs in order to obtain the profits. The issue that needs to be solved is that of finding the means to offer the benefits to the consumers and maximize the profits without affecting the environment.

More than that, it is important to say that the notion of ecological product regards not only the product, but also its fabrication process. From this perspective, the ecological attributes of the product can be distributed in two main categories:

- a) *attributes specific to the product* – life duration, recycling facilities, quantity of materials used to obtain it etc.);
- b) *attributes specific to the fabrication process* – water and energy consumption, generating wastage etc.).

Also, the standards according to which they evaluate the ecological quality of products differ from one nation to another and from a period to another, which provides a dynamic character to the concept of ecological product.

Finally, the ecological products are evaluated differently from the categories of participants at the market operations. Thus, regarding from the *producers’ and the dealers’ perspective*, a **product can be considered ecological** if it corresponds to the green legislation. On the other hand, *the*

consumers can appreciate a product as being ecological if it fulfills their exigencies and their expectations regarding the environment and the health, which can sometimes surpass the regulations and the producers' availability regarding the environmental features of the products [7].

### 3. The offer of ecological products

Forming an ecological conscience to consumers generated the need for various products which could bring less prejudice to the natural environment, but at the same time could satisfy the consumers' expectations.

Observing the change in the consumers' attitude, a series of producers and distributors were preoccupied with creating and bringing on the market various products which satisfy their needs.

In this context, **the market of ecological products** was created, first in the industrialized countries, and later in the less developed countries.

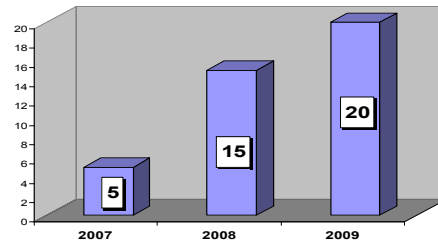
Presently, we may observe the apparition of more and more specialized and well-defined market segments, (especially the agricultural and food sectors, washing powder, cosmetics, toiletry, car sector etc.), made up of consumers who have already developed an ecological conscience, being disposed to pay a higher price when purchasing various ecological products.

The world market of ecological products has had an average development rate of around 3% per year. Thus, the market value has increased from 13 billion dollars, in 1998, to 46 billion dollars, in 2008.

In what its *dimension* is regarded, the Romanian market of ecological products has increased, in 2009, up to the value of 20 million Euros, which represents around 1% of the total retail market value.

This percentage is still low, both in comparison with the rate in the European Union, of 5-6% on the retail market, and with the objective of 5%, which Romania intends to reach in 2013.

Figure 1. The sales evolution of the ecological products in Romania (in millions of Euros)

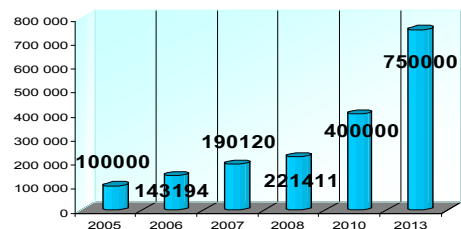


Source: Realized by the authors on the basis of the data obtained from [www.madr.ro](http://www.madr.ro)

The ecological agriculture is an important supplier of ecological products on the Romanian market, an aspect proved by the fact that the entire ecological cultivation land has continuously been extended in the last five years, reaching approximately 100,000 hectares (in 2005) to an average of 400,000 ha (in 2010), which represents around 1% of the agricultural existing land.

If we take into account that, in the European Union, around 3.7% of the agricultural land is cultivated organically, we observe that it is a low percentage, but the development rate of the land cultivated ecologically is high, the Ministry of Agriculture and Rural Development intends to extend it up to 750,000 hectares, by 2013 [8].

Figure 2. The evolution of the entire land cultivated ecologically in Romania (in hectares)

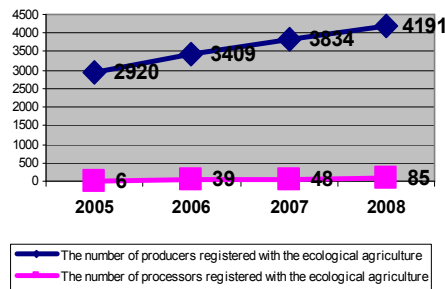


Source: Realized by the authors on the basis of the data obtained from [www.madr.ro](http://www.madr.ro)

Another relevant aspect regards the fact that most eco-products traded on the Romanian market are imported, as, in our country; there is a major discrepancy between the number and the capacity of the producers of ecological products, on the

other hand. More than that, the ecological agriculture generates more products than the small number of Romanian producers may process.

Figure 3. The chronological correlation between the number of producers and the number of processors registered with the ecological agriculture

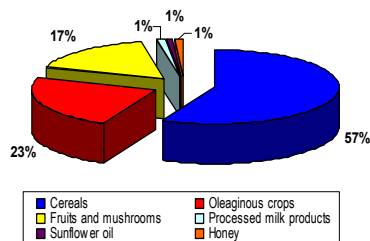


Source: Realized by the authors on the basis of the data obtained from [www.madr.ro](http://www.madr.ro)

Out of this reason, around 90% of the raw ecological products obtained by the local producers are exported (in 2008, the Romanian exports of ecological products were of 130,000 tones, respectively 100 million Euros), returning into the country as finished products and four times more expensive.

We can thus explain why the prices of the ecological products are 20-40% higher than the price of the traditional products.

Figure 4. The structure of the Romanian exports of ecological products in 2008



Source: Vaschi Maria, *Bio, eco or organic, free to retail!* in *Piața*, no. 54/2009, pp. 24-28.

In Romania, around 60% of the ecological products are sold in specialized shops, where the consumers have the possibility to study them, read their labels or even taste or test them.

These shops are situated mainly in big cities and the capital city: Pukka Food (Bucharest), Biocoop (Sibiu), Naturalia (Bucharest and Voluntari), Leacul (București), Bio Market

(Timișoara), Natura Food (București), Coșul Verde (Cluj), Ki-Life (București), Bio-Bazar (Tg. Mureș) etc. [9]

The eco products are also traded in the large chain-stores. Thus, the main chain-stores have introduced the ecological products and have set special selling departments for them: Carrefour, Cora, Gima, La Fourmi, Kaufland and Mega Image, but products of the same category we may find in almost all the other important distribution channels.

#### 4. The demand of ecological products

The green consumer (or the ecological consumer) is that consumer who has in his purchasing attitude a real preoccupation for the environment protection, looking for and purchasing goods with a low impact upon the environment.

The real ecological consumers do not want only a substitute made from recycled materials or healthy for environment. They want to breath fresh air, drink pure water, eat healthy products, and make sure that the future generations could do the same [10].

An ecological consumer can also judge a brand product in conformity with its ecological qualities. For these consumers, the ecological attribute is a valuable attribute of the product. Recognizing and accepting this attribute may be concretized into:

- higher prices paid for the ecological products;
- the refusal of some polluting products;
- choosing the ecological products instead of the conventional ones when the two categories will be similar (from the point of view of their price, offered facilities etc.).

As we can't talk anymore about pure ecological products, we can't either say that there are consumers with complete ecological attitudes. In fact, the reality is far from that.

In Romania, most consumers do not understand or they understand less than they should the impact on the environment and they are satisfied if they succeed in making some simple, symbolic changes in their consumption or personal attitude. Out of this reason, the cases of ecological attitudes are superficial most of the times.

A study made in 2005, with the support of the Ministry of Agriculture and Rural Development, tried to make the profile of the

Romanian consumer using ecological products: persons aged between 26 and 39 years, getting mainly a high or medium-level education (in other words, mature, active persons, in a social ascension).

The Romanian consumers appreciate most the food-related ecological products, respectively: dairy, eggs, fruits, vegetables and meat-based products, but also cosmetics with biologically controlled ingredients friendly detergents, or organic liquid food supplies.

The main reasons for not buying the ecological products in Romania are:

- the ecological products are expensive as the production costs are higher, while the profit is lower. In the future, at the same time with increasing the volume of eco-products, but also the number of local producers, we expect to have lower prices;
- there is a small number of ecological shops and they are situated only in the large cities, an aspect which limits the access of many Romanian consumers to quality ecological products;
- the diversity of the ecological products is still reduced;
- the wrong labeling of the ecological products on the shelf (in supermarkets or hypermarkets) and the lack of delimitating them from the rest of the products;
- the Romanian consumers who are still in a period of accumulation (of material goods and properties), manifest a low preoccupation for protecting the natural environment, a reason for not choosing the ecological products. Regarding this aspect, we may also observe the Romanian consumers' tendency to consume ecological products only after they obtain a certain life standard;
- the Romanian consumers do not pay the necessary time to study the offer carefully;
- the Romanian consumers cannot make a comparison with respect to the price of some similar ecological products;
- the Romanian consumers cannot ask for further details or look for information about the producers or the products;
- there is a conception that the producers are interested to sell their products by inducing the consumer into error when labeling the product as being "ecological", and lying

about their real impact upon the environment and their health;

- the Romanian consumers' confusion between the notion of natural/naturist product and ecological product;
- the producers' selection can only be made on the basis of the usual criteria, as well as the producer's brand, the bio certifications and the obtained quality standards;
- the ecological products can be less safe and less efficient.

## 5. Conclusions

Presently, the ecological purchasing and consumption attitude becomes more and more spread, sometimes being and integrating part of the life style of those people who are aware of the environment issues. The rapid development rate in the green consumption also places the environment in the situation to become a competitiveness problem for an increasing number of activity sectors [11].

In our country, these tendencies are, for the moment, at an early stage, but it is to expect that they will become more and more pregnant while the Romanian consumers will get an ecological conscience and will solicit more and more products that bring no prejudice to the natural environment.

Some of the methods that could contribute to the increase of the ecological products consumption in our country we can mention:

- ✓ it is believed that one of the major problems of the present society is the lack of information regarding the environment. Thus, it is necessary to develop, in this sense, a series of information campaigns for the consumers, with the participation of some non-profit organizations (ecologist and consumer protection) and non-governmental as they present a higher credibility compared to the private operators;
- ✓ effectuating some information campaigns for the producers, to train them and promote the concept of ecological product, made by state and private organizations;
- ✓ offering European financial support to the information and promotion programs proposed by the professional associations in the field.

- ✓ establishing some strict restrictions regarding the usage of fertilizers and pesticides, growth stimulators and regulators, hormones, antibiotics, animals intensive growth systems;
- ✓ the strict interdiction to use organisms genetically modified (OMG) and their derivatives;
- ✓ making some ecological products with taste, texture and authentic and attractive qualities;
- ✓ producing more hygienic food, proper to the human body metabolism;
- ✓ trading some ecological products only the registered traders;
- ✓ developing some "models of pair-customers" or some "models of family-customers";
- ✓ using the fidelity cards with the help of which the customers accumulate loyalty points when buying ecological products traded in specialized networks or shops;
- ✓ influencing the customers' purchase decision when revealing the impact of various products upon the environment or certain additives upon the health;
- ✓ promoting the concept of ecological agriculture in order to make the consumers aware of the advantages of the consumption of ecological products;
- ✓ intensifying the customer-directed actions regarding the importance of certified ecological products for our health;
- ✓ intensifying the information actions regarding the environmental projects and accessing European funds;
- ✓ allocating subsidies for the ecological agriculture, as this is a key-sector in the National Export Strategy for 2010-2014.

Finally, we need to clarify the impact of the economic crisis upon the Romanian market of ecological products. Obviously, the crisis has affected this sector of the Romanian market, but we consider that, in spite of the recession, there will continue to be some clients loyal of the

ecological products, who will permanently look for diversity, quality and natural taste. Besides, the Romanian consumers of ecological products are less sensitive to the price, at least while they consider that they pay a fair price for a quality product, and they are loyal to the brands which best respond to their needs.

## 6. References

- [1] Kotler Ph., Armstrong G., Saunders J., Wong Veronica, *Marketing principles*, Teora, Bucharest, 2001, page 81.
- [2] Popa I., Radu F., *International management*, Economica, Bucharest, 1999, page 260.
- [3] [www.wbcds.org](http://www.wbcds.org).
- [4] Nica Elena, *Performance management. Human perspective*, Economica, Bucharest, 2006, page 231.
- [5] Niculescu Elena (coordinator), *Modern Marketing. Concepts, techniques, strategies*, Polirom, Iași, 2000, page 39.
- [6] [www.madr.ro](http://www.madr.ro), CE Council Regulation No. 834/2007 of 28 June 2007 regarding the ecological production and the labeling of the ecological products, as well as the abolishment of the Regulation (CEE) No. 2092/91, accessed 23 March 2010.
- [7] Danciu V., *Ecological marketing. The green ethics of production and consumption*, Economica, Bucharest, 2006, page 131.
- [8], [9] Vaschi Maria, *Bio, eco or organic, free to retail!*, in *Piața*, no. 54/2009, pages 24-28.
- [10] Danciu V., *Ecological marketing The green ethics of production and consumption*, Economica, Bucharest, 2006, page 31.
- [11] Purcărea Th., Ioan-Franc V., *Marketing. Evolutions. Experiences. Concept developments*, Expert, Bucharest, 2000, page 188.

## The Logistic Centre, Expression of the Distribution Globalization

Gheorghe Dan

“Ovidius” University of Constantza

[secretariat@traian-sa.com](mailto:secretariat@traian-sa.com)

### Abstract

"Within the current market expansion and globalisation of the product distribution, which becomes an essential element of the economic and social International Systems, their specific economic activities and the modern trend have made possible the building of different trade channels.

Based on this theory the logistics centers - Strategic Investment Projects, enables the implementation of the most advanced technologies within merchandise logistics and distribution, achieving economical efficiency through costs benefits and in the same time competition advantage, followed up by all the marketing channel actors."

**Key words:** independent logistic centre, globalization, modern solutions for lay-out and building, logistic activities, connectivity, competitive advantage.

**JEL classification:** L81;

### 1. Introduction

The present paper focuses on emphasizing the keen interest in the development of the logistic channel's constituent. Due to the globalization of the distribution activities in general, and of the logistic ones, in particular, this theme appears as a novelty which covers the trends in the restructuring of logistic channels, and all the processes and activities related to this important sector.

The theme under discussion is concerned with the practitioners' (marketers') research into the logistic channels locations, their sizes, the accompanying technological novelties, whereas the specialized literature investigates only the description of certain logistic activities.

The aim of the paper is to look into the emerging conditions, the position of the logistic

centre in the context of globalization, and, above all, its contribution to the creation of a horizontal integration, with respect to processes and activities, which would be able to come up to the economic restructuring under the impulse of IT and communications.

### 2. The assumptions that have entailed the logistic centre

The free movement of the goods and capital at global level has generated basic changes of the marketing and logistic channels, and the assertion of structures that allows them the access to emergent markets on national or global level.

The global brands (alimentary and non-alimentary goods) are found sometimes at great distance from the demand manifestation place, and in order for the producers to promote these goods on the respective markets, they will resort either to intermediaries of the marketing channels that have the necessary logistics to realize the distribution, either to independent logistic structures that assure the physical distribution support of the own goods to the final consumers.

The producers of the consecrated goods and of the goods that have rising demands, specially the ones that imply new technologies, will be concerned to develop the product markets abroad, and in this way they will appeal to consecrated distribution channels or to determine the apparition of new structures, respectively of the logistic centre in order to make possible the conquest of new market areas.

Another assumption that has imposed the appearance of the logistic centers is the expansion of super and hypermarkets chains, that have build logistic centers in order to expand on new market areas and to furnish the goods fund necessary to the own built stores chain.

The free movement of the capital has permitted to the strategic investors, besides the members of the distribution or logistic channels, to develop logistic



centers, capable to cover broad areas, geographical areas that exceed the borders of a country.

The producers (the exporters), the importers (the distributors), inclusively other members of the marketing channels interested in logistic services (logistic activities) of the independent logistics centers, are imposed as a necessity for the development of these modern structures.

If in the first phase these logistic centers have appeared in the developed countries, as a consequence of the economical evolution, these centers have followed the natural path of globalization, towards the emergent zonal centers, where they became consecrated structures. Here, the investors enjoy the competition of the territorial administrations, where the emplacement will be realized, because the logistic centre leads to a development of the infrastructure and transport networks in the respective area. Likewise, it is a generator of new jobs, creating the assumptions of the economical development of the respective area where these structures are emplaced.

The emplacement of the logistic centre will mean in the firstly the accessibility to the transport routes, especially in the interference areas of different transport types: on water, on roads, on rail or on air.

Taking into account the actual distribution expansion conditions and the globalization process of this activity, that becomes a major component of the socio-economic international system, the specific activities of this sector, the modern trends that occur here, made possible the birth of distinct commerce structures among this field. This way, the logistics centers, strategic investment projects that brings the modern technologies in goods distribution and logistics, assuring the needed costs cuts, and also competitors advantages desired by the marketers.

### **3. The logistic centre - the considered activities**

As it results from the factors analysis that has generated the development of the logistics centers, we will meet groups, in function of the investors:

- logistics centers attached to a global brand producer or a distribution chain,
- independent logistic centers, developed and exploited by a strategic investor.

In both cases, the features of the logistic centre are the ones that exceed the amplitude of the classic storage areas (reaching dimensions of 100.000

square meters), assuring a diverse paddle of activities - here all the activities can be found, the basic ones as the supportive ones realized in the frame of a classic logistic channel.

The difference between the two types of logistic centers is that on the attached one, the property of the goods belongs to the owner of the centre, whereas at the independent logistic centre the realized logistic activities are demanded by the goods owner or by his proctor.

The design and the realization of the logistic centers will take into consideration the nature of the goods that will make the purpose of the logistic centre, thus to assure the maintaining or the improvement of their value. They will dispose the technological rigging to allow the transport, storage, manipulation, the stock management, encasement, batching, systemic transmission of the information, in order to increase the economic effectiveness and efficiency.

The modern constructive solutions, the building materials, the current building technologies enable the realization of the most modern logistic centers, that administrates the whole palette of solicited activities of the marketing channels members for different goods.

The independent logistic centre can assure to its clients the whole palette of logistic activities such as:

#### **I. Basic activities:**

1. - specific activities for the expedition houses, respectively the engagement on the whole displacement route of the goods transport capacity, storage, manipulation, assurance and other necessary activities.

2. -goods transport activities when it has its own park for the goods transportation from the production place to the distribution place, or from the distribution place to the destination place demanded by the producer or the owner of the goods, respectively the importer. This transport activity can be realized with rented transport capacities such as: on water, on roads, on răii and other transportation means.

3. - storage activities - these can be realized for the clients in seif name, or by renting storage areas to the producers or goods owners. Because the logistic centre disposes of big storage areas, these permit to the exporters (producers), importers, the storage of big batches of



goods with implications on obtaining an optimal cost/price ratio on the product unit.

The storage technologies found in the logistic centers will attract the current projects performances that assure the acceleration of interchanges, fluxes, continuity, and an accelerated rhythm of the goods party movements. At the same time these technologies assure the merceological conformation of the storage norms (frigorific chains), compatibility norms, assuring the circulation goods fluxes, of the entries, of the outgoes, etc.

4. - stock management activities when these activities are requested by the producers or the goods owners, assuring at the same time services for dispatching batches communicated by them, tended to the destination points in the envisaged areas on the market.

#### II. *Support activities:*

1. - logistic centers can assure, as a consequence of the existent rigging and by the technical possibilities available, the continuation of the production chain by technological operations of ageing the products, encasement and prepacking, and for some categories of goods, remedies in the guarantee and post-guarantee period.

2. - goods manipulation will achieve modern technologies features, that will use advanced technologies (sincrolift, R.D.I. systems), ticketing, that will be based on information adaptation and accounting data technologies.

3. - information management and communication towards the clients of the logistic centre, by the large use of informational technologies referring to realized logistic activities.

#### **4. The advantages of the independent logistic centre**

A first advantage offered to the members of the marketing channel (producers-exporters, distributors - interagents, services tenders) refer to total elimination of the investment effort in developing the storage, transport, technological support capacities and other investments necessary to realize the distribution: (selling) of the goods, industrial products, etc.

The possibility to unreel big volumes (batches), comparing to the classical logistic channel, the

amplitude of the goods groups unwounded by the intercession of the logistic centre, is conceived to satisfy the exactingnesses of the different marketing channels clients, different groups of alimentary or non-alimentary goods, of large or current consume, etc.

The most modern standards of technical riggings assured by the independent logistic centers, makes possible the getting over of the whole physical tack of the goods till the manifestation place of the consumer's demand (figure no. 1 annexed).

The assurance of the realization of the whole palette of activities that accompanies the goods logistic channel, standards that satisfy the demands of a modern physical distribution, transability, flexibility in adopting adequate solutions, the duration reduction of the transfers realized in the logistic centers, adaptability, increased productivity, will bring valuable economies.

Today the logistics centers use IT systems, where the data and order steps are being automatically processed (picking, goods reception, in-out documents, stock management, income report and management, loadings planning, delivery routes optimizing by performance software use). These systems have as basis connectivity communication systems.

Recently, the IT systems based on connectivity with the help of EDI system (electronic data interchange) will be used in the relationships of the logistic center with the clients that use the EDI system (suppliers, exporters, importers, business companies, clients, etc), systems that allows also in transit stock management. The development of EDI system allows also trough broad connectivity, issuing of reception notes, delivery notes or invoices.

The same connectivity solution will be used for Management systems of stocks, orders, sales, purchasing and also for on-line customer orders, by the sales agents, and also to gather information regarding the financial status of the customers.

The implementation of the IT system based on connectivity allows the reduction of the amount of time necessary for making the information available for the management team in order to prepare the budgets for products, sales predictions, in order to be able to respond in real time to the customers needs.

This IT system based on communication connectivity software allows the disappearance

of paper support, manual data processing, avoids human errors, allowing the development of a data base (reports, detailed analysis) flexible and complex, which is so necessary in order to support the management decisional process.

The economies brought as a consequence of the conditions offered by the independent logistic center, comparing to the classical logistic channel, with more participants, has as aim to bring an efficient answer to the final consumer (C.R.M.) by reducing the goods value distributed by the members of the marketing channel.

## 5. Conclusions

The logistic centre provides, first of all, a symbiotic integration of the logistic processes, activities and the marketing channel, which correspond to the current requirements of the global goods distribution.

The logistic centre responds to the departments in charge of the managing, planning, integration, control and evaluation of the logistic processes and activities in order to guarantee full capacities demanded by the current goods distribution networks.

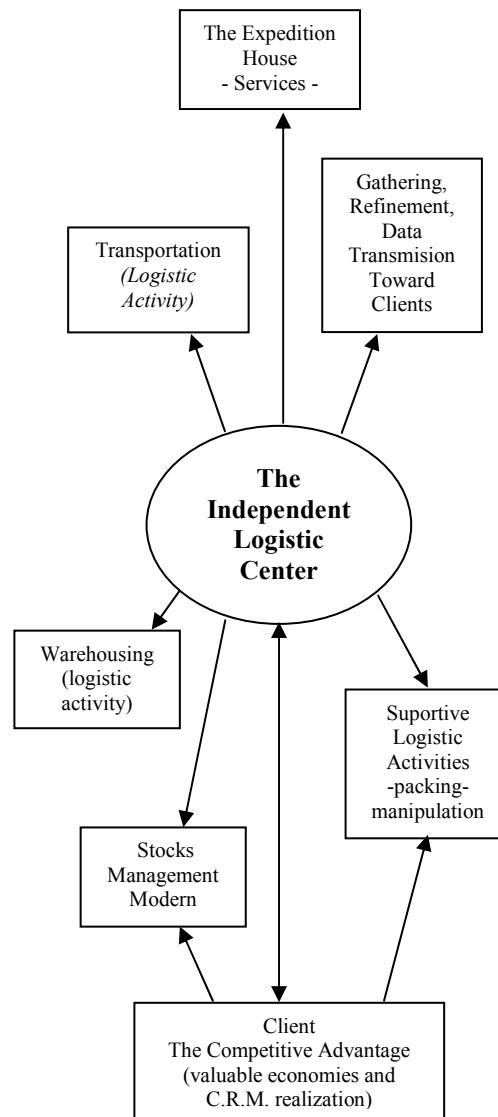
Through the implementation of the data processing and communication technologies, logistic centres become essential parts of companies' geographical concentrations which, if associated, can generate competitive advantage.

Logistic centres meet the implementing conditions of the informational system based on connectivity from the production place to the consumption place, which ensures a rapid flow of information necessary to decisions on sending out orders, thorough analyses of data for a qualitative management, able to bring enhanced value and generate a positive reaction from the customer or end-user.

## 6. References

- [1] Balaure V. (coordonator), Cătoiu I., Bălan C., Olteanu V., N.A.I. Pop, "Marketing", Editura Uranus, București, 2002;
- [2] Jacques Vigny-"Distribution, structures et pratiques", Editura Dalloz, 2000;
- [3] Bălan C., "Logistica ", Editura Uranus, București, 2001;

"Figure no. 1. The competitive and the logistics of the independent logistic centre"



- [4] Revista Capital, art. "Recesiunea blocheaza pe planșeta 70% din proiectele logistice noi", Gabriel Sftcu, Cushman & Wakefield, 30 aprilie 2009;
- [5] Ziarul Financiar, art. "Immoeast are 30 mil. Euro pentru centre logistice", Cristi Moga, 5 iunie 2007.

## Changes within Distribution System for Goods

Dan Gheorghe

*“Ovidius” University of Constantza*  
*secretariat@traian-sa.com*

### Abstract

Researches into the field of goods logistics and distribution have constantly held the attention of specialists, practitioners, marketers, as well as of the scientific and professional investigations. Although the basic notions regarding this field of goods exchange are conceptualized and theoretical, because of the technological innovations, the changes in consumer behaviour and the movements generated by the economic context, the premises of checking, matching concepts, redefining processes and activities which characterize the field analyzed in the current study are created.

Besides the presented aspect, this theme also provides a careful documentation of these changes which account for a new theoretical approach of the actual contents of goods logistics and distribution.

**Key words:** distribution systems, global brands, chains of international hyper and supermarkets, merchandising, self-checkout system.

**JEL classification:** L81

### 1. Introduction

The paper seeks to reflect the changes in the distribution system under the influence of the economic structural fluctuations, towards the access to the functional market economy, the European political and economic structures, but also as a result of the process of globalization of this economic activity.

From the perspective of this approach, one can forecast the future development of the goods logistic and distribution systems, the power changes in marketing channels, as well as the

new technologies used in this activity. Through its endeavour, the paper examines the current prevailing changes which serve as a base for training the future specialists, marketers and students in the educational and practical process. The paper intends to offer an updating of the concepts existent in the goods distribution theory, given the growth and technology of the specific processes and activities which do not waive the meaning of well-known terms.

### 2. Significant changes in marketing channels

The required steps made in order to enter and integrate within economical structures, where the most important principle is the free market economy, will generate the deployment and application of all the instruments, processes and most of all the functional principals of this developed economy.

The integration will be made within a certain period of time, in which will be valued all the opportunities, the favorable economical activity, in parallel with the development of the existing mechanism, reorganization and acceptance of those economical structures and activities that will allow the fulfillment of the functionality of the economical processes on the free market.

Based on this statement also the distribution of goods will know significant changes, that will be overtaken as results of the presented data and of the economical changes.

In the present the population structure with good material resources do not exceed 5%, which can afford a consumption related to the medium level or to the elite class of the developed economies [1]. Will still persist on a larger population segments, a higher weight of the primary consumption and for it's buying ,they will use the little shops, simple, traditional

merchandise structures without using the modern merchandise structures (hypermarkets), where the risk of higher spending is already known.

Tendency of material goods, which are making the distribution object. In parallel with the maintaining of a higher trend of the spending on primarily goods and with the current requests will be remarked the expansion tendency of global brand buying [2]. On the global level there are 43 brands registering with seals greater than 1 mld. \$ (GILLETTE, DURACELL, PANTENE, NIVEA, COLGATE, KODAK, TIDE, etc.) including also the food brands, produced by 23 global Producers. All these products are present within the local distribution.

All the 43 brands are registering sales on the global level of 125 mld. USD, and three quarters of the total amount is related to 8 producers, from which 7 are located in Europe.

Based on consumer modernization and on digital technology boom, which has brought on the market many new products that compete on the same price level, will determine from the distributor side a higher attention on the merchandise processes, that will have as a result the selling growth.

From the consumer modernization tendencies will remain forward the higher innovation grad of the products that will include the material, primary goods and also those which requires modern technologies.

These tendencies are reflecting the restructuring of the consumer demand on some population segments with a specific edge, most of all on the younger, socio-professional segment with a higher educational level.

Free competition on the internal markets, between different distribution systems and channels, countries with developed free markets having characteristics as: price competition, the development of own distribution channels with higher merchandise capacity ( Hypermarket) based on a fast and developed technology have conduct to internal market satiation and the premises of expansion on the international and global markets.

Based on the growing trend of the markets within East Europe, sustained also by the demographic factors and the Integration in the European Union will generate the expansion of

the globalization of the distribution system in Romania, where all the multinational and international corporations will take part.

In our country we will assist on the concentration of the existing, conventional distribution structures and of their related marketing channels, from point of view of their capacities, localization, and using the financial deposits or credits, in order to be able to compete with the strong competition, which was caused by the release and development of the international supermarkets. These will generate, through the launched distribution systems, major changes within the distribution processes and on the selling goods.

Great projects within this domain have been registered through opening of commercial shops (en gross), utilizing, most of all warehouses, belong to other companies, who have been developed them, through internal resources.

As a great impact tendency in our days as for the future is the incoming of international hypermarkets: METRO, SELGROS, BILLA, KAUFLAND, MALL, CARREFOUR, GIMA, MEGA IMAGE, PROFI, XXL etc. The reason are the internal resources, which are impossible to be bound and developed in order to be able to fulfill such commercial structures that are conducting to distribution channels on internal level.

The incoming of international distributors was generated from the lack of opportunities and development on the internal market, registering a high level of concentration, maturity and restrictive legislation and from the higher operational costs. On the other side, in our country, these structures have been found a less developed distribution, economical liberalization and privatization, permissive economical legislation, low operational costs and a tendency of a higher consumption increase.

The mode of entering in our market was though organic development, meaning building of Hypermarkets: CARREFOUR, SELGROS, METRO or though stocks buying from commercial structures as supermarkets: MEGA IMGE, XXL.

Every company Hyper or Supermarkets have had different strategy of entering on the Romanian market, concentrating on building and opening of Hypermarkets near the big cities, or within province.

The incoming of Super- and Hypermarkets within the distribution system have been brought many changes for the distribution concepts. The first characteristic is the bigger and various number of products “ everything under the same roof“.

Beside this variety of products is seen also the various prices of them, which could cover the requests of different level of consumers, under the condition of retaining the same level of quality/price.

It have been developed new methods of merchandising for the traditional products (electronics, house hold appliances) and also for the selling campaigns has been implementing the improved merchandising for the innovating products (computers, office products and music articles).

Through the shops system implemented by all the Hypermarkets there are brought on the market a larger products and services category:

- Financial and banking services offered by the bank subsidiaries, located within the Hypermarket area, sustained from the partnerships between financial institutions and Hypermarkets and using the Smart card operations, which will change the ATM function, from the cash supplier to the one of helping the client to proceed, directly all his payments to the supplier (Hypermarket), based on the POS system. The implementation of the POS system, containing cards with chip microprocessors will allow a larger data base and faster and safety transactions.
- Another characteristic of the acquisition system is that internal suppliers are obligated to accept the distribution system developed by the Hypermarkets, with other discounts and delivery terms, in order to be able to build longer partnerships with this, helping them, forward to be more competitive on their market segment.
- The total distribution transformation though implementation of a centralized procurement department of the Hypermarket/ Supermarket on the national level. This procurements center will modify the traditional distribution channels, through his impact on the based and additional distributions activities and their management,

assuring the competition advantage from the other distribution channels of goods.

- The implementation of the self-checkout system [3], POS, used by the buyer to scan all the brought products, that will reduce the waiting time on the cash registers, and also avoiding the unsatisfied clients. The innovation of technology has create some dispositive with small dimensions, that allow the self-checkout system, through it's utilization, directly from the client, scanning all the chosen products and after receiving from the Shopper Personal, the payment receipt and finalizing the transaction on an U-Scan, where the smart-card can be shown.
- The implementation of the advanced construction technologies is conducting to the building of eco shops on the internet [4], where the lightening system is natural and the system of photo sensors measures the level of the natural lighting, which come and adjusts the artificial lightening and has as a result the minimum consumption of the electrical charges. The Use of the passive ventilation, generated by the shop building is cutting out the air conditional, with higher energy consumption and the energy generated by the wind turbine and by the sun panel is used for lightening. In the same time it is using a recycling chain of the through fall and residual water, which are used forward for green field irrigations.

All these news are using a benefit atmosphere offering to all clients a comfort sensation.

Another tendency of the distribution system is teleshopping.

Teleshopping as a word definition is the direct presentation activity of the sales products through telephone or television. It contains two aspects: first- product publicity with direct response on the telephone and the second one – distribution channel until at the client house.

Franchise system is a new tendency within the distribution system development, where the one who takes the franchise receive from the bigger companies (entities who sell the franchise) the right to operate under the same commercial marks and are using the same merchandise processes on an agreed period of time. The franchiser will receive from the supplier marketing and publicity materials. Based on this

it have arise shops as BODY SHOP, MC DONALD’S, PIZZA HUT, etc.

### 3. Hyper and Supermarkets on the Romanian market.

On the background of the recession period, on the global level characteristic through stock exchange decrease, the lower interest rates, higher unemployment rates, for the first time, after 1982, the World Bank is announcing that the bigger economies USA, Japan and European Union are going, in the same time, under recession. The same recession has affected dramatically the consumption.

While the economical forecast are pessimistic the demographic data is optimistic because until 2010 the number of the consumers will grow at 700 million people. The most important concern is the grow of the old segment of population, which will spend more on medicines and on all the related health services [5].

Despite on the negative economical situation, the global traders have been respond immediately on all the consumer changes through new shop types, a diversified product range and a diversity of services offered to the consumers, from interest offers to internet services.

The consumers are expecting to order a product by telephone or by internet with the possibility to return it if this is not compliant with them expectations.

In the last period of time we can encounter, in many times ,the incompetency of the small traders to honor the market requests, thing that will bring to higher bankruptcy rates and in the mean time the larges distribution channels are developing through new shops openings helping the globalization process.

Also the technology innovations, that the most important companies have been implemented successfully have generated cheaper globalization efforts , a higher efficiency and the entire distribution channel with all it’s new merchandising processes more efficient.

After all these, it have been remarked the Discounters (shops) especially in this economical situation, where are assured to the

consumers, prices, generated by the economical grow.

In our country the development rate of the Super- and Hypermarkets was higher, based on, in some cities it have been registered a 20 m area / resident. In the present this rhythm is slower, but it will be forecasted for the year 2009 a market share of 35,7% from the total sales volumes ( 28 mild. EUR).

For an example in 2009 in Romania there are registered the following distribution channels [6]:

“Table 1. Network super and hypermarkets as total sales area “

Loc.	Distribution channel	Total area (qm.)	Variation area in comparison with 2008 %
1.	Kaufland-Hypermarket	220.653	12,57
2.	Selgros-Cash&Carry	170.000	4,71
3.	Carrefour-Hypermarket	162.500	4,31
4.	Real-Hypermarket	138.494	21.32
5.	Metro-Cash& Carry	162.976	0,00
6.	Plus-Discount	78.020	29,92
7.	Penny and XXL-Discount	63.050	33,31
8.	Auchan-Hypermarket	63.000	16,67
9.	Billa - Supermarket	47.800	14,15
10.	Cora-Hypermarket	39.000	0,00
11.	Profi – Discount	24.301	47,94
12.	Mega Image-Supermarket	25.628	24,40
13.	Interex-Supermarket	25.965	14,64
14.	MiniMAX-Discount	20.000	41,34
15.	Carrefour-Supermarket	17.042	37,14
16.	Unicarm-Supermarket	16.700	0,00
17.	Trident – Supermarket	17.100	-5,85
18.	PIC - Hypermarket	42.500	-70,59
19.	Fidelio-Supermarket	16.600	-25,90
20.	G’Market - Supermarket	10.962	0,00
21.	Trei G-Supermarket	8.570	0,00

22.	Spar-Supermarket	20.758	-59,13
23.	Primavara-Supermarket	8.650	-19,65
24.	Annabella - Supermarket	6.550	-1,50
25.	Ethos - Supermarket	11.940	-49,33

“Table 2. The market shares of the largest 25 retailers based on their turn over in 2008”

Loc.	Channel	Turn over 2008 (mil.EUR)	Market share 2008 %
1.	Metro	6.014	7,66
2.	Carrefour	3.800	4,84
3.	Selgros	3.162	4,03
4.	Kaufland	2.865	3,65
5.	Real	2.643	3,37
6.	Cora	1.469	1,87
7.	Penny	1.257	1,60
8.	Billa	1.192	1,57
9.	Auchan	1.025	1,31
10.	Plus	1.021	1,30
11.	Mega Image	486	0,62
12.	Profi	441	0,56
13.	Pic	412	0,53
14.	Carrefour-Expres/market	385	0,49
15.	Interex	353	0,45
16.	Trident	202	0,26
17.	G'market	193	0,25
18.	Primavara	179	0,23
19.	Spar	166	0,21
20.	Minimax	159	0,20
21.	Oncos	149	0,19
22.	Angst	144	0,18
23.	Ethos	123	0,16
24.	Fidelio	93	0,12
25.	Trei G	76	0,10
	Total Top 25	28.009	35,70
	Total Romania	78.469	100

The strategies of the modern retailers, based on their marketing techniques have been benefit on a higher notoriety level. The satisfaction level of the buyers was determined by their experience and also by the influence of their family, friends etc.

The opinion of the Holian Riccardo Petrella is that the power will be own of an alliance between retailers on a global level and governments of some cities will support, economically those retailers that are within [7].

As an negative aspect that I would like to highlight is the global standardization of the commercial centers, entities, that will be excluded by the biggest retailers and will bring to a homogeny image, in which no

characteristic of the local culture and historical tradition of this entity will be present.

#### 4. Conclusions

Firstly, the paper emphasizes the basic changes in goods logistic and distribution systems, the impact of hyper and supermarkets chains that will be of great importance within the marketing and logistic channels.

Secondly, the impact of high technologies on serving the customers, along with these modern distribution chains, have triggered essential changes in customers' buying behaviour, even in those with an income below average.

In addition, the recorded changes have created a modern management concept of the logistic chain, especially the one attached to these hyper and supermarkets chains, which envisage an overall cost able to bring a positive reaction from the consumer.

However, one should not neglect that, in the course of the distribution activity development through international chains, these create a standardized image of these activities and eliminate the traditional historic urbanism of commercial centres.

#### 5. References

- [1] Sursa - A.C. Nielsen - Central East Europe, Global Services 2001
- [2] Magazinul Progresiv, decembrie 2001/ianuarie 2002-“Mărci de miliarde de dolari”, (AC Nielsen Global Services)
- [3] Magazin Progresiv, octombrie 2002, pag. 66-art”Cozile lungi anulează experiența de cumpărături”
- [4] Magazin Progresiv, oct. 2001, pag 68-70-art.”Magazinele ecologice ”
- [5] Magazin Progresiv mai 2002 pag.72, art.”Comerțul astăzi: schimbări, alegeri și canale de distribuție”
- [6] Revista Piața nr. 45-decembrie 2009, Ghidul Retail Modern, pag 23
- [7] Sursa” CAPCANELE GLOBALIZĂRII”; Hans Peter Martin și Harald Cchuman Ed. Economică, 1999, p.39

## Establishing the Connection Between Wage and Economic Activity of the Organization

Greco Gheorghe  
*A.S.E. Bucharest*  
*elianro@yahoo.com*

Manolescu Aurel  
*A.S.E. Bucharest*  
*aurel\_manolescu@yahoo.com*

### Abstract

The targets of the company or institution must be in accordance with the restrictions imposed to the employees (economic, technological, institutional type). The wage system must be designed and chosen with both parties collaboration – employers and employees (their representatives).

**Key words:** wage system, performance wages, individual performance wage system, employee, collective performance wage system

**JEL classification:** M19

### 1. Introduction

Any wage system must be adaptable to the concrete context in order to recruit necessary personnel, to encourage great efforts, to generate loyalty, desire of changing and innovation. The targets of the company or institution must be in accordance with the restrictions imposed to the employees (economic, technological, institutional type).

The wage system must be designed and chosen with both parties collaboration – employers and employees (their representatives). The same condition is imposed to the reexamination of a wage system. In order to have the best system it is essential to create a simple and transparent implementation, combining both parties' interests in an equitable spirit.

### 2. Recommendations for the implementation of the time-based wage system

Time-based wage system must be applied when we deal with a small, non repetitive manufacture that doesn't justify a study time. This study could be long and based on a disproportionate wage to the desired result. Therefore it could be imprecise and with many errors. If a fragile system based on results is implemented, there will be a risk of affecting the employee and company's interests.

However it is useless to make an approximate assessment of the execution time regarding similar manufactures or using the assistance of a professional executant. Thereby the personnel performance can be controlled ensuring a fixed hourly wage.

We recommend combining this time-based wage system with an hourly special bonus according to a series of criteria.

We also suggest the use of the method known as "individual monetary contribution", which gives excellent results regarding this type of works that use timework.

### 3. Recommendations for the implementation of the performance wage system (in agreement)

The expression "performance wages" refers to the wage systems where at least a fraction of the employee's income differs directly depending on the performance changes, measured according to some preset rules.



Depending on each individual's features, the wage systems can have different targets. These purposes must be strictly formulated according to the performance's aspects which are considered the most important ones for the organization efficiency. For example the systems designed to bring manufacture to a high level can make more difficult the promotion of a behavior favorable to innovation and collaboration or can modify a healthy policy of professional relationships.

The performance measurements used in performance wage systems must be also global because employees are often more preoccupied by the measured and remunerated aspects of performance. In a parallel way the measured performance must be directly controlled by the employee himself.

### **3.1. Recommendations for the implementation of the individual performance wage systems**

As we already know the advantages of individual performance wage systems are the following: increasing productivity, reducing global cost of the manufacture and raising the employees' salary; reducing surveillance budgets; a higher level of freedom for the employees regarding the work system and the earning opportunities; the possibility of a more precise assessment of unitary costs for labor force manufacture.

Nevertheless experience shows us that these advantages can be partially or totally cancelled by some problems such as:

- Increasing health affecting and security risk as a consequence of accelerated work rhythm or instigation to back away from the preset work methods
- Difficulty in preserving quality regulations and avoiding an uncontrolled wage increase beyond the negotiated decisions of wages adjustment;
- Management costs of the organization can become high in regard to the expected manufacture improvement;
- Manufacture processes complexity;
- Negative effects upon motivation and conflicts as a consequence of unpredictable oscillations of income, differentiated income or effort provided by different employees and competition categories;

- Manufacture restriction by employees that are afraid of their income increase, which might entail an increase of manufacture rules or a decrease of basic salaries raising rates;
- Persistence of employees to work methods changes, their transfer to new jobs or temporary redistribution in case of an income decrease;

It is be recommended for individual performance wage systems to be simple so that the employee can simply verify his income, and capable to lead to a significant income increase and based on an equitable hourly rate structure and precise rules which entail major bonuses for fatigue, personal needs and other known factors of good practices for work measurement.

The most used wage systems are called "**proportional**" because beyond the guaranteed time-based wage rate, the income differs directly in relation to manufacture. Giving the fact that employees do not experience any difficulty in understanding these systems, because they represent a strong performance stimulant and employees consider them equitable and easily accept them, they can think first of all, of adopting these systems. There will be no examination of other wage methods only if special circumstances require their implementation. Especially, the so-called "**fixed**" or "**regressive**" systems where income will increase less than manufacture are not generally recommended only if starting performances are considered quite weak, if there are frequent work interruptions, if it is difficult to establish and preserve specific manufacture rules or if too high performance achievement can be harmful.

Generally, employees' performance must be measured and remunerated after a very short period of time, in order to set up a direct connection between effort and income. However, if work entails very long cycles, where it is difficult to measure or there are frequent strikes, it must be used a longer period of time for performance measurement **in order to reduce income oscillations.**

We suggest that employees should benefit from protection against unpredictable income oscillations with the help of a **time-based wage guarantee**. As far as possible this guarantee for time-based rates must operate

for a reasonable period of time to ensure that the bonuses achieved for a certain period are not lost as a consequence of a later decrease of the manufacture level.

Likewise we recommend that the variable part of the income be quite important in order to encourage employees to a better performance, but not as important as the moment when its variation is generated by independent causes. When all the conditions for the successful individual performance wage system implementation are not fulfilled, the variable fragmentation of wage system must be reduced in order to ensure that individual performance wage system continues to be accepted and to avoid its erosion.

It would be useful to previously set up an average sum of the bonus because a system is designed to produce, serve as an indicator of the way in which the system operates. It would be recommended that the guarantee for wage in case of work interruptions caused by causes independent of employees will, be the time-based wage system.

To ensure that rules will not enforce only because wages are too big, rules rectifications must not be operated with the exception when both parties have agreed upon these changes of content regarding work places or manufacture methods, or correction of computer materials' errors, or when there is an agreement from the employees and their representatives.

The rules for work studies development must be previously established and if possible, in agreement. Dissimulated studies should be forbidden and employees and their representatives should be informed before the development of these studies. Employees must have the opportunity of contesting new rules thanks to an appeal mechanism whose target should be to facilitate a fast settlement of disputes.

In case of appeal, there must be provided all relevant information according to the way in which the rules have been set up and if necessary to reexamine previous studies. Employees' representatives' participation in the process of setting up the rules must be preceded by a method of collective conventions. Such participation can be: collaboration for work studies development; a meeting regarding the persons responsible for time keeping, or negotiations on introducing new rules or

participation of reexamination organizations which are announced by appeals.

Adequate measurements must be previously set up between management and employees, in favor of the employees that can lose their job as a consequence of the system implementation. These measurements can be applied only if there is a specific agreement in this matter which includes as a priority jobs transfers – if they exist or are being justified by the economic situation of the company – or severance pay (layoff). The application methods must be carefully explained to all affected employees. It can be elaborated a document, usually distributed to the employees and their representatives, which presents the system principles, applicable employees, wages guarantees and other guarantees, as well as all the facts that refer to the system implementation.

Unitary wage system shall be used only in the case of wide manufactories, very stabilized, that entail only a minimum risk in their development.

A measured study or using standards is feasible only in the above hipotesis. It allows a precise method of establishing the manufacture processes and the correspondant execution time.

This type of wage will meet the expectations in repetitive manufactories with a relatively short cycle (a few hour centimes). The operation methods must be precisely designed at the beginning of the series and the personnel must be perfectly informed through a special record. Therefore, before the beginning of the series, the personnel must be advised regarding any modification of the manufacture process that will need a new time study. So, any improvement of the operations cycle can be translated into a significant time profit, which will have as effect the increase of real and paid activity.

The employee's work will also increase through the "habit effect" if the series is quite important. This revision clause is actually hard to apply. As a consequence of daily improvements, in a rough manner, a simple comparison on a long period of time allows the measurement of achieved results without any real rectifications of the manufacture conditions. This phenomenon,

well known by the method offices, is called “aging times”.

If determining time is not possible in a precise manner for the manufacture in development, there must be implemented a slow wage system Towne – Halsey.

This system’s target is to be less brutal than unitary wage system, when executant’s activity goes below 1. In case of errors in manufacture time determination the executants will be remunerated at a higher rate than the one that he would have received in unitary wage system.

So, this system allows partially reducing time errors without a great impact on the employee. However, it entails an application difficulty when the executant’s activity goes beyond 1, either as a consequence of error by excess in manufacture time determination, or consequence of the employee’s habit. In these conditions the hourly wage is inferior to unitary wage (with equal activity) and the employees want unitary wages.

This type of wage system is used when execution time can not be determined with a high precision of almost  $\pm 5\%$  (10% absolute value). It is currently applied in remuneration of boarding works where the guarantee for the lifted material strongly differs from one piece to the other and the allocated time can only be an average, determined on a quite important series.

The Rowan salary will be the best when the execution time runs the risk of differing in great proportions because of the unpredictable risks (especially maintenance works). The curve shape shows that the maximum hourly income reaches two times the basic salary  $s_0$  when the activity is “infinite”. Financial consequences of an error are limited for the company. This aspect of the Rowan system allowed mean interpretations in its implementation. It was frequently said that “Time determination has no importance because the system forgives errors”. Allocated time has revealed the greatest fantasy which has contributed to discreditation of this wage system in some companies, which gives good results if it is correctly implemented.

However, time assessment must be quite large in order to ensure no injury of the employee.

When manufacture is organized in a perfectly rational manner, without any risk (assembly or band convention) there could be used a Gantt salary that will ensure a great regularity in manufacture. Therefore, when the rule is

followed the employee has no longer interest in increasing his manufacture rhythm and sets up a stable balanced pattern.

In certain “band” manufactories, where the rhythm is independent of the executants, it can be reused an hourly wage system because it is possible to control the manufacture at any moment, which will be placed in a preset system.

In all cases the responsible personnel must have all information regarding implementation and assessment methods, in a very complete manner. It will have to understand the mechanisms and the philosophy of the adopted wage system.

The supervisors (organization personnel) will be entitled to settle problems and to give explanatory answers from the personnel or their representatives.

All wage problems will be managed with great honesty and further information will never be refused.

Annual meetings will be necessary in order to inform responsible personnel regarding the context and rectifications of the interpretation errors that might have happened.

### 3.2. Collective performance wage systems (or workteam systems)

The major advantage of collective performance wage system in comparison with the individual performance wage system is that it remunerates **collaboration behavior between team members**.

These systems must encourage employees to reduce dead times and abusive absences, to help their colleagues to eliminate narrow places and late work, to supervise more carefully manufacture quality, which will pass to other team members, to adapt when there are manufacture changes, to have more flexible teams that can accept work methods rectifications or allocation changes. Collective remuneration can also improve work organization being less sensitive to imply health or security risks. It can easier be avoided erosion processes of the system, as well as salaries deviation and income disputes are reduced so that incomes become more stable and uniform for group members, and rules become easier to control. Administrative costs decrease because

establishing rules is easier, accounting is more simple, surveillance cost decreases because there are less quality control points and wage system management requires less time.

Finally, team members will facilitate information and training of the new members in their team.

The main problem of collective performance wage system is that the less strong support between individual salary and performance runs the risk of involving a relaxation of the effort compared with individual system. Conflicts can appear in a group if the members with the best performance start thinking that not all team members are entirely providing their efforts.

Collective remuneration applies to cases when work places are interdependent, either because they represent a series of operations in their band work, or an additional effect is necessary in order to ensure a good performance. This remuneration is indicated also in the case of groups that have a great influence on their members and promote equal opportunities in earnings.

The stronger teams are through **social affinity, qualification level, work closeness and interest community**, the more favorable position they will have regarding collective wage system. Collective performance wage system should also be used when wage measurement for individual manufacture is not possible at a high precision; when it is important to include in the system work aspects that are capable of being measured only at group level; when because of frequent rectifications in manufacture or work processes it is encouraged a flexible and adapted behavior, there must be seen a change to group manufacture methods or when an individual system runs the risk of causing numerous disputes which break the work rhythm.

Although the most part of the design, introduction and administration aspects are common to individual performance wage systems and collective performance wage systems, there are also **some specific problems**:

- if things are equal (*ceteris paribus*) it is better to maintain the size of group as small as possible so that the relation between effort and results be the most direct one.
- groups must be relatively homogeneous in terms of performance and with a strong connection between the job nature and human relationships ;

- group must be stable in an equal manner because new members will normally have in time an inferior performance compared to the experienced members (if necessary adequate dispositions must be applied to new members, young or old employees in order to reduce at minimum the effects on group's income);
- whatever the chosen method is for bonuses' distribution, the group members' incomes must be elaborated according to their aspects regarding individual contribution to collective results.

### 3.3. Department or company performance wage system

Relying on performance measurement in its wide meaning, these systems are designed to form a better connection between objective principles of the company and employees' expectations, as well as a more efficient collaboration between different employees' categories or functional units of the company. In fact we refer to promoting behaviors that entail innovation, adaptation skills and collaboration spirit in order to use, in a more efficient manner, the company's resources. Employees are encouraged to suggest rectifications that generate economies, collaboration team for a better knowledge distribution, to help each other if there is necessary and to easily accept flexibility in tasks' distribution, as well as technological and organizational changes. Employees must prove themselves less tolerant regarding planification lacks, cash increase, dead times, manufacture delays and low quality work. Consolidating collective behavior and more frequent opportunities to participate in company's businesses are changing the state of mind and improving work satisfaction. Other practical advantages are: access to global performance measurement, a faster start-up, an administration cost less higher and a relatively easy control.

The main problem is that there can be emphasized only a **distant relationship** between the employee's effort and the bonus. Furthermore, performance measurement is difficult to understand and also very often a

subject of great variation because they are independent of the employees and management's will.

Company or department systems should give the best results in the following cases:

- when the accountant unit is small enough so that the management and employees defend the contract, defining an adequate performance measurement not become too complex and employees can observe that there is a certain connection between achieved progress and the received bonus;
- when each individual is convinced that the company's success is related to a continuous adaptation, workteam and collaboration spirit and the possibility of increasing productivity and reducing costs will not fastly reduce in time;
- when performance measurement can be simply defined, easily and frequently assessed, in a strong dependence with the employees effort;
- when manufacture nature and methods are quite stable so that there isn't necessary to frequently negotiate performance rules;
- when management is capable of ensuring efficient communications, receptive to employees new ideas and available to allocate necessary time to the system implementation;
- when employees have a real technical competence and are willing to participate in decisions, and are long-term attached to the company;
- when there is a great confidence in the company and when labor unions are supporting the systems and don't think that they are threatening their right of defending the members' interests by collective negotiation.

Systems of this type best operates when they are accompanied by a participation programme which promotes:

- translation of practical suggestions that have an agreement of methods or manufacture processes' rectifications.
- both ways communication at all levels regarding operation difficulties and general trends of the economy;
- direct participation of employees in implementation procedures of wage systems in order that they can be sure that performance bonuses are equitably established.

#### 4. Conclusion

All in all, even having complete knowledge of the issue there is difficult to choose the wage system.

That system which was satisfactory in a company will not be suitable for another one because implementation conditions and circumstances are never the same.

#### 5. References

- [1] Fischer, D. C., Schoenfeldt, F. L., Shaw, B. J., *Human Resources Management*, Houghton Mifflin Company, Boston, 1996
- [2] Mullins, J. L., *Management and Organizational Behaviour*, Pitman Publishing, London, 1996
- [3] Sherman, A., Bohlander G., Snell, S., *Managing Human Resources*, South – Western College Publishing, Cincinnati, Ohio, 1998

## Supporting the Design and Choice of Wage Systems According to Ergonomic Requirements

Greco Gheorghe  
*Spiru Haret University*  
[elianro@yahoo.com](mailto:elianro@yahoo.com)  
Greco Iulia  
*Spiru Haret University*  
[elianro@yahoo.com](mailto:elianro@yahoo.com)

### Abstract

The interdependence between wage system and employees implication-participation in work generated and it continues to permanently generate a preoccupation of managers of all improvement levels of wage methods, wages set up and differentiation criteria. To elaborate or project an adequate wage system it is necessary to take into account: the market for which the company works, technology and manufacture factors that is using, labor market context and socio-cultural environment.

**Key words:** wage system, ergonomy, performance, employee, wage level

**JEL classification:** M19

### 1. Introduction

Wage systems implemented in organizations as well as the efficient use of their human resources are delicate aspects always under the attention of everyone (both employers and employees). If we are to see what is happening nowadays in the budgetary system, where they are trying the elaboration and implementation of a unique wage system, we shall observe that things are not quite easy to resolve. This debated aspect creates tension between employees from different fields of the budgetary system, which manifests through frequent protests of the labor unions, unbalancing more the state budget. In private organizations problems are the same: results not quite good of the organization determine small salaries which have as consequence the lack of motivation, increase of personnel oscillation, work collective conflicts. The interdependence between wage system and employees implication-participation in work generated and it continues to permanently

generate a preoccupation of managers of all improvement levels of wage methods, wages set up and differentiation criteria.

In organizations' life ergonomy has a central place having an important role in their improvement process. This fact determined specialists [1] to say that in the current context it is necessary to integrate ergonomy in the business strategy.

Organizational reality imposes the development of a convergence between manufacture criteria, efficacy, security and health [2].

Under their technical aspect (with their own mechanisms) remunerations often don't give the desired results if the personnel's reactions are not taken into account. So it is necessary to have in mind the man's adaptation at work, a suitable work for the man as well as adjusting the man to the company where he works and of course to the team members where he is working.

### 2. Man's adaptation at his work

In the human values system appeared a series of changes which show their interest and preoccupations for the life quality, in general, and their professional life, in particular. In this context it was important to create new strategies regarding jobs design, especially to improve individual and organizational performance. A major issue in the design of jobs becomes the quality of work conditions.

Adjusting the man to his work, giving the job that is suitable for him – this is the problem. Discontent appears not because of work monotony, but because of the employee's failure to adapt, who has the feeling and reaction of a deported man.

Because the employee of mass manufacture is working only in one stage he must find satisfaction in that particular stage. The organizational error was making the man to wear the efforts of accelerating work rhythms of unadapted employees, instead of noticing this failure to adapt.

### **3. Suitable work for the man**

The work division in simple elements is the most productive, but the separation of these elements between different employees is not compatible with the human psychology and physiology.

This specialization of repetitive movements is not the most satisfactory solution for the problem of rational and human usage of man's work.

Work is well divided in several basic operations, but each employee must carry out more than only one. For the surprise of technicians this led to a manufacture increase. Furthermore, teams can work harmoniously without a tense, nervous atmosphere as it is usually on bands.

Taylor and Gantt have taught us to divide work in operations, then operations in basic movements. But we must understand to regroup these movements in operations that satisfy not only the basic movements' technique but also the man's ability and his psychological and physiological needs to fulfill coordinate operations.

### **4. Adjusting the man to the company and to other team members where he is working**

Employees indicate "good fellowship" or "good relationships with other work colleagues" as cause of their work satisfaction.

The error does not refer only to manage the technical problem of man in manufacture, like the one of a machine or instrument, but to the incapacity of understanding the profound nature of mass manufacture where "human efforts integrate".

Analisis and work division in manufacture rates are not wrong, they are even indispensable to mass manufacture, but this must not be made with "the price of human or company social desintegration".

The employee has a desire of integration but without an effort from the outside, he can not identify himself with work, product and company. The company's management must resolve this integration.

A wage system is not successful if it doesn't meet a number of the personnel's moral and material needs.

It has frequently been said that abandoning the performance wage system brings a significant decrease of the execution performance.

High qualified personnel have been and it will always be conviced that performance remuneration will not reduce work performance.

Tendency for time-based work is determined by higher security of the work place and salary that are not subject to circumstantial oscillations of different types of performance wage system. From this point of view also the great labor unions have supported a higher security of employment, salary, social measures in case of accidents and decays, better retirement conditions, etc.

Bosses have seen performance not only as a manufacture profit but also as a series of disadvantages which they have not yet mentioned:

- fixed times in elaborating wages are often fake;
- instantenous control shows that medium performance is weak and not as it is believed to be
- high stocks between operations because the number of positions is big and with no balance between them;
- high percent of wastes and even rubbish
- unbalances between workshops and stocks
- performance bonuses for employees in agreement are a disadvantage and are affecting the most qualified, creative, innovative employees who support the development and repairs of the machines, because they are time-based remunerated.
- it makes difficult (impossible) to move the employees between workshops and work places ;

The abstract of solutions entails the following fields:

- better work organization and liberating supervisors of administrative tasks;
- decrease of waste dimensions;
- selection of best employees;
- multipurpose training of the employees;
- intelligent control of the employees' activity;
- promoting new operational models;
- equitable remuneration.

Summarizing, solutions are linked to psychological and technical aspects, building homogenous workteams with professional skill and responsibilities, informed upon the company's status and with knowledge regarding several workshops of the company; teams will eliminate redundant personnel without replacing the vacant positions; forming a hierarchy of team employees.

Work standardization must not be the only criterion for personnel remuneration. Work has and must use different parameters such as: manufacture quality, multipurposes, collaboration, formulating technical or organizational suggestions etc.

Before changing any wage system there must be carried out a complete study regarding general operating conditions of the company. A problem can not be well resolved without knowing and simultaneously dealing with the other ones. The implemented wage systems must integrate in a harmonious assembly and must translate (reflect) the profound reality of manufacture processes.

Romanian societies are generally facing a series of problems regarding the inefficient use of human resources and unsatisfactory ways of employees' motivation (encouragement). The major part of personnel is unsatisfied with their salary, while the organizations where they work are facing serious problems related to productivity and performance. It is practically a vicious circle from which one can escape only by thinking again the way in which positions are elaborated and remunerated nowadays and it is necessary a wise correlation between advanced expenses and achieved effects. The fact that managers maintain smaller salaries than the market level only deprives the company of good employees and of additional profit that they could bring. Furthermore, sometimes the lack of productivity and employees' level lead to an increase of employees number, meaning the

situation where instead of a good employee there are two weaker.

A good wage system should operate according to some conditions:

- to be well structured so that each position of the organizational chart correspond to a wage level suited to the work market level for that specific qualification and fitted in the budget; the structure avoids the trap of discrimination and negotiation.
- to be stimulating, i.e. informed and understood as based on a correct assessment system and objectively and predictably related to performance.
- to have enough resources so that it can hire the best specialists and any rectification must be analyzed according to the budget.
- to include protection mechanisms for the company and individual and suited to the economic environment and legislation.
- to be implemented in accordance with the policy of other benefits at managers initiative responding to employees requests. Some managers prefer giving bonuses instead of permanently increase the income, considering that this way people are more motivated and fitting in the monthly budget is easier to achieve.

Salary is seen as a right meanwhile bonus depending on the performance. Generally they are right, but particularly they must be aware of the following:

- employees tend to judge the bonus as a right and they start to have higher expectations;
- salary confidentiality is respected but for the bonus rarely;
- employees hardly support payment conditioned by the boss's gentleness who gives bonuses, by additional hours or independent criteria (such as season sales which leaves them with no money for holidays) and see the system as a useful trick only for the company in order to avoid taxes (which is no longer so true)
- bonus conditioning makes the employees become more and more aware of the extrinsic motivation rather than the intrinsic one.



## 5. Conclusion

There are managers and bosses that prefer all salaries with a fixed part and a variable one according to the company's performances. Company's achievements generally depend more on work organization and management rather than each employee. Therefore, the system can operate for management but not for employees. Any wage system which is hard to communicate, influence or check by the employees is not motivating.

We can say that there is no good wage system, this can be good or bad according to the way in which it is used. Actually, a good remuneration entails a good organization.

## 6. References

- [1] J. Dul, P.W. Neumann, *Ergonomics contribution to company strategies*, Applied Ergonomics 2009, în al XVII-lea Congres Mondial al Asociației Internaționale de Ergonomie, Beijing, 2009
- [2] Manolescu, A., Lefter, V., Deaconu, A. (coordonatori), *Ergonomie*, Editura Economică, București, 2010, p. 90

# Romanian Public Marketing in Terms of Necessity, Collaboration and Mix

Adriana Grigorescu, Ph.D. Full Professor  
*National School of Political Studies and Public Administration Bucharest*

[adrianag@snspsa.ro](mailto:adrianag@snspsa.ro)

Alina Elena Blalia, Ph.D. Candidate Assistant  
*The Bucharest Academy of Economic Studies*

[balalia\\_alinaelena@yahoo.com](mailto:balalia_alinaelena@yahoo.com)

## Abstract

The paper carries out a short literature review on public sector and public marketing terms. The findings of the paper's study shows that the Romanian public sector should give more importance to marketing activities, as 87% of the respondents sustained when asked about their necessity. Within a public institution, the marketing specialists should cooperate with research & development, sales and financial departments. The study results reaffirm the importance of the 4 P of the marketing mix when making an offer, and place them on the top positions.

**Key words:** public marketing, public administration, survey

**JEL classification:** H80, M 31

## 1. Introduction

The paper presents approaches considering the public sector, aspects on public marketing, the marketing necessity in Romanian public sector, the importance of cooperation between marketing specialists and other departments inside a Romanian public institution, the marketing components when making an offer and conclusions. A short literature review and a structured evaluation of current knowledge on public marketing are carried out. The paper includes an analysis that seeks to highlight the necessity, the collaboration and the mix of the public marketing obtained through a survey

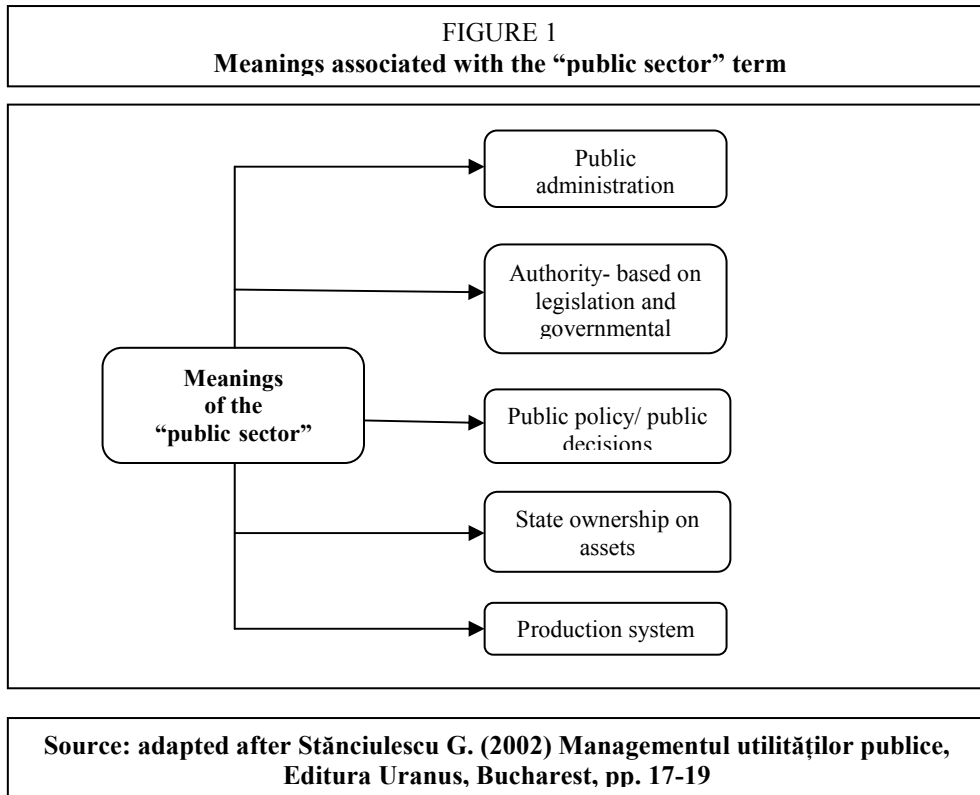
(processing 384 questionnaires) applied to employees from Romanian central and local public administration.

## 2. Approaches of public sector

The public sector is the allocation system managed by the state, which influences the economy in general, through regulations, controlling of revenue by collecting and redistributing it. The purpose of the public sector is to ensure fairness and social equity for all the citizens at different levels (local, national, European).

There are numerous ways of explaining the term of "public sector" and also different perspectives on it. (figure 1) The public sector should be seen beyond the financial approach, which implies budget expenditure and revenues in relationship with the private sector, by detailing the functional mechanisms and its outcomes, according to the established purposes.

The most used meaning of the "public sector" is public administration, which is associated with governmental activities, through which the budget funds are allocated for consumption, investment and income transfers. As authority, the public sector includes the characteristics of public administration, being more than the budgetary allocation and is focused on legislation and governmental power. This posture of authority generates actions on the business community, by regulations and operations affecting market relations.



The third meaning associated with the “public sector” term implies the criteria of public policy making, which consists of relevant fields according with the national strategy. Taking the example of Romania, policies are presented in the Governance Programme (2009-2012) and are referring to fiscal-budgetary policy, justice and anticorruption policies, education, health, labor market, social insurance, family and child protection, teenagers and sport, business environment, SMEs, competition and consumer’s protection, transport infrastructure, scientific research, development and innovation, informational society, agriculture and rural development, regional development, public infrastructure of local interest and tourism policies, energy and mineral resources, environmental protection, public administration reform, public order and citizen safety, foreign policy, culture and national heritage, national defense, European affaires and policies on ethnic relations. As ownership of assets, the public sector has the right to control the activity of all the budgetary organizations from the public administration and even decide on the obtained results, including selling towards private sector.

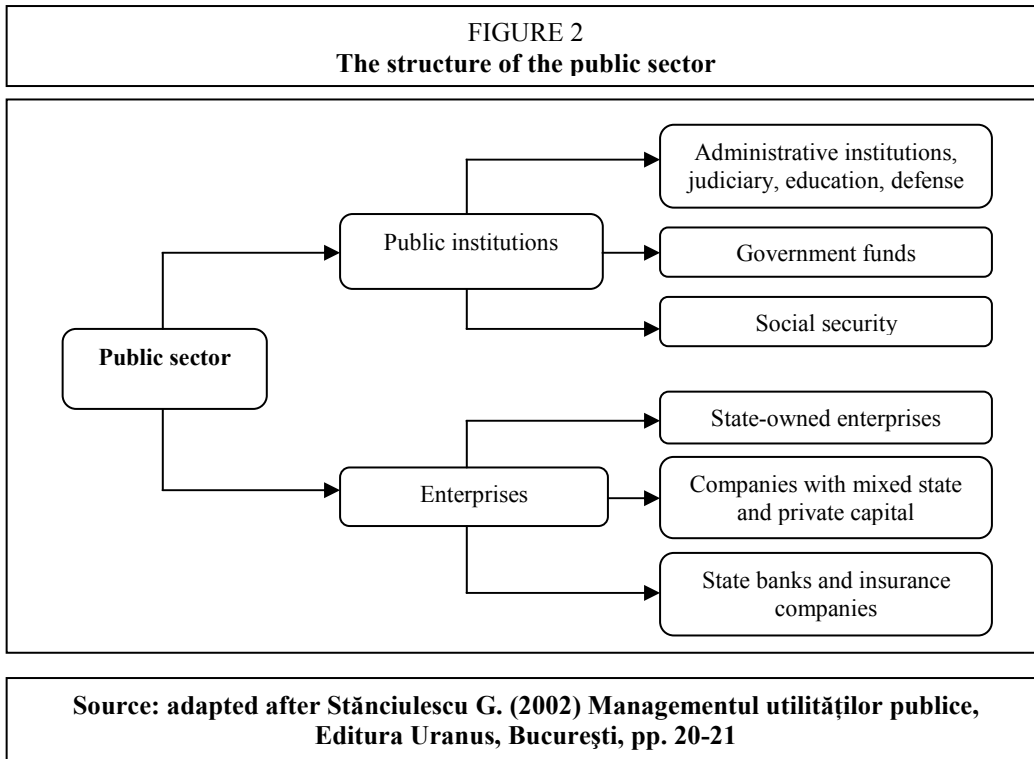
The last meaning refers to the public sector as a production system, considering the size of demand and supply of public goods and services established by specific mechanisms of budgetary sector and the ways of action on building the individual and public interest. (Stănciulescu, 2002)

When talking about the structure of the public sector there are identified two types of state organizations, such as institutions and enterprises. (figure 2)

Public institutions include ministries, agencies, and offices, organizations that are financed by the state or local budgets. For example, Romania has fifteen ministries, at the national level, and prefecture for each county.

The second category includes enterprises that are state ownership and obtains income by selling their production on the market and in addition, benefit of subsidies from the state budget, when the expenditure is higher than the income.

The decisions that are taken at the governmental level are of impact for both public and private sector, because of the means and instruments used by the public sector, such as regulations, taxes, subsidies, price controls.



Depending on the government objectives, these elements stimulate or inhibit the activity of business community. Furthermore, positive attitude towards citizens and increase of their satisfaction could be obtained by marketing activities of the public sector.

### 3. Aspects on public marketing

The contemporary marketing is situated in the sphere of methods for managing resources and can be mobilized by economic agents or by macroeconomic bodies in order to obtain an increase of profit, number of clients, image improving, keeping the clients of an enterprise, institution, public or private administration or government body. [6].

Nowadays, contemporary marketing, in general, adopted a holistic orientation which implies the engagement of an institution, in particular, in more diverse relations and represents a sum up of relational marketing, interior omnipresent marketing, socially responsible marketing and integrated marketing. [4]

Public marketing represents a modern concept considering the orientation of public organizations, with an overall of planned,

scheduled and developed activities, by using specific methods and techniques with the purpose of satisfying the contributors needs or/ and of promoting expected behaviors, inside the collectivities which represent the target market. [2] Being part of the marketing concept, public marketing has different approaches, such as economic perspective, business perspective, client perspective and social perspective.

In comparison with the purpose of private sector marketing, that consists of obtaining customer value and satisfaction, the public sector targets citizen value and satisfaction. [5]

Public marketing has some final objectives, which consist of:

- „- understanding the aims of public organizations, the way to measure them and how the marketing can contribute to them.

- understanding the public marketing policies under the political, economic, legal, social and technological circumstances of the public organizations.

- the analysis of the possibilities of organizational behavior directed towards the established objectives.

- the design of public marketing policies and strategies for the public organization.”

[1]

As mentioned before, the public sector generates changes in the private sector, by using different instruments, but more and more partnerships appear and the private component is emerged in most of the public services, underlining the importance of the public marketing. Although, marketing is a daily activity in a wide variety of countries its use is rarely encouraged or even considered as normal.[3]

#### 4. Necessity, collaboration and marketing mix

##### 4.1. Research method

The survey was made on a group of 384 subjects. The questionnaire was focused on marketing, in general and more specific on the necessity of marketing in public sector, collaboration with other departments and citizens, marketing mix, the need of specialists in public marketing, marketers' characteristics, the changes needed in public sector in order to obtain better public services. This paper presents the results about: (1) the necessity of marketing activities in public sector, (2) private-public collaboration by knowing the citizens needs, (3) the marketing mix components' importance.

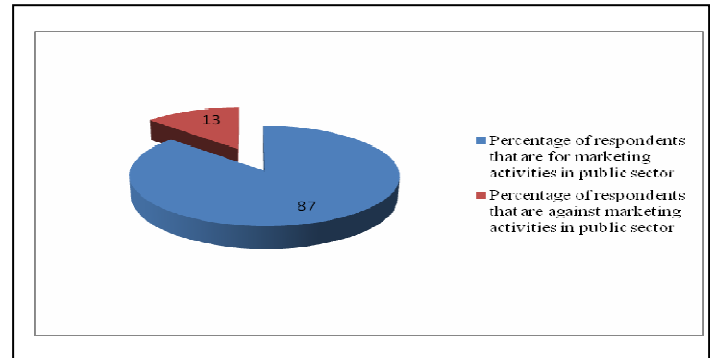
Among the respondents, persons that have their age between 20 and 40 years accounted for 60% and on the second place with a 33% are placed persons that have between 40-60 years old. Regarding the highest educational qualifications obtained, 49% had university degrees and approximately 26% had postgraduate studies.

##### 4.2. Data analyses, results and discussion

(1) Starting with the question that reveals *the necessity of marketing activities* in was analyzed the question „Do you think that the public sector and the public interest services should carry out and develop marketing activities?“, where the respondents had to answer with yes or not, from the total of 384 questionnaires, 329 registered a positive answer, 50 respondents negated the need for marketing activities and 5 questionnaires were eliminated at this question, because they did not marked a choice. From the total of 379 valid questionnaires, on one hand, 87% persons sustain the development of

marketing activities in public sector and on the other hand, there are a small percentage of 13% persons that do not encourage the presence of marketing activities within the public sector. (figure 3)

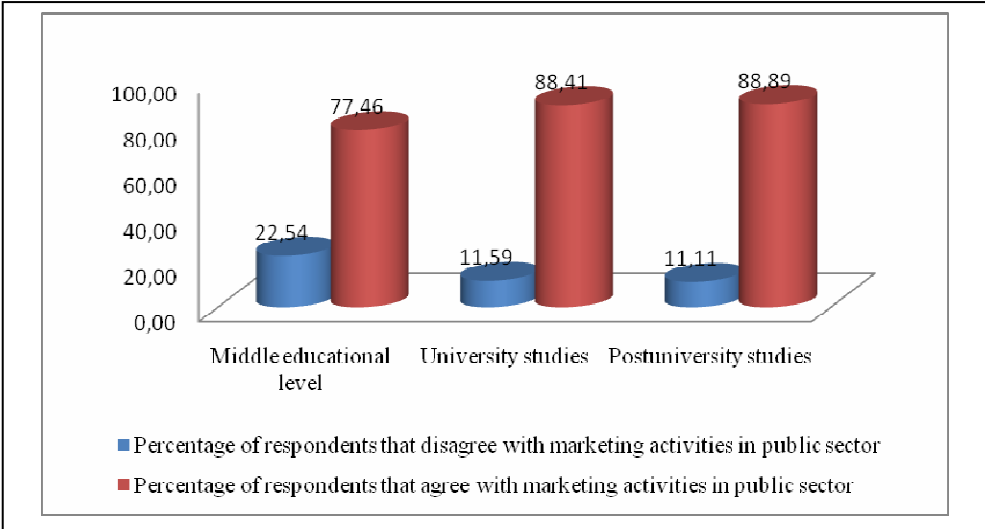
FIGURE 3  
The percentage of respondents that are for or against marketing activities in the public sector (percentage)



In the following (figure 4) there are presented the percentages of respondents that agree or disagree with the necessity of marketing activities in public sector, structured into three categories by their level of education (middle educational level, university studies and postgraduate studies). The highest percentage of the respondents that disagree with the development of marketing activities in public sector is registered at the category of persons with a middle educational level, 22,54%, compared with approximately 11% for each category of respondents that have university studies or postgraduate studies. As a suggestion, the marketing benefits should be known by all the employees, especially when concerning a public institution, where the citizens should be the main central point.

(2) The following question makes *the connection between marketing activities and future collaboration with citizens* and it is formulated like this: “Do you think that the knowing of citizens' needs and expectations could improve the relationship between public and private sector?”. The necessity to know the citizens needs and expectation, registered a very high percentage (97%) of positive answers towards the identification of contributors' needs and expectations.

**FIGURE 4**  
**The percentage of respondents that agree or disagree with the marketing activities in public sector, divided by their level of education**



Employees of Romanian public institutions are aware of the fact that the needs and expectations of the citizens should be on a very important place, because when the citizens' opinions are taken into consideration it generates satisfaction among them, thus meeting the main purpose of the public sector.

(3) Regarding the question about *the marketing elements that should be taken into consideration by the marketing specialists when making an offer*, the asked subjects had to hierarchy components, such as product, price, distribution and promotion (the 4 P of marketing mix), human resources, process (ecological technologies and others) and the organization good-will. (table 1)

From the hierarchy of marketing mix components, it can be seen that the respondents put on the first places the fundamental elements of the marketing mix. On the first place, with a majority of 199 options, is placed the product, followed by the price, which occupies the second place with a number of 141 options. The distribution and promotion register the most frequently options for the third place, but the promotion has a higher number of registers than the distribution, so that the latter occupies the fourth place. Respondents put little accent on good will and process so they place them on the following places. The human resources component has the most numerous options in order to be placed on the last position. The

**TABLE 1**  
**The hierarchy of marketing components when specialists have to make an offer**

Making the offer	Position	Product	Price	Distribution	Promotion	Human resources	Process	Good-will
	1	<b>199</b>	35	4	73	10	28	38
	2	52	<b>141</b>	22	61	24	34	28
	3	46	58	<b>66</b>	<b>79</b>	28	30	36
	4	28	49	50	59	45	44	42
	5	7	27	58	31	68	47	38
	6	8	16	61	29	36	49	<b>53</b>
	7	7	17	34	10	<b>72</b>	<b>51</b>	52

**Source: from the applied questionnaires with 384 respondents**

respondents are focused on the main components of the marketing mix by putting them on the top and place the other three elements on the last positions.

## 5. Conclusions

A limitation of this study is that presents part of the survey and it was focus mainly on public administration from central and local levels. Cultural, national and institutional diversity would be relevant factors [7]. Applying this questionnaire and mainly the specific questions that are detailed in the paper, in other European would be very much strengthen this study's findings or even make comparisons. In addition further improvements of the questionnaire will bring into attention the interdependence between the public and the private sector, through marketing activities.

### 5.1. Implications and future research

Summing up, marketing should become a base building block of the Romanian public sector and this fact is sustained by the majority positive answers of the respondents (87%), when asked about its necessity. All most everybody (97%) agree that the improvement of the public administration services is related with citizens' needs and expectation. Knowing them could be better provided. The survey results reaffirm the importance of the marketing mix elements. Unfortunately the classic 4 P (product, price, distribution and promotion) was highlighted in the answers; less importance was given to personnel even if all agreed that it is very important for building a good relationship.

For a future research it has to be considered to find out if this result was obtain due to the analogy with the private sector marketing, less knowledge of public marketing, commodity in answer or is the real quotation the subjects are given to the marketing elements.

Other issue to be taken into consideration is the relationship between public and private sector (business community and citizens) in order to find out the current situation of the marketing importance/impact and what improvements can be made for further cooperation.

## 6. References

- [1] Grigorescu A. (2009) Renewal marketing management in public and business organizations, 10th International Symposium in Management SIM 2009, Management & Competitiveness in Knowledge- Based Society, 6-7 noiembrie 2009, Timișoara, Romania (in publishing process)
- [2] Grigorescu A., Bob C. and Dobrescu E. (2006), Ghid de marketing public și privat, Editura Uranus, Bucharest
- [3] Kaplan A.M., Haenlein M. (2009) The increasing importance of public marketing: Explanations, applications and limits of marketing within public administration, *European Management Journal*, 27: 197-212
- [4] Kotler Ph., Keller K.L. (2009), *Marketing Management*, 13th edition, Pearson Education Inc., Upper Saddle River, New Jersey
- [5] Kotler Ph., Lee N. (2007) *Marketing in the Public Sector: a roadmap for improved performance*, Wharton School Publishing
- [6] Pop N. Al., Vlădoi A. D. (2009), The marketer- a complex specialist, a man of concept, decision and action, *Amfiteatru Economic*, Vol XI, no. 25: 9-20
- [7] Spincer A., Dunfee T.W. and Bailey W.J. (2004), Does national context matter in ethical decision making? An empirical test of integrative social contacts theory, *Academy of Management Journal*, 47:610-620
- [8] Stănciulescu G. (2002) *Managementul utilităților publice*, Editura Uranus, Bucharest
- [9] *Governance Programme 2009-2012*, Available via [http://www.gov.ro/programul-de-guvernare-2009-2012\\_c1211pl.html](http://www.gov.ro/programul-de-guvernare-2009-2012_c1211pl.html), accessed 12 March 2010

## Trademark vs. Brand, emblem or logo

Professor, Phd., Cornel Grigoruț  
*E-mail:* [cornel.grigoruț@gmail.com](mailto:cornel.grigoruț@gmail.com)  
Lecturer, PhD. Constantin Anechitoae  
*Faculty of Law, „Ovidius” University of Constanta*  
*E-mail:* [anechitoae@yahoo.com](mailto:anechitoae@yahoo.com)

### Abstract

Currently, brand marks and trademarks and service trademarks are used extensively in all countries - whether developing or industrialized, with a market or planned economy – and they play an important economic role in trade marketing.

Trademarks serve both the interests of those providing goods and services on the market - such as industrialists, manufacturers, distributors, retailers and wholesalers - as well as the interests of consumers, public authorities and the economy, in general.

**Key words:** trademark, brand, legal framework, emblem

**JEL classification:** M31, K11

### 1. Trademark vs. Brand

The English word "brand"<sup>1</sup> is often used as a synonym for the word "trademark" and it reflects this use: the "brand" represented the marking of cattle with hot iron, made by farmers [1]. Therefore, the English word "brand" that comes from the Norwegian word

"brand", which means to burn (also called "marking" cattle), appeared together with the first private enterprises at the end of the eighteenth century. In the given example, the

trademark is the sign or trace printed from the reddened iron on the skin surface of cattle, but the brand was a "family coat of arms" and today, it is a "company coat of arms" whose value and significance is assessed by customers and, as seen, this value can increase (by reputation, quality, loyalty), stagnate or be lost.

As Professor Vlad Dinu Sasu considers, "the struggle between brands does not take place in advertisements or in the pages of publications, but within the human mind and psyche."<sup>2</sup>

In Romanian language dictionary, the word brand [Brend] is equivalent to the trademark of a factory or product<sup>3</sup>.

In our opinion, a trademark may be considered a brand in an area where it has become a successful trademark, with a substantial economic value, after a sufficient market experience and if it entered among the so-called "consumer brands".

In our case, the word "brand" has another meaning than the word "trademark" - even in English there are used different words ("trademark" and "brand"). Thus, the trademark - registered or not - is the unique sign which distinguishes the products of a trader from those products of other traders.

On the other hand, the brand represents all physical and emotional links created between

---

<sup>1</sup> In Romania, the word brand was originally translated as "trademark." Therefore, today's "registered trademark" is identical with the "brand" - branding. While a trademark is a name without a representation in mind of the consumer, the brand is an active presence in the consumer's spirit, beyond the physical "interaction" between his/her retina and the object. The brand often plays the role of a status object. Its values are also the owner's values and, by extension, of the aspirant to him. Brands with good designed values, viewed brands, have, beyond any connection with the product it presents, a legitimating role for the buyer. It is already known phrase "Charles Revlon did not sell lipsticks to women. He is selling hope". In other words, have the brand had the following promise: "the aspiration to beauty is, by Revlon, a tangible reality." pr-pub.blogspot.com/2006\_10\_01

---

<sup>2</sup> Vlad Dinu Sasu. *Diferențe și similitudini între marcă și brand.*

<http://docs.google.com/viewer?a=v&q=cache:SHhfzDckssJ:steconomice.uoradea.ro/anale/volume/2004/64.pdf+brand+marc%C4%83&hl=ro&gl=ro&sig=AHIEtbRZfbpdzTdZ9Crrw--ZWTNB2zOjVQ>

<sup>3</sup> DEX, Ed. ARC&GUNIVAS, Chișinău, 2007, p. 245.



a well-known product and the existing/potential customers, the public. In technical language, the brand is an intangible asset that some accounting systems admit even in the balance sheet<sup>4</sup> and the banking system - after a survey of the economic market value - can accept a particular brand in lending transactions, in the form of mortgage.

If anyone can own a trademark, very few trademarks have become (or will become) brands, creating value for their owners. Lately, in the Romanian advertising industry, it is almost fashionable for many so-called experts to talk easily about logos or names, referring to them as brands.

In conclusion, "brand" is a word that covers a distinct reality and for which there is no equivalent in Romanian; therefore, the use of the two concepts of "trademark" and "brand" (for the time being in industry language) comes as a natural solution for this situation.

## 2. Trademark vs. emblem or logo

More often, in everyday speech or in the media, businessmen use expressions with similar meanings between trademark and emblem or logo, when speaking about the originality of a product or a service. From a legal perspective, the term "emblem"<sup>5</sup> is omnipresent in both

public and private activities, mainly in commercial activities<sup>6</sup>; as regards the word "logo", it is not found in any normative act. For this reason, it is wrong to say in legal terms that a trading company is the property of a protected logo.

The legislation on industrial property, namely Article 3 A) of Law no. 84/15.04.1998 on trademarks and geographical indications, provides that the trademark is a sign capable of graphic representation, serving to distinguish goods or services of a natural or legal person from those of others; distinguishing signs may constitute trademarks, such as: words, including personal names<sup>7</sup>, drawings, letters, numerals, figurative elements, three-dimensional shapes and, especially, the form

<sup>4</sup>[http://www.brandient.com/ro/noutati\\_si\\_opinii/interviuri\\_si\\_articole/brand\\_sau\\_marca.html](http://www.brandient.com/ro/noutati_si_opinii/interviuri_si_articole/brand_sau_marca.html)

<sup>5</sup> The word emblem, without relating it to the word trademark, is found in many laws, such as: 1) the Order of the Ministry of Culture no. 408 of 06.02.1992, the provisions of art. 3, set for the books and brochures published by Romanian publishers, bibliographic and identification data, which will be drawn up on the special pages, in the following way: the emblem, the name of publisher, place and year of occurrence of the edition, 2) By means of the Establishment Act of the "Romanian Post" SA National Company, of 03.07.1998, published in the Official Gazette, Part I no. 250 of 06.07.1998, the emblem of the "Romanian Post" National Company - SA, registered at the State Office for Inventions and Trademarks under number 22.799 of April 22, 1993, 3) the Statute of the Chamber of Auditors of Romania, of 14/09/1999, Published in the Official Gazette, Part I no. 463 of 24.09.1999, "the Audit Chamber will have its own stamp and emblem, which are registered at the State Office for Inventions and Trademarks" [Art. 2, paragraph (2)], 3) Emergency Ordinance no. 34/2000, on ecological agricultural products, from 17/04/2000, published in Official Gazette, Part I no. 172 of 21.04.2000, tickets will include a specific emblem for the inspected ecological products, registered at the State Office for Inventions and Trademarks, issued and affixed under the certification system, indicating that the product complies with the rules of ecological production [Article . 6 (2)].

<sup>6</sup> Emergency Ordinance no. 161 of 13/10/2000 amending and supplementing Law no. 18/1996 on the guard of premises, goods and property values, published in the Official Gazette, Part I no. 557 of 09.11.2000, [Article 22 (4)], The equipment of the security personnel will be engraved only with the name and the emblem of the company, approved on the occasion of its authorization.

<sup>7</sup> According to art. 2 of Directive 2008/95/EC, amending Directive 89/104/EEC on the rapprochement of the laws on trademarks, "Trademark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of the product or of its packaging, provided that such signs are capable of distinguishing goods or services of one company from those of other companies." (SN) The same provision appears in Law. 84/1998 on trademarks and geographical indications, art. 3 point a. In these circumstances, in the database of trademarks there can be found, as registered trademarks, names such as: Raluca, Laura, Anna, Peter, Eloïse, Teddy, Miriam, etc., recorded for different classes of goods or services. If the case of the name Elodia, there is recorded in the national database a number of 3 applications. The first application, number M 2007 10868 was filed by SC Simplus Invest S.R.L. and it was rejected. The second application, numbered M 2008 08417 was filed by Mr. Cristian Constantin Cioaca and it was removed for failure to pay examination fees. A third application, the number M 2010 00542 was filed by SC Petrans S.R.L. and it is pending in the examination procedure. In the case of the name Nicolae Ceausescu, in the national trademark database there are several trademark registrations, including Ceausescu trademark, numbered 087503, the only one in force at this time and it is held by Mr. Valentine and Mr. Oprean Ioan Mircea. Ceausescu trademark is registered in all classes of goods and services included in the Nice Classification. <http://bd.osim.ro/marci/index.jsp>.

of the product or its packaging, or color combinations, and any combination of these signs. The right to the trademark, according to article 4, is acquired and protected through its registration at the State Office for Inventions and Trademarks.

The same confusion can be made in the case of the brand. A brand can not be subject to legal protection, whereas the list of goods and services can not be registered; protection can be given only to the name and/or figurative element that come with certain products or services.

### 3. The Law on the use of logo

Case T 289/01, Der Grüne Punkt - Duales System Deutschland GmbH v Commission of European Communities<sup>8</sup>.

The system for the collection and recovery of packaging marketed in Germany and bearing the logo Der Grüne Punkt – Exempting Decision... Court Decision (First Chamber) of 24 May 2007. Summary of the decision. Competition - Agreements - Prohibition - Exoneration - Commitment proposed in administrative proceedings (Art. 81 EC)

### 4. Decision. Legal framework

*B. The collective system of Der Grüne Punkt - Duales System Deutschland GmbH, logo usage agreement and service agreement.*

*Since 1991, Der Grüne Punkt - Duales System Deutschland GmbH (hereinafter "plaintiff" or "DSD") is the only company that operates a collective system throughout Germany (hereinafter "DSD system"). To this end, DSD was approved by the competent authorities of all provinces in 1993.*

*In order to use the DSD system, manufacturers and distributors have to sign an agreement with DSD, in order to give them the right to use the Der Grüne Punkt logo, which corresponds to the collective trademark Der Grüne Punkt, whose owner is DSD. Instead, these producers and distributors shall pay a fee to DSD. The logo usage agreement is subject to Commission Decision 2001/463/EC of 20 April 2001 relating to an implementation proceeding under Article 82 [EC] (Case COMP D3/34493 - DSD) (OJ L 166, p. 1). This decision is the*

*object of the action for annulment brought by the plaintiff in Case T 151/01, DSD/Commission.*

*In the DSD system, the plaintiff does not collect and recover the packaging waste which bears the Der Grüne Punkt logo, but it subcontracts the collection service to a collecting company. The relationships between DSD and these companies are governed by an agreement, amended several times, whose object is to create and operate a system for packaging collecting and sorting (hereinafter "the Service agreement"). Once sorted, these materials are transported to a recycling center, in order to be recovered.*

*Law. c) On the alleged harm to the function of Der Grüne Punkt trademark. Arguments of the parties.*

*Originally, the Commission notes that some critics of the plaintiff do not cover the service agreement, subject to the contested decision, but the agreement for the use of the logo, which is the subject of Decision 2001/463 and which should not, therefore, be examined in this case.*

*The Commission states that the plaintiff seems to want to claim an exclusive right to use the collecting facilities, because it authorizes their owner to apply on their facilities the Der Grüne Punkt logo, which can not be accepted. Indeed, this would mean that a collecting company which applies the Der Grüne Punkt logo on the truck collecting the packages could use this truck only in the DSD system and not for other waste transports. Not only that the service agreement does not contain a provision supporting this reasoning, but the answers given by collecting companies to the demands of information sent by the Commission would show, in particular, that these companies use their vehicles for other orders.*

*The plaintiff could not, therefore, claim this exclusive right. Furthermore, the Commission states that, when it throws a package bearing the Der Grüne Punkt logo in a collecting facility belonging to the DSD system, the consumer is not misled, because the question of the common use is incident on consumer conduct. In addition, the final beneficiary of the return and recovery service proposed by the DSD system is not*

<sup>8</sup><http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62001A0289:RO:HTML>

the consumer but the packaging manufacturer or distributor. There is, therefore, no evidence that the alleged misleading claimed by the plaintiff brings prejudices to the Der Grüne Punkt trademark.

*Findings of the Court:* First, the service agreement does not prevent the contractual partner of the DSD collecting company to provide its collecting facilities to a system in competition with the DSD. Indeed, under the Service Agreement, it is stated only that "[i]n its actions to promote the system, the collecting company will highlight, appropriately and consistently, the Der Grüne Punkt logo conferred by DSD, for example by printing it on correspondence paper, advertising material and collecting bins, as well as by highlighting it on the vehicles and equipment used in the operation of the system" [Article 2 (5) first paragraph, fourth sentence] and that the "use of the Der Grüne Punkt logo is free for the collecting company" [Article 2 (5), third paragraph, first sentence]. The fact that DSD authorizes the collecting company to apply, for free, the Der Grüne Punkt trademark on its collecting facilities is not sufficient for DSD to claim the exclusive use of those facilities. On the contrary, under the service agreement, it is stipulated that the application of this logo serves no other purpose than to indicate, "in promotional purposes," that the facility in question is part of the DSD system.

On the other hand, given the importance of the application of the Der Grüne Punkt logo on the packages - one of the possibilities in section 4 (2), the second sentence of Annex I to Article 6 of the Ordinance to enable consumers to identify the participation of the package to a collective system (see Section 6) - the Court ordered in Decision DSD / Commission, T 151/01, paragraph 133, that, since the achievement of the recovery rates provided in the Ordinance and the division of the quantities of packaging between the systems is made

on the basis of the masses of these materials and not according to the packaging as such, whether or not they bear the Der Grüne Punkt logo, the latter does not have the role and the importance claimed by the plaintiff.

Thirdly, it must be borne in mind that the file shows that not all the collecting facilities used by the DSD system bear the Der Grüne Punkt logo. It is therefore legitimate to think that, when depositing the package in the collecting facilities, consumers do not associate these installations with the Der Grüne Punkt trademark, but with the packaging type (sales packaging) and especially with the type of the material which is made of (lightweight materials, paper/cardboard, glass etc.), which must be deposited in different types of collecting facilities.

Finally, it should be noted that neither the first obligation nor any technical constraint of the shared use of the collecting facilities do not require to the DSD competitors to be authorized by it to use the Der Grüne Punkt trademark. It is thus conceivable that common collecting facilities to have no logo or indication or, conversely, that each system to be equipped with a means of identification. Therefore, it is not arguable that the first obligation requires DSD to grant to its competitors a compulsory license for the free use of the Der Grüne Punkt trademark

## 5. References

- [1] C. Anechitoae, *Introducere în dreptul proprietății intelectuale*. Ediția a 5-a. Ed. Bren, Bucharest, 2010.
- [2] C. Grigoruț, Cornel. *Euro-marketing: [Curs]*. Ed. Era, Bucharest, 2002.
- [3] C. Grigoruț, Cornel. *Managementul tranzacțiilor internaționale*. Ed. Era, București, 2002, Vol. I-II.
- [4] C. Grigoruț, *Piața de capital: Mică enciclopedie*. Ed. Expert, București, 2001.

## Achievements and Prospects of Higher Education in Romania

Hanganu Silvia

*Universitatea „Aurel Vlaicu” Arad*

*silviahanganu@yahoo.com*

Lile Ramona

*Universitatea „Aurel Vlaicu” Arad*

*ramonalile@yahoo.com*

### Abstract

The work contains some achievements of higher education in Romania and perspectives of its development in the contemporary society, called the knowledge and teaching society. Efforts by state authorities and university communities in developing the Romanian Higher Education are aiming to its integration in the European Higher Education Area and to redefine and keep active its role through the development of the society. Universities should also shape their educational offer and potential of scientific research to meet the needs of this changing society.

**Keywords:** education system, higher education, quality, university scientific research.

**JEL classification:** I29

Contemporary society bases its strategy of sustainable development through more and more replacement of material values with knowledge values in the context of all its manifestations, global or digital.

Sustainable society focus on developing human capital, which must acquire knowledge of highly specialized requirements of the corresponding new society from the beginning of the third millennium, called the knowledge and learning society.

In his work *The Management of the future*, Peter F. Drucker notices: in the highly specialized knowledge society, a large number of individuals, perhaps most, benefit from something more important than the financial security: social status or *”social wealth”*.<sup>1</sup> In the

specialized knowledge society personal failure also represents social failure”.<sup>1</sup>

In contemporary society, called the knowledge and teaching society, the role of education becomes more and more significant.

In his *”Education on the border of millenniums”* G. Vaideanu emphasizes that man is the product of the school, of the educational system of each country and the development of the society is strongly influenced by the quality of education: Education precedes and makes development possible with the condition of being adapted to the national needs and demands of the future, therefore, be relevant and modern.<sup>2</sup>

In terms of a scientific, technologic, economic and very dynamic environment, universities in the entire world have to redefine themselves in order to keep their active role in society.

Without giving up the traditional values, in the new society, universities around the world have to shape their educational offer and the potential of scientific research on the needs and expectations of local and regional community.

They must ensure the return of graduates to university in completing their studies and even to change skills and professional knowledge acquired during initial training, using modern means of open learning distance education.

To respond to the new demands of the contemporary society, the educational systems in all countries have important tasks such as:<sup>3</sup>

- permanent renewal and in an accelerated rhythm of content and structures, as well as decentralization of responsibilities

---

<sup>1</sup> Drucker, P.F., *”The Management of the future”*, Publisher ASAB, Bucharest, 2004, page 251

<sup>2</sup> Vaideanu, G., *Politics*, Bucharest, 1988, page 19.

<sup>3</sup> Hanganu, S., *”Management and Higher Education in Romania”* Publisher Aurel Vlaicu Arad University, 2008, page 39

- diversification of education to adapt more easily to the requirements of economy, science and modern technology. There have to be created training courses and new interdisciplinary programs.
- harmonization of the education content and profile with the increased requirements of the society and labor market
- establish a balance between general and professional (speciality) training, in terms of trends converged to professionalize the higher education and to develop disciplines of general and theory education into technical education, for the formation of polyvalent personalities, able to adapt more easily to changes taking place in the contemporary society
- students to develop skills needed for a high level specialist by constant changing of programs of study, content of teaching methods, as well as periods of practical training and professional experience, which will be included in the program/curricula
- scientific and theoretical preparation basis to be solid, with a range of options, specializations
- complementary training for research through students participation in research

To solve these tasks, universities should establish strong links with science and research, to find new ways of transmitting knowledge to improve the educational offer for upgrading the educational performance.

In order to train and develop the professional skills and competencies of the students, to develop the spirit of initiative and creation, university managers must promote scientific techniques of evaluation and self-assessment. They must take into account views of the international bodies based on research in scientific fields.

University management should also aim to quality and efficient management acts. In this way, academic managers determine the strategy for achieving the targets and motivates university community members to obtain high performance.

Romanian higher education should play an important role in the new society. Romanian universities should be open to the environment that surrounds them, to develop an active partnership between universities and industry and public services, through strategic development policy of the university, by changing the policy of their funding

(diversification and increasing the financial contribution of beneficiaries).

Under the new policy, higher education not only must adapt to the requirements of the market, but should also constitute its own domestic and external market.

Domestic market is achieved by means of recruitment of students, by the quality of services offered, the degrees conferred and by developing relationships with cultural economic organizations, etc.

External market is achieved by the cooperation within European programs, participation in European networks of university teaching and research, accepting certain foreign university subsidiaries or opening university branches abroad, etc.

In the context of developing relations between the university and the social, cultural and economic environment, university strategic management should consider the following:<sup>4</sup>

- institutional internal assessment to determine the mission and the immediate and future objectives
- elaboration of institutional immediate and perspective policy, to identify resources necessary to fulfill the aimed objectives
- establish a flexible organizational structure of the university to enable notification of new opportunities, finding new solutions, encouraging the innovative spirit of the academic staff, diversification of services for the external environment
- adoption of a new financial management, to boost scientific performance and academic excellence.

For the correlation of education in Romania with European systems of education, starting with the 2005/2006 academic year, universities issue free of charge to each graduate a diploma supplement whose content is in accordance with European norms, including in a language of wider circulation.

Curricular reform in Romanian universities aims to increase the insertion capacity of higher education graduates in the labor market.

Boosting scientific research in universities contribute to fully achieving the mission of higher education.

---

<sup>4</sup> Hanganu, S., "Management and Higher Education in Romania" Publisher Aurel Vlaicu Arad University, 2008, page 28

Boosting university research is made through the establishment of schools of advanced studies, which involve team research activities, with the improvement of individual young students who are studying under a master or PHD degree program, under the leadership of scientific coordinators of international fame.

The Ministry of Education and Research recommends universities to create centers of technology transfer and innovation, to ensure the interface between universities and local communities, in the field of scientific and technological research.

All these exchanges are influenced by specific historical conditions of each country.

After decades of isolation of the Romanian higher education from the outside, boosting international exchanges, access to international scientific publications after 1990, constituted a major concern of the Romanian universities.

Universities valuing the new legal and institutional framework involves promoting international collaboration through joint university training, organizing PhDs in co-tutoring, the participation of the Romanians at scientific research programs at European or global level.

Today, as in the Bologna Process, Higher Education in Romania is clearly included in the battle for making it compatible with the structures and performances accepted in the European Higher Education Area.

In order to do this, beyond the necessary technical and organizational measures, the quality of acts and educational processes are absolutely necessary.

Romanian higher education is in a period of reform.

Quantitative accumulation has been achieved by increasing the number of students and the licence degree cycle, but in the future, emphasis should be on quality.

Efforts in Romania to increase quality in higher education have been materialized in:

- a new structure through the reorganization of higher education studies in three cycles: cycle I – license, cycle II – master, cycle III – PhD
- building the national quality management system - began in 2005 with the adoption of GEO no. 75/2005, approved by Law no. 87/2006 on quality education and by establishing ARACIS, whose activity field is the quality management in higher education nationwide.

ARACIS began to function effectively in 2006, by attending and piloting standards and methodologies afferent for external evaluation of universities. In order to develop international cooperation and participation of the Romanian universities, the Ministry of Education and Research has funded a research program of quality education in Romania, called CALISRO, to implement effective mechanisms for quality assurance, based on detailed studies and discussions with academic representatives.

- recognition of qualifications obtained in higher education through the National Center for recognition of diplomas affiliated to ENIC / NATIS.

- introduction of a system of transferable ECTS type credits, by Law no. 288/2004.

- with regard to the mobility of the students, teachers and researchers, authorities were created to facilitate mobility, such as National Agency Socrates and Leonardo da Vinci. The National Office for Scholarships Abroad was also created.

To improve the mobility of students, the Ministry of Education and Research and Socrates National Agency initiated the "PHARE and users support" project and in order to support the exchange of experience at educators level, in 2004 The Socrates National Agency initiated a PHARE program. All these measures have been taken in order to make the university curricula compatible.

- steps were taken in the evolution of continuing education. Education Law no. 84/1995 regulates adult education and continuing education, ideas, reinforced by the Government Ordinance no. 129/2000, which regulates the distance education as a mean of achieving education for adults.

- to contribute to the development of European dimensions of higher education integrated studies were extended through mutual agreements between universities and Government, study programs have been developed in foreign languages, the Jean Monet program was initiated, involving 9 universities which have developed training modules on the European Constitution

- in order to promote the activity of European higher education, seminars, conferences, meetings and debates to promote European trends in higher education have been made. Thus, in 2003, was held in Cluj-Napoca an EUA

meeting, organized by the University "Babes Bolyai", supported by the National Agency Socrates.

For the future, the Romanian Government, through the Ministry of Education and Research, has developed strategies related to the Bologna Process, aiming at:

- increasing the quality in higher education in Romania
- linking national qualification framework with the labor market, compatible with the European Qualification Framework
- monitoring the placement of graduates in the labor market
- participation in programs and activities for internationalization of higher education in Romania

The position of Romania about the European Community Acquis provides full adaptation of legislation and regulations in the field of education, which shows that the future of higher education in Romania can not be other than as part of a European Area of Higher Education, participating actively in its construction.

The main objective of the development strategy of higher education for the period 2001-2010 is to improve structural Higher Education.

In order to achieve this strategic goal a number of operational objectives have been established, such as:<sup>5</sup>

- Optimizing national network of institutions of higher education, aiming to balance the structure of higher education centers. This can be achieved through:
  - ranking of universities based on performance
  - correlation of the universities' distribution by region, in relation to their population and resources
  - optimizing the structure of State higher education
  - promoting private quality higher education institutions
- Strengthening university autonomy in parallel with the increasing synergy and coherence of the whole higher education system. To achieve this objective, actions are necessary to decentralize the education activities, increasing accountability in university management

decisions, creating new relationships between universities and ministries, increase flexibility and demanding quality from the universities.

- Improving the performance of students and teaching staff. To do this, increasing the demand is necessary in promoting the teaching staff, reorganization of teaching, improving the selection and motivation of students to obtain performance, reviving the university level research.
- Improving university infrastructure through attracting new financial resources, others than the allocated budgetary resources, attracting private investors, developing the entrepreneurial dimension of the universities.
- Better correlation of higher education with the labor market, by connecting the academic specializations with the nomenclature of occupations by monitoring the insertion of the graduates in the labor market
- Reorganizing the teaching process by the implementation of modular systems, course packages, establishment of experience exchange at national level and inter-school cooperation, etc..
- Stimulating the integration of the Romanian Higher Education in the European one and the international cooperation through reform measures, in accordance with the evolution of European higher education and supporting academic exchanges.

In the scientific research and technological development, our country recorded very serious gaps to the European Union, both in terms of personnel, as well as those related to infrastructure for research and technological development.

To reduce these disparities, the Romanian Government launched the National **Strategy for Research, Development and Innovation (RDI)** for 2007-2013, approved by the Government Decision nr.217/2007.

The strategy reinforces the support of the planning and the implementation of RDI policies promoted by the National Agency for Scientific Research (ANCS) in the post-accession period.

The main instrument for the implementation of the Strategy is the **National Plan for Research, Development and Innovation**, developed in consultation with a large part of the scientific community and a large number of structures and personalities in the economic environment.

---

<sup>5</sup> Source: Romania's National Report for 2004-2005, Bologna Process, <http://www.almamater.md>

In 2006 the *Impact Program* was launched, which aims to identify and develop RDI projects supported by structural funds, in major areas such as:

- research partnership between universities, research institutes and development companies,
- investment in the RDI infrastructure
- SME's access to the RDI activities

Regarding the development of the scientific and technical international cooperation, the Ministry of Education, Research and Innovation by ANCS, offers its financial support from the research budget, to the following forms of international cooperation:

- participation in European and international research programs, such as Euratom, Eureka, the NATO Scientific Program, Scientific and Technical Cooperation Program - COST etc..
- connecting the national programs to European projects, i.e. ERA Net, ERA Net+.
- bi and multilateral scientific and technical cooperation, including at regional level, based on intergovernmental agreements.

- scientific and technical cooperation in international bodies such as CERN (within 4 experiments: ALICE, ATLAS, DIRAC, LHC) ICGB – Trieste International Center for Genetics Engineering and Biotechnology, Initiative BSEC-Black Sea Economic Cooperation, etc..

In the future, Romania has to solve the quality and capacity development of the RDI in order to help at the technology and gap reduction to the countries of the European Union.

In order to make the system of higher education in Romania compatible with the one from the EU, it needs to develop a competitive educational system of training, able to develop skills, creativity, initiative, originality and respect for values.

European market requires a high standard of mobility, flexibility and work reconversion.

From a qualitative point of view, Romanian universities are still performing poorly. No university in Romania have entered the Shanghai top, containing the most advanced 500 universities worldwide. The Estimations of the Ad-Astra Association of the Romanian researchers show that the best universities in Romania should increase their score by the least twice, to enter the top.

Romanian higher education has yet to solve very serious problems related to:

- under-funding
- low quality of education
- incomplete university autonomy
- staff salaries, to eliminate overlapping the hours
- training and educating the population about the role of the continuous studying
- increasing the connection between universities and business community
- developing practical skills, specialized, entrepreneurial, among the ones of general culture
- creating a system of educational network, with many centers of excellence.

Of course the results will be visible on long term and they require a radical change of the Romanian people's mentality in favor of permanent learning, throughout life.

## References

- [1] Abrudan, I., Premises and marks of the Romanian management culture, Publisher Dacia, Cluj Napoca, 1999
- [2].Antonesei, L., Dr. Zehia A.I.Abolel-Aal, Mohamed R.El-Tahlawi, Dr.Nabila T.Hassan, University Management. From the leading vision to a mission of success, Polirom Publishing House, Iasi, 2000
- [3] Bratianu, C., Quality management in Higher Education, V.Goldis Publishing House, Arad, 2000
- [4] Bratianu, C., Lefter, V., Strategic University Management, Rao Publisher, Bucharest, 2001
- [5] Drucker, P.F., The management of the future, ASAB Publishing House, Bucharest, 2004
- [6] Hanganu, S., Issues and tendencies with regard to the integration of the Romanian high-level education within the undergoing high-level education system in the European Space, Arad "Aurel Vlaicu" University Annals, Series Economy, 2005
- [7] Hanganu, S., Management and Higher Education in Romania, Publisher Arad "Aurel Vlaicu" University, Arad, 2008
- [8] Jinga, I., Management of the Education, Publishing House ASE, Bucharest, 2003
- [9] Vaideanu, G., Education on the border of millenniums, Politic Publisher House, Bucharest, 1988
- [10] \*\*\*, National Report of Romania 2004-2005, Bologna Process,
- [11] <http://www.almamater.md>.



# Winners And Losers In The Context Of Global Economic Crisis

Humă Elena  
Scoala Doctorală , ASE Bucuresti

## Abstract

When contemplating a merger, acquisition or portfolio purchase, strategic objectives should be defined in advance along with your tolerance for risk. This process can be used to pre-screen transaction candidates, assemble a project team and establish the scope of work. Ongoing communication among the project team is essential to identify high risk elements that could jeopardize the viability of the transaction. If the transaction is not a good financial, geographic and cultural fit for your organization call it a day and move on to the next transaction candidate.

The global financial crisis was clearly stamped "Made in USA," but the outlook for growth in emerging economies is being rapidly scaled back, proving that globalization is for real. We are all in this together. What started as a US housing market problem has morphed into a worldwide economic slowdown and could be turning into something worse? The crisis is still in the early stages in many developing nations.

**Key words:** crisis, trade, recession, risk

**JEL classification:** E39

## 1. The European Economic Crises

Central and Eastern Europe was arguably the region hit hardest by the global downturn. It's still suffering, but hopeful signs are clearly emerging.

It wasn't meant to be like this. According to the original script, Central and Eastern Europe (CEE) was to have celebrated the 20-year anniversary of the fall of communism this year with unalloyed enthusiasm. The countries would look back on how they built competitive, successful free market economies and attained NATO and EU status—with Slovenia and Slovakia also benefiting from the Euro zone membership<sup>[1]</sup>—and consider how they were increasingly making their mark on the world stage. Former Polish premier Jerzy Buzek's becoming president of the European Parliament would be the latest proof.

In short, 2009 was supposed to be all about how CEE was becoming increasingly indistinct from the Western Europe it has long sought to catch up with.

In most countries of the former communist world, free market concerns like recession, increased bankruptcies and growing unemployment are the new reality. Relatively fragile political systems have struggled, with new governments emerging from the economic rubble in Latvia, Hungary and Bulgaria, to name just three. Croatia's respected premier Ivo Sanader stepped down midway through his term in early July without explanation, overwhelmed by Croatia's worsening economic crisis and faltering progress in its EU application.

Meanwhile, each latest report the International Monetary Fund releases grows more pessimistic. After forecasting in April that GDP this year would contract 3.3% across CEE (with growth recovering to an anemic 0.8% next year), its latest report sees growth plunging by 5% (albeit with 1% growth in 2010), with the Baltic's, Ukraine and Hungary all faring much worse than average. Only Poland has any reasonable chance of growth this year.

The region's problems are, in part, a reflection of its success in opening up to the world, much of which is now also deep in recession. Its once-closed economies are now among the worlds most open, with Hungary, the Baltic States, the Czech Republic and Slovakia all having trade-to-GDP ratios of over 80%. Poland, the largest and most self-sufficient economy, has the lowest ratio at around 40%. By comparison, India's trade-to-GDP ratio is just 10%, Brazil's 15% and China's 35%. Trade openness was accompanied by high dependence on foreign capital flows, which before the global downturn kept the region's economies moving forward. Financial institutions from countries such as Austria, Germany, Sweden and Greece own most of the banks and were happily lending—usually in euros—to local businesses and consumers.

This, like much of the trade flow, all came to a sudden, shuddering halt in the fall of 2008 and has yet to resume, despite the efforts of the IMF, EU and other multilateral bodies to keep funds flowing. At the same time, local currencies have plunged, increasing private and public debt levels to worrying new highs. The IMF has warned that CEE could experience problems in rolling over the \$413 billion in external debt due to mature over 2009; especially given that many countries also need to finance large current account deficits as well. In April the IMF suggested the financing gap could reach \$123 billion, with a further gap of \$63 billion opening up next year.

With governments struggling to contain growing deficits and keep their economies afloat, most bets about joining the euro within the foreseeable future are off. Poland, which had hoped for 2012, has now admitted that looks unrealistic, given the fiscal situation, the downturn and currency instability. The earliest possible date is now 2013, with 2014 more likely. The Czech Republic's traditional ambivalence has deepened amid concerns the euro could act as a straitjacket on growth, while Hungary's enormous external debts and other problems suggest 2015 at the very earliest. Nobody wants to estimate entry dates for the Baltics or the Balkan states, despite the former having already fixed their currencies against the euro.

## 2. Winners and losers

Among the winners, Poland stands out, with a stable banking system, generally low levels of debt, a cohesive, effective government and some prospect of growth—though not much—in the “annus horribilis” that was 2009. The Czech Republic and Slovakia, though they have suffered economic contraction reflecting a heavy dependence on auto manufacturing, also deserve an honorable mention: Policymaking has been consistent, and banks are well capitalized. Although unemployment has risen in Slovakia to around 15% (on the back of a 11.2% contraction in GDP between January and April), membership of the euro has meant there is no currency risk, which is one reason why VW chose it over the Czech Republic for its new \$435 million plant to build the company's new family car.

Among those suffering worst, all three Baltic States, but particularly Latvia, deserve special mention. Major real estate bubbles

have burst, while the massive expansion in credit that gave these economies unsustainable growth rates up to 2008 has completely dried up. At the same time, unprecedented wage increases have made the economies uncompetitive. Meanwhile, exchange rates pegged against the euro have robbed policymakers of a vital tool, even while they fought to prevent further deteriorations in confidence and increases in foreign debt. The IMF believes Latvia's GDP could contract by 18% this year, leading the multilaterals representative in Riga to comment, “Latvia is in for an incredibly tough year.”

Hungary, for so many years the darling of foreign investors in CEE, has also fallen hard. Its problems include sluggish growth, huge external and fiscal deficits and private sector foreign-currency over-gearing compounded by political near-paralysis and a continuing failure to get a handle on such problems as a large, costly and inefficient public sector and an unreformed, bloated pension system. ING Barings reckons GDP will shrink by around 6.5%.

Romania and Bulgaria continue to be blighted by corruption, lack of transparency and huge, inefficient public sectors as confirmed by the EU's latest progress report, published in late July. Bulgaria's situation has been made more parlous by the collapse of the real estate and construction boom, which at its peak accounted for almost one-third of GDP growth. GDP contraction, however, may not be as bad as elsewhere: The new government in Sofia projects a 2.5% contraction for 2009 against the 6% decline for Romania predicted by its economy ministry.

Further east, things look even grimmer. Moldova, as ever, is struggling for its very viability as a nation in the wake of continuing GDP declines and political crisis. Ukraine, defined by one analyst as “an economic disaster zone which has done almost nothing to help itself in the current crisis,” expects GDP to contract by up to 20% on the back of major falls in demand for steel, its single biggest export.

## 3. Moody's Report concerning Romania's situation<sup>[2]</sup>

Romania's convergence to the EU average will spread over a long time, probably around 40 years, given that a more normal long-term growth rate for the country is most likely of 3-4% per year, according to a Moody's report

published this April. "The combination of a reasonable business environment, EU membership, and improving physical and social infrastructure – bolstered by EU funds – should sustain superior investment rates over time, allowing a gradual rise in real income towards the EU average. Nevertheless, this trend will take considerable time, probably around forty years," Moody's report reads. Moody's assesses Romania's long-term economic strength to be high, mainly because Romania is significantly poorer than most other EU countries. Moody's expects Romania's recovery path to be gradual. Economic growth is unlikely to reach pre-crisis rates for sustained periods, especially if European economic growth remains muted. A more normal long-term growth rate for the country is probably 3-4% per annum, bearing in mind that there are still several obstacles to rapid growth in Romania, particularly a heavy structural reform agenda and lackluster infrastructure. At this pace, however, income will take a relatively long time to converge to the EU average," according to the report. Romania's economy boomed between 2001 and 2008, averaging 6.2% real growth per year even as the population declined. The rating agency estimates the Romanian economy would contract by 8.9% this year, but will post a 1.2% growth in 2010. Moody's analysts added that signs that growth was becoming unsustainable became more pronounced in 2006 and 2007, as asset prices soared, the current account deficit jumped and domestic credit growth accelerated.

A surge in external borrowing and government spending leading up to the elections in autumn 2008 also increased the country's vulnerability to the deteriorating global economic environment, the report reads. Moody's

considers that Romania's return to growth may come more quickly than for other countries in the region, such as Bulgaria or the Baltics, because the Romanian private sector is less leveraged, and because of the flexible exchange rate which is easing the adjustment in the trade balance.

On the other hand, the recession, coming after an extended, credit-fuelled boom, could be more protracted than expected and cause serious economic dislocation. Output will need to re-orientate towards traceable goods and services, which means that corporate insolvencies and unemployment are likely to continue to rise for some time," according to the agency. Moody's is the only major rating agency that still has Romania on a stable, investment-friendly recommendation; after Fitch and Standard & Poor's placed Romania's rating in "junk" category last fall. In the second quarter, the economy fell 8.7% on the year, and 1.1% compared with the first quarter, according to the National Statistics Institute. Romania agreed in March with the IMF a EUR12.95 billion two-year stand-by loan, as part of a EUR19.95 billion financial rescue packages that also includes funds from the European Commission and other international institutions.

#### 4. Bibliography

- [1] [www.mediafax.com](http://www.mediafax.com)
- [2] <http://www.moodys.com/cust/default.asp>  
<http://www.fmi.ro/>  
<http://www.worldbank.org/>  
<http://www.ebrd.com/>  
[http://europa.eu/index\\_ro.htm](http://europa.eu/index_ro.htm)  
<http://www.economist.com/daily/news/>  
<http://www.ft.com/uk/management>

## 1929, 1973, 2008: Brand-related Attitudes

PhD student Ichim Cosmin

Al. I. Cuza University, Iași, Romania

[ichim\\_cosmin@yahoo.com](mailto:ichim_cosmin@yahoo.com)

### Abstract

History should prevent us from repeating the mistakes of the past and learn from those who made it through with glory. This article focuses on the analysis and interpretation of the branding and promotion events that occurred during the so called, Great Depression (1929-1933) and the 1973-1974 Crisis, projected on the decision of the marketing and management specialists of our times. The economic manifestations, such as: the unemployment rate, the decrease of the purchasing power, the crediting related difficulties, etc., specific to all periods of recession, revolve around the consumer and the way he modifies his consumer behavior. This paper tries to find an answer to the following question: given the decisions made by the managers in the 30s and 70s, what brand attitudes are recommended for this period?

The answers to the question above are the object of the conclusions of this article. The recommendations provided herein invite us to meditate upon the crises from the previous century and to take a critical look at various marketing related attitudes, such as the disregard for rebranding or brand creation and the diminution of the promotion budgets.

**Keywords:** brand, crises, products, consumers.

**JEL classification:** M 39

### 1. Introduction

In 1970, in his book entitled *Future Shock*, Alvin Toffler, in disagreement with the specialists of those times, who believed that science and technology were the main causes of the future product standardization, predicted that, with the passing of time, people would suffer because of a paralyzing excess of options,

and not because a lack of products that one could choose from [14]. There are too many products, too many societies and too much *marketing noise* [15]. *Consumer Digest* magazine conducted a study which showed that a common family covers between 80 and 85% of its needs with the help of 150 products [16]. 150 brands – this is the new economy.

The brand has gained a crucial place in the history of marketing, for it has enabled us to make a distinction between various products and contributed to the creation of attitudes such as consumer trust and loyalty. Larry Light, a professional in the field of advertising, was interviewed by one of the editors of *The Journal of Advertising Research* about his predictions in relation to the development of marketing over the next three decades. Light's analysis proved to be very revealing: *The marketing battle will be a battle of brands, a competition for brand dominance. Businesses and investors will recognize brands as the company's most valuable assets* [4].

This paper presents the brand in two different hypostases (the 1929 and 1973 crises) and identifies a series of brand attitudes that may help marketers who see the brand as an efficient weapon for communicating with the consumer and adjusting to their new *consumption habits*.

I will position the brand in the two time periods discussed herein. This positioning will be strictly correlated with managerial behavior, for which purpose I will resort to case studies. Finally, I will try to give shape to a series of recommendations for the current crisis, which have as a starting point the analyzed cases.

## 2. The brands of 1929

The period 1922-1928 represented, for the American and European economies, a period of confidence and contentment with the outstanding results obtained, especially in industry. Economic development was accompanied by prosperity, salaries became bigger and bigger and unemployment almost disappeared. The crediting system facilitated the development of demand and, implicitly, of production. In his desire to increase productivity, imperatively necessary for augmenting demand, in his work entitled *Principles of Scientific Management*, 1911, [11] Frederick W. Taylor stimulated the trend of scientific management, which advocated for production on assembly lines, with the strict timing of each operation. However, Taylorism enhanced fatigue and led to a decrease in the workers' technical creativity. The "robotizing" Taylorism was the source of the non-rationalization of consumer decisions.

Our consumer was more and more eager to consume, and, because of the normalization, and standardization principles applied to products and services, he would become loyal to the products he liked. Most marketing specialists argue that it is during this period that the packing and the brand start to act as information and pressure instruments on the buyer. They start to promote real or imaginary features of a given product or manufacturer [10]. The exodus of the population to the city, in search for better paid jobs, accelerated urbanization; electrical appliances and the radio become part of the life of ordinary people. Mass-media infiltrates in society via the radio, newspapers, the cinema and even television, leading to the diversification of the communication channels and thus laying the foundations for many of the marketing principles and practices.

In contradiction with all the above mentioned aspects, on October 29, 1929 (the so-called black Thursday) people witnessed the shock of the fall of the share prices at the New York Stock Exchange. The Wall Street Crash was followed by a wave of bankruptcies, account withdrawals and insolvencies. The purchasing power suddenly dropped, companies significantly reduced their activity, and some of them even closed for good. The unemployment rate reached unimaginable values; where the employers kept their employees, they had to reduce their salaries. The product abundance faced a lack of

buyers. The poverty caused by the lack of employment and by the diminution of the salaries led to large scale social movements: strikes and demonstrations of the unemployed, hunger marches, actions of the veterans, farmers, etc. [1].

I will proceed to the analysis of some brand related events, in strict correlation with the economic and social context presented above.

*Rebranding.* In 1930, Pepsi underwent a rebranding process and invested significant amounts for the promotion of the new image [5], also supported by a new shape of the bottle. Coke Cola, its main competitor, invested primarily in repackaging and brought the six-pack on the market. Even if sales dropped, neither of these companies reduced promotion costs.

*Reconstruction of the architecture of the brand portfolio.* Ivory, the 99.44/100% pure floating soap and the first successful brand of Procter Gamble, resists the pressure of reducing promotion expenses and even manages to sponsor some of the first radio soap operas, The O'Neills. Procter Gamble launches, also in this period, the Camay soup, unfortunately in the shadow of the Ivory brand. The company envisages, for the first time in its history, the creation of a brand management team, in charge of a marketing program and of its coordination with sales and production. This was a crucial event in the history of branding [4].

*Birth of a brand.* In 1931, two years after he had lost his job with Steyr, because of the crisis, Ferdinand Porsche set up his own company, in Stuttgart. This would actually be the beginning of Porsche [6]. The first project dealt with the design of an average class car, but they subsequently returned to the idea of a popular car. Later, Ferdinand would manufacture a high speed vehicle that equaled the *Silver Arrows* during an age when German cars dominated Grand Prix races. A while later, Ferdinand faced new challenges: his car was supposed to carry two adults and three children at a speed of 100 km/h, to consume little fuel, not to have problems during the winter season and not to cost more than 990 Reich mark – a little more expensive than a motorcycle.

*Innovation through creativity.* Walt Disney stated: *I hope we never lose sight of*

*one thing – it was all started by a mouse* [8]. Mickey Mouse is the name of the first cartoon to have managed to synchronize sounds and image. When the crisis was the primary concern of the entire population, and all the politicians were preoccupied with their anti-crisis programs, Disney launched their first color animated cartoons. Nowadays this is one of the most powerful media and entertainment company in the world.

*Non-interruption of the scheduled launches.* In 1932, Chrysler launched the Plymouth model and sent a message that was considered, at that time, unorthodoxly honest. The message incorporated an image of Walter P. Chrysler, supporting his leg on the new Plymouth model, and the slogan: *Look at all Three!* [17]. Chrysler seemed to encourage the public to compare the new model with those of his competitors, Ford and General Motors, before making a decision. This kind of honesty led to record sales for the new model. Chevrolet also scheduled the launch of new models: Chevrolet AC (1929), AE Independence and ½ Ton Pickup (1930). In his turn, Ford did not stay behind and launched, during the depression, Ford Model A (1929), Ford V-8 Model 18 (1932) and 20 other models.

*1929. The end of the second wave of company mergers and purchases.* After Ford had managed to become a vertically integrated company, being, via the purchase of companies, its own producers of tires and car bodies, General Motors embraced the same type of attitude [12]; Colgate and Palmolive-Peet also decided to merge and to create the Colgate-Palmolive-Peet Company brand.

### 3. The brands of 1973

The Second World War, like the first one, gave birth to two highly significant periods in the economic history. First, there was the epoch of mass production from the 20s up to the Great Depression and then the period of the consumption society, from the 60s until the 1973 crisis.

In the beginning of the 60s, the Western World saw itself in a light of welfare and abundance. This period of time is characterized by the fact that most of the families earned more than the equivalent value of their psychological and biological costs. Also, just like in the 20s, the market offer increases, putting the companies in the position of studying the preferences, the

wishes, the attitudes, the aspirations of the consumer. The return of the mass production, a sort of upgraded Taylorism and Fordism, is the start of a conflict with the limited character of the natural resources and with the possible degradation of the ecological environment.

The 70s were perhaps the worst decade for the economic performance of most industrialized countries since the Great Depression [7]. Although there was no severe economic depression, as witnessed in the 30s, economic growth rates were considerably lower than during the previous decades. As a result, the 70s adversely distinguished itself from the prosperous period between 1945 and 1973.

From an economic perspective, the 1970s were marked by the energy crisis which peaked in 1973. On the 16<sup>th</sup> of October 1973, The Organization of the Petroleum Exporting Countries (OPEC) announced a decision to raise the posted price of oil by 70%, to \$5.11 a barrel [18], a decision that had as background the end of Bretton Woods agreement and the war between Egypt, Syria and Israel (Yom Kippur War). In the 694 days between 11 January 1973 and 6 December 1974, the New York Stock Exchange's Dow Jones Industrial Average benchmark lost over 45% of its value, making it the seventh-worst bear market in the history of the index.

Again, I will proceed by analyzing some brand related events, in strict correlation with the economic and social context presented above.

*Rebranding.* In 1971 the Pepsi logo was slightly modified to a more rounded version which was used until 1991 [5]. This is the second time Pepsi uses rebranding to adapt to a new social and economical environment.

*Reconstruction of the architecture of the brand portfolio.* 1974 is a turning point for the successful Volkswagen brand: Beetle [6]. The increase in the design costs and a weaker dollar resulted in a bigger price (from 1893 dollars in 1970 to 3000 dollars in 1973) which was very not healthy for an economic alternative car. The magic of the brand also lost interest in the consumers' mind [4]. VW tried to transfer the Beetle capital to a new model called Rabbit, which distinguished itself through its simplicity and practical

nature (the symbol of the brand was a cute running rabbit). 1974 is also the year of the birth of a myth called Golf [6].

*Birth of a brand.* In 1974, the term Duracell was formally introduced as a brand. It all began when breakthrough advertising was trying to develop the message that Duracell alkaline batteries lasted much longer than ordinary and inexpensive zinc carbon batteries. A small pink, fluffy bunny was created, who, powered by Duracell batteries, was able to outlast all others in an array of colorful challenges [3]. The Duracell Bunny made his debut appearance in the US 35 years ago, in a commercial that included a group of drum-banging pink bunnies. The winner was the Duracell Drumming Bunny, the message was loud and clear - powered by the long-lasting Duracell battery, he's unstoppable.

*Innovation.* On September 25, 1928, Paul V. Galvin and his brother, Joseph, incorporated Motorola's founding company, Galvin Manufacturing Corporation, in Chicago, Illinois, USA. Having a large portfolio in the industry of communications, in 1973, Motorola demonstrated a prototype design for the DynaTAC portable radiotelephone, using cellular radio technology. In 1974, Motorola sold its television business to the Japan-based parent company, Panasonic, to concentrate on cellular radio technology [2].

*Non-interruption of the scheduled launches.* It was nothing scheduled in the motor industry. As in Western Europe, U.S. automakers were significantly impacted by the 1973 oil embargo and energy crisis. By 1971, the standard engine in a Chevrolet Caprice was a 400-cubic inch (6.5 liter) V8 with a big consumption figure. European and Japanese automakers began to export more compact cars into the US to meet the new demand. This forced the Big Three (General Motors, Ford, and Chrysler) to introduce smaller and fuel-efficient models for domestic sales [7]. The Chrysler Omni or Horizon, Ford Fiesta, Ford Fairmont, and the Chevrolet Chevette all had four-cylinder engines and room for at least four passengers by the late 70s. In the current crisis we find great interest in alternative power source motors such as: electric, hydrogen or solar ones.

*The end of the third wave of company mergers and purchases.* On the heels of post-World War II prosperity, a prolonged merger wave ensued. During this period, which is sometimes called the *conglomerate merger wave*, numerous

established US companies embraced the diversified conglomerate paradigm. In addition, entirely new conglomerates were built from the ground, such as International Telephone & Telegraph (ITT), Ling – Temco - Voight (LTV), and Litton Industries. Diversification became widely accepted because management skills were assumed to be easily transferable among industries [12]. Brands begin to represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide the security of sustained future revenues to their owner [9]. The merger wave gradually ended in the early 70s as the Dow Jones Industrial Average fell by more than a third (e.g. the largest conglomerates fell 86%, and computer and technology stocks fell 77%) and a worldwide energy crisis began. This led to tight money for merger activity and a devaluation of the US dollar [12].

The greatest merger, in time of the 73-74, is the one between Peugeot and Citroën (the birth of PSA).

#### **4. Recommendations for the current crisis**

The social and economic context specific to the period of the Great Depression and the 1973 crisis has many common aspects with the reactions to the current crises. Bankruptcies, account withdrawals, insolvencies and the decrease of the purchasing power characterize all analyzed periods. However, it is worth stressing the fact that our consumers did not reduce their expenses to zero; many of them started to thoroughly analyze what a brand really has to offer. They started to seek those products that bring more value to the earned money. The brands that succeeded in doing this, during the Great Depression and the one that took place in the 70s, gained loyalty, affection and long term trust.

The events which took place in the period 1929-1933 and 1973-1974 in association to the presented successful recipes represented the basis for the recommendations below.

*Do not put an end to investments in advertising.* The most intelligent decision made by the companies during the two periods was to invest in the promotion of

their own brand. We must not lose sight of the fact that, by resorting to a new brand, we strive to gain loyalty, affection and trust. If we reduce the marketing budgets, the consumers will feel abandoned and will reorient towards the products of the competition. If all the players in your field give up promotion, it is wise for you to be the only one that does not take such senseless measures. Thus, you will gain the long term loyalty of your customers.

*Resort to advertising agencies or to specialists in the field.* As the new consumer seeks to transform all purchases into a good deal, it is crucial for your sale process to achieve an efficient transformation of your message into perceived value. A flawed sale process will lead to wasted resources. Promotion campaigns, together with price decisions and promotion channels must be conceived in such a manner as to obtain the best possible results.

*Rebranding.* As we are dealing with a new type of consumer, with new consumer habits, we could try to adjust to this new reality by means of a new brand. It is absolutely necessary to question our consumer on the way he perceives our brand at present. Many of the current rebranding strategies focus on simplicity and clarity (e.g. the rebranding of Pepsi).

*Reconstruction of the product portfolio.* **Say no to price discounts**, focus on a new brand, and, implicitly, on a new product, depending on the positioning of the product in relation to its price. The *luxury industry* (or the industry of premium brands) has numerous rebranding opportunities; this is a strategic course, with beneficial effects as concerns the profit of a business, recommended for lowering a premium brand to an *upper-medium* or medium price level. It is worth mentioning that it is not advisable to return to high prices for the same brand. Consumers will focus on the *average price segment* and, consequently, this is where the battle between the producers will occur. The *low segment* does not have rebranding potential, since the consumers and the services in this segment are primarily motivated by the price and not by a potential emotional connection. **A new brand**, if it relies on innovation and on a potential need. We must keep in mind that recession comes with threats, as well as with opportunities. Ferdinand Porsche started his own business in 1929, when he became unemployed.

*Cobranding* (combination of the name of two or several brands), in case of takeovers or

strategic alliances – this is the only solution for the brands subjected to mergers or acquisitions. Even if the Great Depression and the ‘73-‘74 one represented the end of the second and the third wave in the history of mergers and acquisitions, the current crises showed us that some companies resorted to such strategies (see the cases of Caroli and Campofrio, which would become Caroli Foods Group, the taking over of Rompetrol by the Kazakhs and their desire to change the name of the fuel stations into *Litro, powered by Rompetrol*, the possible takeover of Zapp by Cosmote for the mobile Internet services owned by Zapp, the takeover of Volvo by Geely). Their decisions could not be more uninspired. The companies that resort to this type of strategies lose sight of the fact that this crisis will not last forever. For example, I wonder how Caroli and Campofrio will act when they see that the economic situation is back on the right track and they wish to be independent again. Acquisitions are

**Figure. 1. Brand recommendations, suitable for times of recession**



recommended during this period, as they strengthen powerful companies and offer a chance to those that have not come with any solutions to the current crises. Anyhow, it is advisable to use cobranding in order to explain your customers what happened with their favorite brand and to aggressively promote the new identity.



Our recommendations are primarily oriented towards those managers who, so far, have not seen the brand as an efficient weapon for communicating with the consumer. I hope that this article will stir the interest of managers and determine them to thoroughly analyze this phenomenon.

## 5. Conclusions

The lessons learned by those who experienced the Great Depression and the '73-'74 crisis have already been successfully applied in the current economic and social environment. Nevertheless, this research has been limited by the historical positioning of marketing. We started from the premises that history repeats itself and that marketing is, after all, an ahistorical field [13]. Our recommendations are, however, purely subjective and strictly correlated to historical facts. They invite us to meditate upon the recessions from the past century and to take a critical look at attitudes such as the disregard for rebranding or brand creation and the diminution of the promotion budgets. We must keep in mind that recession comes with threats, as well as with opportunities.

## 6. References

- [1] \*\*\* (sine ano), *The Great Depression and New Deal, 1929-1940s*, Collin County Community College District, available at: <http://iws.ccccd.edu/kwilkison/Online1302home/20th%20Century/DepressionNewDeal.html>
- [2] \*\*\*- [www.motorola.com](http://www.motorola.com)
- [3] \*\*\*- [www1.duracell.com](http://www1.duracell.com)
- [4] Aaker, David, *Managementul capitalului unui brand*, Brandbuilders, Bucharest, 2005, p. V, 5, 232
- [5] Aaron, Perry, *Pepsi Logo Design Brief: Branding Lunacy to the Max*, 2009, p. 12, 14 available at: <http://www.fastcompany.com/blog/aaron-perry-zucker/new-ideas/pepsi-design-process-explained>, read in the 15th of March

- [6] Albulescu, Matei, *Povestea unei pasiuni*, Porsche Romania, Bucharest, sine ano, p. 25, 113, 115
- [7] Frum, David, *How We Got Here: The '70s*, Basic Books Publishing, New York, 2000, pp. 292-293, 321-322
- [8] Grover, Ronald, *Walt Disney: He Built A Better Mouse*, Business Week Magazine Online, 17 Mai 2004, available at: [http://www.businessweek.com/magazine/content/04\\_20/b3883037\\_mz072.htm](http://www.businessweek.com/magazine/content/04_20/b3883037_mz072.htm), read in the 17th of March
- [9] Kotler, Philip, *Management Marketing*, Pearson Education, New Jersey, 2006, p.275
- [10] Munteanu, Corneliu, Maxim, Emil, et. al., *Marketing. Principii, practici, orizonturi*, Sedcom Libris Publishing, Iasi, 2008, p. 14
- [11] Nica, Panaite, *Management. Concepte și aplicații practice*, Sedcom Libris Publishing, Iași, 2004 p.13
- [12] Romanek, Broc, et al., *Mergers and Acquisitions*, Capstone Publishing, Oxford, 2002, p. 15, 20
- [13] Tadajevski, Mark, *Editing The History of Marketing Thought*, Journal of Historical Research in Marketing, Vol. 1, No. 2, 2009, pp. 318-329
- [14] Toffler, Alvin, *Șocul viitorului*, Political Publishing, Bucharest, 1973, p. 248
- [15] Trout, Jack, Rivkin, Steve, *NOUA POZIȚIONARE. Cele mai noi informații despre strategia de business numărul unu în lume*, Brandbuilders, Bucharest, 2008, p. 248
- [16] Trout, Jack, Rivkin, Steve, *REPOSITIONING: Marketing in an Era of Competition, Change and Crisis*, McGraw-Hill, Columbus, 2009, p.179
- [17] Tungate, Mark, *AdLand. A Global History of Advertising*, Kogan Page, London, 2007, p.33
- [18] Yergin, Daniel H., *The Prize: The Epic Quest for Oil, Money, and Power*, Simon and Shuster Publishing, New York, 2008, p. 587

**Acknowledgements:** Project

POSDRU/88/1.5/S/47646

# Product Lifecycle Management and Project Life Cycle Management

Ilie Margareta

*OVIDIUS University of Constanta, Faculty of Economic Sciences*

*E-mail: [marga\\_ilie@yahoo.com](mailto:marga_ilie@yahoo.com)*

Ilie Constantin

*OVIDIUS University of Constanta, Faculty of Mechanical Engineering*

## Abstract

The pressure on businesses to incorporate the principles of sustainable development into policies and activities is mounting. Project management methodologies are not excluded from this pressure. The current project management frameworks do not effectively address the three goals of sustainable development, i.e., social equity, economic efficiency and environmental performance. A prerequisite for aligning these frameworks with the principles of sustainable development is a clear understanding of the various life cycles involved in a project and the interactions between these life cycles. The way forward to achieve true Sustainable Project Life Cycle Management in the manufacturing is subsequently outlined.

**Keywords:** project management, product life cycle, processes, information.

**JEL classification:** M19

## 1. Introduction

In today's challenging global market, enterprises must innovate to survive. Business innovation must occur in all dimensions - product, process, and organization - to improve competitiveness and business performance. To differentiate themselves, enterprises must capture, manage, and leverage their intellectual assets. This can best be accomplished through proper application of a Product Lifecycle Management (PLM) approach that addresses the needs of the extended enterprise. PLM is a strategic business approach that helps enterprises achieve its business goals of

reducing costs, improving quality, and shortening time to market, while innovating its products, services, and business operations.

CIMdata Inc. defines PLM as: A strategic business approach that applies a consistent set of business solutions in support of the collaborative creation, management, dissemination, and use of product definition information across the extended enterprise from concept to end of life-integrating people, processes, business systems, and information.

## 2. The Evolution of PLM

PLM has evolved in much more than terminology. There has been a continuous evolution of what PLM represents, as illustrated in the figure below. Fifteen years ago, custom implementations focused on precise applications wrapped around primarily engineering design data. In the late 1980's, the major emphasis was on how to manage engineering drawings, with limited solutions primarily sold to managers in engineering departments.

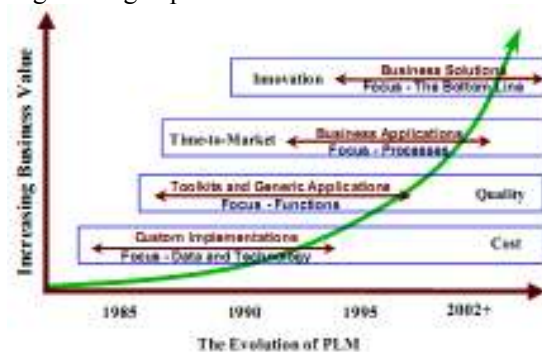


Figure 1. The evolution of PLM.

Precisely what product-related lifecycles are companies seeking to manage with today's PLM solutions?

CIMdata defines the overall product lifecycle as comprised of three major, interacting lifecycles:

- Product Definition
- Production Definition
- Operational Support

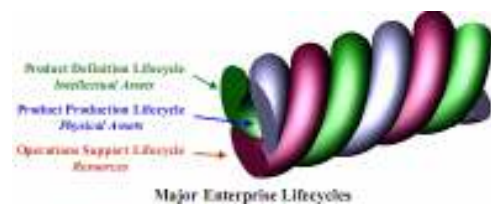


Figure 2. Major Enterprise lifecycles

Supply chain management was often used by procurement to support the production function. Once the product was in the field, CRM systems helped manage the customer relationship. As described in the previous sections, today's businesses require enterprise solutions

### 3. PLM definition

CIM data defines PLM as:

- A strategic business approach that applies a consistent set of business solutions that support the collaborative creation, management, dissemination, and use of product definition information
- Supporting the extended enterprise (customers, design and supply partners, etc.)
- Spanning from concept to end of life of a product or plant
- Integrating people, processes, business systems, and information

It is important to note that PLM is not a definition of piece, or pieces, of technology. It is a definition of business approach to solving the problem of managing the complete set of

product definition information-creating that information, managing it through its life and disseminating and using it throughout the lifecycle of the product. PLM is not just a technology, but is a approach in which processes are as important, or more important than data. It is critical to note that PLM is a concerned with "how a business works" as with "why is being created."

Three core or fundamental concepts of PLM are:

1. Universal, secure, managed access and use of product definition information;
2. Maintaining the integrity of that product definition and related information throughout the life of the product or plant;
3. Managing and maintaining business processes used to create, manage, disseminate, share and use the information.

Supply chain management was often used by procurement to support the production function. Once the product was in the field, CRM systems helped manage the customer relationship. As described in the previous sections, today's businesses require enterprise solutions that can integrate all of this disparate information to optimize product development, production, and deployment. CRM data must be used to embody today's customer requirements into the next product generation. To save money, SCM systems must be active from the beginning of the product definition lifecycle, saving procurement time and money while supporting the product development process. Business partners, suppliers, and customers must all have visibility into this information to optimize their decision processes to benefit the enterprise. PLM is becoming the overall view port or portal into such product definition information and processes, providing collaboration and integration functions to synthesize information residing in CRM, SCM, ERP, and other business systems to enable new, complex business solutions.



Relationships Among Enterprise Solutions

Figure 3. Relation among enterprise solution

#### 4. Benefits of PLM—Improving Business Performance

PLM solutions bring benefits to an enterprise's product or service performance in terms of lower costs, higher plant uptimes, quicker delivery, and higher quality. PLM solutions help an organization address customers' needs more effectively, overcoming the competition as a result. Product and service quality as perceived by the customer is of paramount importance in today's business climate. In this important area, PLM solutions help enterprises provide faster response to customer queries; more efficiently design personalized products, leverage previous designs and components, and reduce the number and severity of errors and product changes, to name just a few. Additionally, PLM solutions improve an individual's performance by managing not only product definition information, but by guiding and facilitating their tasks through well-defined business processes and work-flows. PLM solutions have a very positive effect on process efficiency and effectiveness by supporting and encouraging work in a more structured manner and providing the right information, at the right time, to the right people.

#### 5. Project Life Cycle Management

The nature of project management has changed since the 1960s.

Companies in the new millennium are managing projects on a far more informal basis with less paper work by relying on techniques such as "checklists for end of phase reviews". Critical to these informal project management approaches are an appropriate methodology and an understanding of the life cycle phases [6].

Benchmarking studies supports these concepts by concluding that companies, which are successful in project management, all use a company-specific, simple and well defined project management framework that defines a staged approach for all projects under all circumstances. The framework specifies major activities and deliverables for each project phase as well as guideline questions for the phase end reviews or gates. These specifications of deliverables and activities establish a level of management control.

#### 6. Sustainable Project Life Cycle Management

It is thus the asset life cycle resulting from the project, and the subsequent product life cycle resulting from the asset, that have economic, social and environmental consequences, which are in turn associated with an implemented project. Aligning project management (and appraisal) methodologies with the principles of sustainable development therefore requires that the sustainability consequences of these asset and product life cycles must be considered during the project life cycle.

A comprehensive sustainability evaluation framework is therefore required to assess projects during the early life cycle phases in terms of sustainability consequences of the future implemented assets and products. Fig. 4 shows such a framework that has been developed, specifically for sustainability performance evaluations, which can be used business processes. Indicators for each criterion are needed and must then be utilized in the project appraisal process.

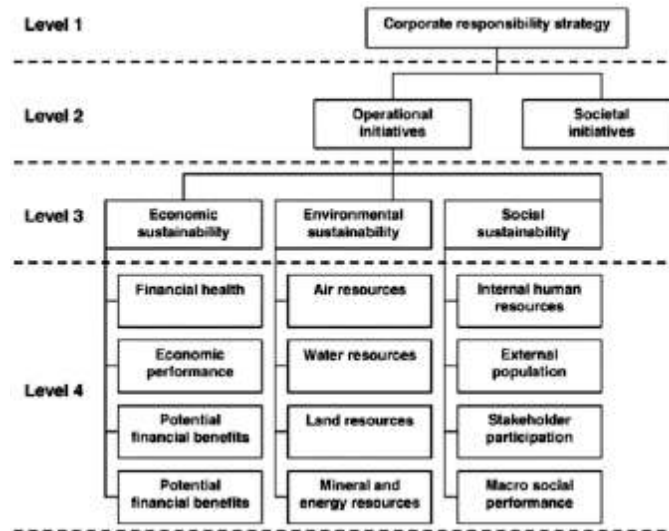


Figure 4. Framework to assess the sustainability of operational activities.

## 7. Conclusion

More work is required to develop a Sustainable Project Life Cycle Management methodology:

- Indicators for the social sustainability criteria must be refined and are in a process of development. The methodology that will be followed relies on expert panels to determine which social sub-criteria should be dealt with in a corporate governance framework for projects and which in a project itself;
- Furthermore, calculated indicators for project specific criteria are constraint by the type of information that is available (pertaining to the asset and product life cycles) in each project life cycle phase, as well as the available data in the society in which a project is deployed. Case studies of the different asset life cycle phases are being undertaken to establish the suitability of the calculated indicators for.
- The social and environmental indicators must be incorporated into real time project appraisals and decision-making processes to assess the relevance of introducing the indicators into project management methodologies.

The global sustainability trend is forcing companies to internalize social and environmental externalities. The aim of the

proposed future work is to ensure that project management methodologies facilitate this internalization.

## 8. Reference

- [1] <http://www.cimdata.com/>
- [2] Carin Labuschagne, Alan C. Brent, „Sustainable Project Life Cycle Management: the need to integrate life cycles in the manufacturing sector”, openUP, November 2007.
- [3] Project Management Institute. „PMBOK® guide: a guide to project management body of knowledge”. Retrieved on 5 November 2003 from the World Wide Web: <http://www.pmi.org>
- [4] H. Kerzner, „Project management: a systems approach to planning, scheduling and controlling”, Wiley, New York (2001).
- [5] R. Buttrick, „The project workout: a toolkit for reaping the rewards from all your business projects”, Prentice Hall, London (2000).
- [6] H.E. Daly, „Toward some operational principles of sustainable development”, *Ecol. Econ.* 2 (1990), pp. 1–6.

## The Quality of Romanian Touristic Services and Products

Assist. Ph. D. Candidate Ioniță Roxana  
Assist. Ph. D. Candidate Pîndiche Elena

„Dimitrie Cantemir” Christian University-Faculty of Tourism and Commercial  
Management-Constanta, Romania  
[ionita\\_roxana2000@yahoo.com](mailto:ionita_roxana2000@yahoo.com)  
[pindichielena@yahoo.com](mailto:pindichielena@yahoo.com)

### Abstract

The image of a superior quality of a certain touristic service or product represents a major advantage on the market, given that tourists perceive the existence of high risk in connection with the acquisition of touristic travels. Therefore, the increase in the quality of the touristic services provided is the key element in the attraction of a greater number of both Romanian and foreign tourists.

**Keywords:** services, products, quality, customers, tourism.

**JEL classification:** M39

Tourism as a phenomenon has a powerful impact upon a country's socio-economic life. Its role may be viewed through the perspective of the large number of natural persons consuming, but also providing, touristic products and services.

Due to its complex content, tourism may be perceived as a stimulator of a country's development because it ensures the economic growth of the other connected branches: industry, agriculture, transportation, constructions etc.

The contribution of tourism to the economic growth can also be emphasized through the perspective of the touristic supply which affects the manifestation and effective realization of demand, which can be considered real and concrete only provided that it has a corresponding supply. Thus, the development of the touristic supply represents the premise for a suitable evolution of the demand, for its modernization, and more importantly for the increase in the quality of touristic services.

Environmental changes impose modifications in the supply of enterprises involved in tourism, which are effected firstly in the improvement of the existing products and services. The improvement focuses on the quality, which means offering customers what they want, respecting the standards and specifications that they want, with a predictable and acceptable degree of conformity and uniformity, within a price range that responds to their needs. In the field of tourism, the assessment of the quality of the services provided to tourists is based upon the customer's perception in comparison with the service delivered [3].

Customers react to a great variety of indices in order to assess the quality of services. Indices are those attributes or characteristics of services based on which customers form their own perceptions, and they can be placed in two categories [4]:

- Intrinsic: those attributes which are part of the service structure and which cannot be changed without changing the service;
- Extrinsic: those attributes, such as price or label, which are connected to the service, but are not indissoluble.

The image of a superior quality of a certain touristic product represents a great advantage on the market, given that tourists perceive the existence of high risk in connection with the acquisition of touristic travels. It has been a fact that for the last few years, more and more Romanians choose to spend their holidays abroad, which brings up a question regarding the quality/price ratio of national touristic products and services. The low quality of the services remains the main problem with which Romania's tourism industry is confronted [2].



One of the strategies which can be adopted to increase the quality in the field of tourist services is the one based on National Program for the enforcement of the Q label, which aims at the enforcement of criteria allowing the total assessment of quality, and of all the factors which can ensure a high degree of customer satisfaction, respectively.

The quality of touristic products depends upon the value and attractiveness of touristic assets, upon the technical performance of the touristic infrastructure, and upon the skills of the staff involved in service delivery. Moreover, it must be emphasized that the subjective customer factor has a strong influence on the assessment of a touristic product's quality level. Therefore, the customer's level of satisfaction following the consumption of the touristic product depends upon the degree of accordance between the actual components of the touristic offer throughout their stay and the image that they had envisioned previously [1].

At the moment, there is a noticeable increase in tourists' exigency regarding the quality of touristic arrangements. Thus, the image or the reputation of a certain touristic product's superior quality represents a major advantage, attracting a host of tourist flows and leading to the development of tourist loyalty. In this context, it must be mentioned that, following the discreditation of a certain touristic product, the restoration of its image requires special long-term marketing efforts, because distasteful experiences create strong impressions which are difficult to change [2].

Generally, the quality level of touristic products can be analyzed from a range of perspectives [2]:

- Regarding natural elements (the beauty and authenticity of landscapes, air and water purity levels, the climate, the flora and the fauna, the hydrographic network, etc)
- Regarding technical elements (the accessibleness of touristic sites, the safety and comfort level of touristic means of transport, the state and the degree of wear and tear of accommodation establishments, noise levels, the visitor carrying and outturn capacity of accommodation equipment, transportation, food, entertainment, city and buildings architecture, etc.)
- Regarding organization (the structure and the execution of the circuit and touristic programs, the number, structure, politeness

and availability of the staff, resort opening and closing periods, the degree of agglomeration of touristic destinations, the time range of service delivery, etc)

When appreciating the quality of touristic products, the consumer considers their price in relation to classification category of the means of transport, the accommodation unit or the food.

If we consider the particulars of the touristic product (consisting mainly of touristic services), its quality depends greatly on the professional skills of the service delivery personnel (their politeness, availability, punctuality, efficiency) [2].

Aspects related to professional ethics (correctness, reliability, honesty) are perceived by the consumer as inseparable from the quality of a product. At the same time, the tourist's perception regarding the quality of the service delivered will depend on the providers' level of involvement. In this context, the assurance of an income level in accordance with professional qualifications and work conditions will have a positive influence on staff perpetuation and, implicitly, on the quality of the service delivered [2].

As far as the quality of Romanian touristic services is concerned, it must be noted that Romania holds an essential advantage in relation to other countries due to its rich and varied touristic potential, being able to provide all the requested touristic forms: visits to the seaside, mountain resorts, balneo-climatic resort, winter sports, hunting, fishing, cultural and religious tourist circuits, agritourism and rural tourism, etc.

Nevertheless, the Romanian touristic potential we are so proud of (mountains, beaches, sun, climate, folklore, history, culture, etc.) is not harnessed enough to represent a real and powerful touristic attraction.

Unfortunately, a study conducted by Horwath, the British consulting company, reveals the fact that Romania is represented in front of foreign tourists by "*an obsolete touristic product, an inadequate recreation and leisure offer, equipment whose physical state reflects the lack of care and investment.*"[2]

The fact is that more and more Romanians choose to spend their holidays

abroad, which brings up a question regarding the quality/price ratio of Romanian touristic products and services. If we analyze the competing foreign offer, another decisive reason can be distinguished: the overwhelming majority of the products provided by countries which represent our direct competitors (Hungary, Greece, Turkey, Bulgaria) provides a much better price/quality ratio, while the safety conditions are at least equal to those in Romania. For example, as a touristic destination, Bulgaria has gained during the last few years a rather large share of the tourists traditionally attracted by Romania, who used to visit the Romanian Black Sea region quite frequently. Between 2006 and 2008, tourism industry represented over 5% of Bulgaria's GDP (Gross Domestic Product), while Romania remained under the level of 4%. Another example is that of Hungary, which exploits its natural resources much more efficiently than we do. Although lacking any mountain resorts, seaside or delta, the Hungarians earn around \$3.5 billion annually from over nine million tourists, while Romania touristic income, despite all the attractions mentioned above, does not exceed a billion dollars.

One of the decisive factors influencing the quality of the services provided is the state of the material resources specific of tourism. In Romania, the material resources are generally old, the infrastructure has degraded and is often obsolete, the equipment is mostly insufficient and outlived, which implicitly leads to inadequate quality. Thus, the quality of touristic delivery is way under the standards to which Western tourists are accustomed. The classification criteria of accommodation establishments have been adapted to the present situation: although the tariffs correspond to a three-star unit, the comfort provided is specific of a foreign two-star unit. Therefore, Romania has become an expensive touristic destination, given that the services are inadequate, and the material resources old-fashioned.

The low standards of public foodservice further contributes to the negative image of Romanian touristic products, in terms of general aspect, atmosphere, quality and variety of the dishes, staff behavior and honesty, inadequate music, as well as the lack of entertainment provided for the tourists.

Due to the lack of infrastructure necessary to accommodate a very large number of visitors

at the required standards of quality, Romania is presented to the world as a niche touristic destination (our country has an inadequate and badly managed roads and highway network which cannot provide optimum conditions for the connection between Otopeni international airport and the mountain or seaside resorts.)

Another problem of tourism in Romania is the mentality of the employees in tourism industry, which is difficult to change, thus leading to the misunderstanding of the psychology and needs of foreign tourists. The staff from Romanian hotels have not yet understood that smiling does not cost a thing; on the contrary, politeness ensures comfort during a holiday, which in most cases occurs only once a year.

Moreover, it is absolutely necessary to ensure a diversified supply of souvenir products. More consideration should be given to maps, leaflets, postcards and handicraft.

All the facts mentioned above prove that, at the moment, Romanian tourism is only sustained by natural resources and historical sites, with only a minor contribution from infrastructure. The quality of touristic services does not attract foreign tourists, on the contrary, it drives away Romanians as well, since they have discovered that, for the same amount of money, they can be provided services of superior quality in other countries such as Greece, Turkey or Bulgaria.

Many statistics prove the fact that, at the moment, Romanian tourism is in a state of decline, and one of the causes of the decrease in touristic demand is the product policy of tourism agencies, which have not taken into account the evolution of the domestic and international market, and consequently have failed to adapt touristic offers to the ever-increasing exigency of both Romanian and foreign tourists [2].

An effective way of invigorating and reviving Romanian tourism consists of the proposal and support of an ample process meant to create some attractive touristic products which would succeed not only in attracting a large number of foreign tourists, but also in determining them to return to our country.



## References

- [1] Nedelea. Al., Politici de marketing în turism, Editura Economică, București. 2003
- [2] Nedelea. Al. “Calitatea serviciilor și produselor turistice în România”, Revista de Comerț, numărul 3, Martie 2007, pagina 15-20
- [3] Brândușoiu C., “Imagina calității în servicii”, Revista de Comerț numărul 2, Februarie 2008, pagina 12-14
- [4] Brândușoiu C., “Lanțul valorii în serviciile turistice”, Revista de Comerț numărul 5-6, mai-Iunie 2009, pagina 60-62

## Employees' Motivation, Essential Premise of Performance Ensuring

Ec. PhD. Loredana Iordache  
University of Craiova  
loredanaordache2006@yahoo.fr  
Prof. PhD. Ion Criveanu  
[ion\\_criveanu@yahoo.com](mailto:ion_criveanu@yahoo.com)

### Abstract

Preoccupation for what employees want should be one of the main concerns of the companies. That is because between motivation and performance is a reciprocity condition relationship. Practical experience shows that active or talent individuals who aren't appreciated according to their influence on the company tend to leave it. And this appreciation and motivation doesn't have to be represented just by money. Sometimes, a good organizational climate can sustain a long term motivation even if the financial stimulants are fewer. Still, the motivational system must be chosen depending on people you work and reasoning/motivating factors have to be different from a person to another.

**Keywords:** motivation, performance, climate, employees.

**JEL classification:** M12

Preoccupation for what employees want, referring to what motivates and offers them satisfaction isn't just a caprice permitted by international company, but their success key. One company's image on market is in a large measure designed by employees' satisfaction. For this, we believe that each manager must understand that the measure in which employee's motivation and satisfaction grow up, this will be seen in company's benefit and in its further possibilities of development.

Although it has an important role in performance obtaining, the most managers grant little importance to this aspect, forgetting or unknowing that the measure in which employee's motivation and satisfaction grow up, company's benefit will grow up too.

In company's management, real sense of employees' actions and behavior can't be discovered without knowing the generator

reasons. Conflicts, sabotages, defensive compartments are just a few of manifesting forms of personnel's dissatisfaction. Intense fluctuation, permanent dismissal is the consequence of performance's flaw, and motivation, implicitly.

Specialized literature treats in great deal motivation problem, and for this reason, many times the theories are contradictory. With all off this, from conceptual point of view, there is a unity, great majority of definitions completing each other.

So, P. Golu had defined motivation as being: "subjective model of objective determination, determination which is psychically reproduced, gained in time, transformed and transferred through knowledge in individual internal acquisition."

From managerial conception's point of view on which it is basing, we can see two major motivation's acceptations<sup>1</sup>:

- motivation in the restrictive sense, based on a classical company's and management vision, which refers only to the employees or company's personnel. This means the correlation of necessities, aspirations, and personnel's interest with realizing objectives and exercitation of charges, competences and responsibilities' attributed into organization.

- motivation in the extended sense, based on a modern vision through organization and management.

Its essential characteristic is constituted by focusing on stakeholders, on those persons, personnel's categories and organisms which have major interests in company's progress and performances.

---

<sup>1</sup> Nicolescu O., Verboncu I. "Management"- Ed. Economica, 1999, pag 471

Through this definition, we can say that motivation represents decisions and actions ensemble which determines company's stakeholders to contribute directly and indirectly at functions and superior performances realizing, basing on correlating their interests in approaching and realizing company's and subsystems' objectives.

Analyzing those two definitions, we can praise two important aspects:

- internal company's conditions, which have the main role in motivation can't be observed and isolated when we are analyzing a comportment. Reasons as security or value's recognition can't be seen. What we can observe are just resulted comportments of these internal needs

Because of this, a lot of aspects regarding motivation involve some models' building and using some specific terms which describe unobserved processes.

- one motivation's result in the action. With another words, people are responding to their internal needs through activities which they consider satisfaction's generating.

In practice, the phenomenon of human resources training gravitates around motivational force. This is the factor which determines performance's realization.

In labor context, motivation can be regard as being availability's extent of employees to involve in their labor and to make sustained efforts in some professional's objectives attainment, individual or organizational defined.

So, motivation can be more considered as being the result of interdependence between individual and the organizational context in which he is doing his activity, than a result of individual motivations' dominances.

About performance, it is obviously the fact that between motivation and performance is a reciprocity condition relationship. When there is an overlapping between individual expectations and organizational demands, there is the chance of obtaining professional performances, and in the other case, performance being more difficult to be obtained or maintained<sup>2</sup>.

Motivating people means to cash reward their contribution to company's progress, initiative, effort and successful, and also to develop for

themselves the utility given by subjective dimension of work.

Many Romanian companies do not understand that equal repartition of incomes has a motivational effect. Cash rewording's difference depending on efficiency, qualification and successful is an efficient way of motivating. Practical experience shows that active or talent individuals who weren't different appreciated had left the company. Other tried and even succeeded to obtain in existing system a form of power's exercitation through machination and domination.

We consider it is necessarily for each firm to create a salary system and motivated material advantages, without diverting from competitiveness and managerial equality's rules.

Together with material motivation, important role revenues to motivation basing on not cash reward. Many studies show that many categories of individuals can be motivated in their actions on other ways than material ones.

In the paper named "The form and content of industrial democracy", published at London in 1969, Emery and Thorsrud shows seven psychological needs which determine the individual to work: the need of hiring his physical resistance in a labor less monotone, the need of knowing through work, the need of knowing work's nature and the way of realizing it, the need of taking decisions and to have initiative, the need of acknowledgement in organization's frame, the need of putting his activity in company's activity and linking his life to the organization's one, the need of ensuring the future.

It is true that identifying main reasons can be a difficult process many times, because there is the risk that managers take into account their own motivations when they appreciate the ones of their collaborators. With other words, knowing real reasons of employees, do not have to be an intuitive process, and it must has to base on a whole motivational tools. It is very easy to have wrong ideas referring to what makes people to work or not. If the diagnostic in wrong, the measures destined to correct existent situation could be improperly. For this, knowing employees' reasons, and also the

<sup>2</sup> [www.winmark.ro](http://www.winmark.ro) –Employees' motivation ans satisfaction

actions made by managers for determining them to use their whole physic and intellectual reserves, for established performance level's attainment, could represent optical chance which certain lead at workers motivating.

For motivation, and implicitly performance's realization, we consider that Romanian companies should take into account the following aspects:

- potency own trust of the employees, with the scope to motivate them for hiring in complex activities
- work valuating through creating opportunities, for satisfaction obtaining and unsatisfactory avoiding or through making a climate of appreciating well done work
- ensuring constructive competition and ensuring a simulative salary system.

A lot of managers consider that according a good salary is a sufficient factor for growing employees' motivation. In reality, motivate factors are different from a personnel's category to another. The attention which must organizations accord to motivating and retaining is bigger in the conditions in which Romania is confronting with an important crisis on labor-force market. It is very important for the employers to find the best solutions for employees' motivation. Generally, people leave organizations when they consider that aren't motivate by actual work-place. In fact, motivating an employee must be followed with attention from the selecting phase. Big majority of recruiters especially try to find motivated employees. A new motivated employee could bring a positive change in the company.

There are some factors, like low salary level, unpropitious work conditions, inequality of employees' salaries, different treatments for organization's personnel, organizational climate, and all of them lead to employees' un-motivation. I personally consider that treating motivation and employees' level of satisfaction must be seen in two ways:

a) un-motivational factors, which affect the entire personnel, referring here at communication flaw at company's level, for example, or at organizational culture and climate.

b) un-motivational factors on personnel's categories, understanding here that some factors, as low salaries' level is an un-motivational factor for a personnel's category,

while for another category, appreciation's flaw is an un-motivational factor.

Practically, a demand once satisfied, the employee will desire more and he will reconsider his motivation. Usually, what had motivated the employee in the past does not motivate him now.

Salary's growth, an attractive package of benefits, job's attractiveness, responsibility, job's autonomy and authority, successes acknowledgement, professional development are psychology factors which bring extra motivation to the employees. This is a very important way of motivation, especially for low or medium hierarchy's level employees. The idea that money motivates people, and people work only for money isn't always true. For a short period, money can motivate, but on long term, employees form an uninteresting job, which a tensed work-climate will prefer an improving of personnel's conditions to a salary's growth. A salary's growth will never been a motivational factor if it will grow in the same proportion to all employees, for example, including here even the ones with lower results.

On the contrary, if an employee is expecting, basing on his results, to have a higher salary growth, and it will be under his expectations, he will feel unmotivated. For such employees' categories, especially for management personnel, salary's growth stops to be the main preoccupation, and an attractive benefits package will take the role of stimulating labor's effort.

The job itself can offer the most and important rewards. An attractive job is one which offers you satisfaction, which makes you to permanently wish to perform at your job. When employees are well instructed, they want to have performances at their jobs and they are motivated.

Promoting, hierarchy ascending, is a main motivational factor and a way of appreciating. Employees' possibility of professional development, through participating at different trainings, through their involving in different projects or through their participation at different decisions' taking, is an important motivational factor.

Obtaining some good results motivate people, but realized performance's

acknowledgement and its adequate reward are real motivational factors. On the contrary, a job's successful which wasn't recognized can demotivate.

We consider that realizing a concordance between job and employee is a very good way of motivation. If right employee is on right job, he will be very motivated to fulfill his demands. Extending job's attributions can be a way of employee's motivation. We believe that it is very important to know the job very well, from recruiting phase, to know what kind of personnel to hire.

An important role in employees' motivation is the attitude to the employees. Although in theory, big majority of specialists consider that management style should be chosen depending on what motivates the employees, we consider that things are exactly against, in practice. In most cases, a manager will choose in his team a person able to adapt to his management style. A manager with an authoritarian management style will never accept to hire a person who has high ambitions and who contradicts him in any dialogue, and, if he will have such a person, he will never be able to motivate him.

Motivational system must be chosen depending on people you work with. A thing which represents for ones a motivational factor, for others does not represent anything. Finding best solutions for motivating people means their performances' appreciation.

As a firm, you can't have performances if you do not motivate people. A performing motivational system means little personnel fluctuation and the firm's image on the market. It is essential that each company creates its own motivational system, taking into account its personnel's categories and its preoccupation to satisfy its employees.

In case in which salary is correlated with performance, this becomes a motivational factor. But if salary increases in the same measure for all employees, we can't consider it a motivational factor.

One of proposal linked to employees' motivation refers to the principle of "compartmental reinforcement", concept introduced by B.F. Skinner and continued in what we call today the new-skinnerian model. The idea of this concept is that if we want to module employees' comportment in a certain direction, we can introduce in daily practice and to use systematic rewards, for encouraging such

a behavior. At the beginning of this process, motivational system must be constantly realized, and after that it can be realized just occasionally, for maintaining this behavior.

Unlike the motivation of salaries' growth and benefits, behavior's reinforcement motivation can be less expensive and it depends in a great measure of creativity and external opening which is detained by decision's factors through motivational phenomenon, but, surprising, their impact can be considerable.

Some specialists have identified a series of techniques regarding behavior strengthening<sup>3</sup>:

- social increase: verbal comments to congratulate the employee, facial expressions and gestures (a smile, an encouragement, gratefulness)

- graphic increase (a badge, a flip chart having the name of the employee of the month on)

- activities strengthening (more free time)

As you can see, the purpose of these motivating methods is to recognize the employees' desert and to supply feedback for the accomplished performance.

We consider that we should insist on this motivating ways because these aspects could be used as they are, can be improved or combined, according to every activity. Most of the managers consider that a raise or some financial benefits express the content that they have towards employee's work. Studies have demonstrated that although the man is satisfied by these benefits for the moment, he feels frustrated by the lack of feedback. They end up thinking that these financial benefits are just a payment for the given effort, but not increase motivation and satisfaction for the work that they have done

A different aspect that managers neglect instead of develop is that they should focus more on teamwork motivation. To build a team is a very difficult thing, but it is even more difficult to know how to motivate their teamwork. In order to motivate a team you have to make each person to feel like a part of the group. You also must have a set of values and directions that they all accept and

---

<sup>3</sup> Charles, C.M. Building Classroom discipline, Longman, London 1990 pg 26

a performance rewarding system that they all know and approve

Managers have to encourage the people that they are working with into becoming a team and constantly sustain them as a team to gain proficiency, by stimulating every member to work at his maximum potential. Motivation must also come from every employee and generate competition. This way the key elements of professional motivating, personal a professional developing, own value recognition, will come natural.

A manager cannot ask his employees to motivate themselves, but can create a climate that motivates them. Both organizational culture and climate influence the employees' performance. In order to have a positive impact on it, the organizational culture is to be spreader and accepted in the entire firm. Managers should still identify the cultural elements and tensed situations inside the company and turn them into attitudes, values and behaviors that favor objectives' fulfillment. Identifying the firms' organizational culture has an important role in the human resources activities.

Observing problems like personnel fluctuation, work attendance, work relations indicate problems that were connected to a weak motivation.

In certain periods, financial or moral stimulants can be a motivation for the employees but we consider that a good organizational climate can sustain a long term motivation even if the financial stimulants are fewer.

Finding the best methods to stimulate the employees shows up in the firms' success. We often wonder why some companies are wanted by candidates, and why others cannot find the right people although they offer good salaries. The organizational climate, the preoccupations with the professional employees' development, job's attractiveness, are some of the things that plead for the wanted firms, disfavoring the other firms, that even if they offer good payment, they do not have the same motivations.

### **Bibliography**

- [1] Nicolescu O., Verboncu I. "Management"- Ed. Economica, 1999
- [2] Charles, C.M. Building Classroom discipline, Longman, London 1990
- [3] J. M. Peretti, Ressources Humaine, Ed. Vuibert, Paris, 1990
- [4] D. Weiss, La fonction ressources humaines, Les Editions d'Organisation, Paris, 1988
- [5] [www.winmark.ro](http://www.winmark.ro) – Employees' motivation and satisfaction

## Marketing Research – Tool within the Leonardo da Vinci Program

Mariana Juganaru

*OVIDIUS University of Constanta, Faculty of Economic Sciences*

[juganaru.mariana@yahoo.com](mailto:juganaru.mariana@yahoo.com)

Andreea Moraru

*OVIDIUS University of Constanta, Faculty of Economic Sciences*

[amoraru@univ-ovidius.ro](mailto:amoraru@univ-ovidius.ro)

### Abstract

Within the Leonardo da Vinci Program, phase II(EAC/11/04)-2006- the first priority pilot project “Development of new measures and tools that describe, promote and compare standards and qualifications at a European, national and divisional level”, there has been developed the New Hospitality Project (European Works without Borders). The project has run between October 2006 and October 2008 and has gathered partners from various countries. The accomplishment of research activities has contributed to the identification of methodologies and instruments of description, comparison and promotion of qualifications and competences within the hospitality industry, supporting transparency, recognition and transferability for developing employment opportunities and increasing sector’s competitiveness in the European related area. Desk research aimed towards the study and the analysis of demand and supply in the hospitality domain, the employees’ position in the hotel sector and the utilized competences and abilities certification systems. ). Desk research was completed by the development of a report made by each partner while the project coordinator has collected contributions of all partners and compared the results. Field research is based on desk research due to the fact that during this stage the common elements that appear (as well as the characteristics of hospitality structures and professional qualifications), are main indicators for both the construction of the sample and for the utilized tools content. The entire research done within the New Hospitality project has created an important database of information concerning minimum criteria for competency necessary in the hospitality industry.

**Keywords:** Leonardo da Vinci Program, The New Hospitality Project, research, market.

**JEL classification:** M31

### 1.Introduction

Within the Leonardo da Vinci Program, phase II(EAC/11/04)-2006- the first priority pilot project “Development of new measures and tools that describe, promote and compare standards and qualifications at a European, national and divisional level”, there has been developed the New Hospitality Project (European Works without Borders). The project has run between October 2006 and October 2008 and has gathered partners from various countries: **Bulgaria** with the National Chamber of Commerce and Industry (BCCI) and the National Tourism Research Institute; **Italy** with the Italian Centre of Advanced Studies of the Tourism Studies and Tourism Promotion (CST) - project coordinator and Federalberghi, Work Italian Union (UIL)–TuCS; **Malta** with the Tourism Studies Institute and Malta Union of Teachers (MUT); **Romania** with the Chamber of Commerce, Industry, Shipping and Agriculture, Constanta (CCINA), “Ovidius” University of Constanta, the Faculty of Economic Sciences and the Cross-border Association for Training and Vocational Mobility, Bucharest (AS.FOR.M); **Slovenia** with the Centre of the Republic of Slovenia for Vocational Education and Training (CPI) and the Workers Syndicate within the Hospitality and Tourism Industry, Slovenia (GIT).

The increasing labour force mobility in EU, as well as the technical and organisational structural mutations within the labour sector

have altered the qualifications profiles required by workers in this sector, emphasizing the increasing need of harmonizing the professional qualifications on the European labour market.

## 2. Projects' objectives

The New Hospitality Project's main objective has been represented by the analysis and the implementation of a European system of qualifications and standards within the hospitality sector for a borderless transparency and recognition. The following specific objectives have been established: (1) elaboration of a methodological toolkit for analysis and description of professions within the hospitality industry; (2) defining comparable and divisional competences and their examination according to the activity and training sector; (3) promoting transparency of competences by means of creating a concrete mechanism for competences' description and qualification within the integrated system of the EUROPASS tools. Within this context, the New Hospitality Project has meant the implementation of several activities during the two years of development: (1) a stage of defining methodological and research instrumentation; (2) a stage of economic and contextual analysis of the hospitality sector in the partnership countries, during which besides outlining the framework of reference in terms of demand and supply and operational business indicators within this sector, there have been identified both the related competences and the systems that are able to certify these skills; (3) a stage of divisional research within the hospitality industry, by which, with the help of questionnaires distributed to both employers and employees, it managed to create a repertoire of competences that correspond to the new communitarian directives regarding qualifications' transparency.

The accomplishment of research activities has contributed to the identification of methodologies and instruments of description, comparison and promotion of qualifications and competences within the hospitality industry, supporting transparency, recognition and transferability for developing employment opportunities and increasing sector's competitiveness in the European related area.

## 3. Research organization in the New Hospitality Project

The New Hospitality Research has been characterized by three dimensions. The first one, having a cognitive character, tends to analyze the phenomena and the problems in different partnership countries by means of special chosen indicators and parameters for examining different aspects. As a consequence, the second dimension has to offer an interpretation of the examined phenomena, in order to attract the attention from the sector's environment to a broader context, which includes the economic aspect. The third one, the comparative analysis should allow the identification of both common and divergent factors within different European contexts of the hospitality industry in order to reach a homogenous referential frame which is necessary for the realization of the competences' cross-border repertoire.

The research has developed under a quantitative and qualitative aspect. The economic analysis of the hospitality sector and of the competences certification system (specific to the sector) within the partnership countries has been accomplished thanks to a set of indicators chosen in a way to be: (1) significant for the evaluation's purpose; (2) relevant for the examined reality; (3) easy to be measured in different geographical contexts, by means of a data series that can be compared in time; (4) easy to understand even by an uninformed public; (5) synthetically and capable to offer a considerable amount of information in a numerical value.

## 4. Desk research within the New-Hospitality Project

Desk research aimed towards the study and the analysis of demand and supply in the hospitality domain, the employees' position in the hotel sector and the utilized competences and abilities certification systems. The structure of the desk research has been the following:

- *In-depth examination of the rules in force in the Partnership nations, regarding the regulation of authorization and classification of hotel structures.* The main characteristics of the public tourism organizations (from the following countries



participating in the partnership: Italy, Bulgaria, Malta, Romania and Slovenia) have been defined, in order to offer a subsequent better comprehension of the functional mechanisms in force for the hotel system, namely, their classification and the related criteria, the regulations for obtaining authorization to open and run such structures and the price regulation regime.

- *Survey of the rules in force in the partnership nations, pertaining to labour contracts in the hospitality industry.* For a more profound and complete comprehension of the context in which the various professional figures of the hotel industry operate, a comparative analysis has been made of the various labour contract typologies existing in the countries of the partnership by delineating the essential outlines of the different juridical reference institutions.
- *Economic, cognitive, interpretive and comparative analyses of the hotel industry in the partnership countries.* An economic analysis of the hotel system in its peculiar productive characteristics was made on a level of the individual countries.
- *Analysis of change trends in the hotel sector of the partnership nations.* In the awareness that consistent change trends are in act, it was necessary to delineate an overview of the trends that will have greatest repercussions on the professional figures in the hotel industry, in the form of new professional competences and knowledge.
- *Analysis and comparison of professional profiles and relational competences in the national hotel sector.* In this context, cartography of the competences existing in the hotel industry has been created, facilitating the identification of the standard professional profiles, where different qualifications emitted by certification national systems have been placed.
- *Analysis and comparison of the existing certification systems in the partnership nations.* The aim of this specific research activity has been to define the position of the competences and certification system within the professional training and education domain in regard to the hospitality industry in the partner countries. We can also mention that this research has been a

qualitative one in which there had to be presented the strong/weak points and the evolution lines of systems presented in each partner country.

Each country partaking in the project has developed, depending on the geographical area activities, the following activities: (1) economic analysis in the hotel industry (the national legislation analysis in tourism, the economic and structural analysis in the hotel sector, the analysis of operational professional profiles and related competences in this sector); (2) analysis of certification system (an overview upon the competences certification's related laws, focusing upon the competence of the professional indicators in the hotel industry).

As a consequence, the desk research has been directed towards the study of two structures: a cognitive (analysis of territorial reality within a sector, using common indicators and parameters) and an interpretative one (analysis of the hotel sector from the touristical area of every participating country). Desk research was completed by the development of a report made by each partner while the project coordinator has collected contributions of all partners and compared the results.

Desk research allowed us to identify the specific characteristics of the hotel sector in the geographical zones of the partnership countries, affecting directly or indirectly both the existing developing professions and their competences.

## **5. Direct research in the New-Hospitality Project**

Field research is based on desk research due to the fact that during this stage the common elements that appear (as well as the characteristics of hospitality structures and professional qualifications), are main indicators for both the construction of the sample and for the utilized tools content.

The field research aims towards two objectives: (1) to test and validate the cartography of competences (being made during the desk research process); (2) to indirectly offer the training feedback to the examined participants by creating a comparison between the ideal and what is actually real, between what is perceived and what is really wanted, between what exists and what should be obtained.

The labour methods utilized in field research involves:

- a determination of the examined sample regarding the industry and the direct interlocutors (entrepreneurs/managers and workers) who have been asked to explain the expectations they have from various positions;
- the elaboration of questionnaires which are based on the competences models that resulted in the desk research;
- the validation of questionnaires using the Delphi method;
- the administration of questionnaires to the entrepreneurs/managers and workers who should accomplish an evaluation and a self-evaluation of the requested/possessed competences, and who should also express their opinion regarding the importance a set of necessary technical and specialty competences has.

The instrument for validation and integration of the competence model elaborated during the desk research phase has been represented by two types of competence model assessment questionnaires with identical content, but which have different question formulations for the 2 samples of entrepreneurs/managers on the one hand, and workers within the hospitality sector on the other hand.

The questionnaire has offered a cross profile of the heterogeneous assessments (comparison with the competences model) and self-assessment (comparison with personal human resources for entrepreneurs/managers; workers' self-comparison in exercising the professional role) on the subject's analysis and self-analysis at a level of competence.

From a formal point of view, the questionnaire has been made of grids for each examined profile and will contain lists of competencies by means of each the investigated person should indicate as according to his/her opinion the presence/absence of certain competences and assess the general importance of the selected competences model.

The New Hospitality field research has been structured in 4 sections:

- first section – Methodology and research tools (there have been established: the aim of the research, the researched sample, research questionnaires and data collection methods);

- second section - Collection and analysis of field research results;
- third section - Results comparison;
- fourth section – Repertoire of competences.

At a trans-national level, the hotel sample which comprises 167 units is represented with priority by structures situated in both the seaside localities (47.3%) and in the cities (21%). The most representative part of the sample is made out of 4 star hotels (41.3%), followed by 3 star hotels (38.9%) and 2 star hotels (10.8%); the higher and lower categories have reached 7.2% (5 star and more than 5 star hotel) and respectively 1.2% (1 star hotel).

Out of the total number of one hundred and eighty workers chosen to participate in this research, 47.2% work in 4 star hotels and 33.3% work in 3 star hotels, while 15% operate in high class hotels (5 stars) and 4.4% in 2 star hotels. 41% of the interviewed workers activate in hotels within the cities, 31.7% in seaside structures and 12.8% in spas. 46.1% of the interviewed workers activate in small and medium accommodation structures, while 44.4% work in hotels of big dimensions (over 151 rooms). In this sample the participants are 56.7% females and 42.8% males.

## **6. Results of research carried out during the New Hospitality Project**

The results obtained through the New Hospitality Project research are:

- the research kit stands for an efficient tool in harmonizing the profit criteria of desk and field research among partners;
- the New Hospitality desk research which contains the study and the analysis of demand and supply within the hospitality sector, as well as of the utilized skills and abilities certification systems;
- the field research which includes the results of the conducted research based on questionnaires for employers and employees within all national contexts of the partner countries;
- database for the New Hospitality criteria of competence which comprise information about the minimal criteria of competence in regard to the hospitality sector.

- New Hospitality Europass – it has been elaborated the software and the related instruction manual that will guide workers in this sector in drawing up a European Curriculum Vitae (concerning the individual skills/abilities section) in order to ensure eligibility of the contained information.

## 7. Conclusions

The New Hospitality research has highlighted the similarities and the differences regarding the tourism workers' technical-professional competences in the partnership nations; it has accomplished their harmonization and it has reached the conclusion that those who work in the tourism field should possess a neutral image of the whole system, namely a distribution of competences and their means of working together. It is essential to establish and promote measures that assure an initial and/or continuous

professional development of personnel within tourism, in order to respond to the modifications and the tendencies of the European labor market.

The obtained results have determined the members of the project to start new research programs with the view of harmonizing qualifications and competences within the food industry and within other activities in tourism.

## 8. References

- [1]\*\*\* The New Hospitality Desk Research;
- [2]\*\*\* The New Hospitality Field Research;
- [3]\*\*\* The New Hospitality Research Kit;
- [4]\*\*\* The seminar: “*Competences Establishment: Analysis of the Main Results for the Partners Nations within New Hospitality*”, Perugia – Italy, 15.02.08;
- [5]\*\*\* The seminar: “*New Hospitality Europass*”, Gozo-Malta, 09. 10. 2008.
- [6].<http://newhospitalityproject.com>

# Is the Behaviour of Tourism Services Consumers Different According to Gender?

## Quantitative Research in the Centre Development Region

Assist PhD Erika KULCSÁR

*Faculty of Economic and Business Administrations Cluj Napoca, Romania  
elerhetetlen@yahoo.com*

### Abstract

As shown by the relevant literature the consumer behaviour of women differs from that of men. Women go shopping not necessary from need, but for the feeling of delight, the shopping is not in rush, they go shopping in the company of friends, spending hours in shops selecting very carefully; in terms of consumer behaviour of men, it is opposite to the feminine one. This paper includes a series of bivariate analysis conducted in order to find an answer to the question which is actually the title of this paper.

**Key words:** consumer behaviour, assumptions, Mann-Whitney test, Kolmogorov-Smirnov test.

**JEL classification:** M31

### 1. Introduction

Consumer behaviour is defined as his/her acts, attitudes and decisions on the use of his/her income for purchases of goods, services and savings. [4]

The theory of consumer behaviour has become, in the last half century, especially after the emergence of the modern marketing concept, a distinct and important field of marketing, able to give many competent answers as in this case. [2] Studying consumer behaviour is unthinkable without marketing research. It is also true that by univariate analysis important information can be obtained but it is a first level of analysis of marketing data.

The bivariate analysis can be considered as a second level of deepening the investigation of primary marketing data. The

analysis considers the research of the link between two variables that can be measured with the same scale or each with different scales and the analysis of differences that may exist between two groups or populations in terms of a given variable. [3] For carrying out the statistical tests I have covered the following stages: first I formulated the  $H_0$  and  $H_1$  hypotheses, I chose the level of significance, the next step was to establish the theoretical distribution used for testing hypotheses, the calculation was made by using the SPSS program.

At first I worked on the data obtained through a quantitative marketing research. The questionnaires were distributed to hotels in Braşov, Predeal, Poiana-Braşov, Sfântu Gheorghe, Covasna, Miercurea-Ciuc, Gheorgheni, Tuşnad, Târgu-Mureş, Sighişoara, Sibiu, Alba – Iulia and other localities that have linked this route.

I distributed over 2,000 questionnaires.

The quantitative research was conducted between 15.05.2009-17.10.2009.

This marketing research included a number of 410 questionnaires.

Next I will present the results attained based on the information obtained through questionnaires.

## 2. Parametric tests comparing differences between two groups of people

### Testing differences between means

For the test I started from the assumption that there is no difference between male and female regarding the mean of assessments on the possibilities available for spending leisure time.

Thus, the statistical assumptions are:

$$H_0 : \mu_1 = \mu_2$$

$$H_1 : \mu_1 \neq \mu_2$$

For the group of 180 female of the total of 410 subjects who provided an answer to this question the mean of 3.66 points was obtained, with a deviation of 1.095. At the level of the group of male the mean is 3.68 points with a deviation of 1.057. The difference between these means is 0.02 (Table no. 1)

„Table 1 Descriptive Statistics at the level of the two groups”

Gender	N	Mean	Std. Dev.*	Std. Error Mean
Male	230	3.68	1.057	.070
Female	180	3.66	1.095	.082

\* Deviation

First I read the results of the Levene test.  $F_{\text{calc}}=1.582$  value (Table no. 2.) was compared to the theoretical value of  $F_{0,05;1;408} = 3.84$ . It can be seen that the critical ratio is less than the theoretical value, therefore we can not accept the existence of differences between variances of the two groups. The same decision was taken also based on the level of significance that can accept  $H_1$ . It is 0.209, being higher than 0.05, so the null hypothesis is accepted. Since the variances of the two groups can be equal, I analyzed the results of the first data row of Table no. 2, due to the assumption of the hypothesis of equal variances of the two groups.  $t_{\text{calc}} = 0.253$  is lower than the theoretical value  $t_{0,05;408}=1.96$ , so therefore  $H_0$  is accepted.

„Table 2 Testing the difference between the means of the two groups”

Levene's Test		t-test for Equality of Means			
F	Sig.	t	df	Sig.*	Mean Diff.
1.582	.209	.253	408	.800	.027
		.252	378	.801	.027

\* 2-tailed

The same decision was made also based on the level of significance, which is found on column Sig. (2-tailed). Since this level has the value of 0.800, so higher than 0.05, the  $H_0$  hypothesis is accepted, namely that the two means are not different at the level of total population. The signs of the ends of the confidence interval are different which means that the interval includes the 0 value, thus the null hypothesis is accepted.

### Testing differences among percentages

Starting from the percentages obtained at the level of the two independent samples we can test whether there are differences between the two population groups under certain conditions of probability. [1]

Statistical assumptions are made as follows:

$$H_0 : \pi_1 = \pi_2$$

$$H_1 : \pi_1 \neq \pi_2$$

I shall try to test the existence of a difference in the total population regarding the percentage of those who traveled alone to accommodate in the Center Development Region among female as compared with the percentage for male.

At the level of the sample, the mean of the two groups for the dichotomic variable analyzed are 0.44 for male, and 0.42 for female. These values converted to percentages means that 44% of male have traveled individually, while among female 42% have traveled alone. The standard deviation in the first group is 0.498 and in the second group 0.494 (Table no. 3)

Table 3 Percentages and descriptive statistics in the two groups”

Gender	N	Mean	Std. Deviation	Std. Error Mean
Male	230	.44	.486	.033
Female	180	.42	.494	.037

From Table no. 4 it can be seen that for the test "Levene's", the minimum level of significance that can accept alternative hypothesis is 0.275. Since this is higher than 0.05 we can not guarantee a 95% probability that the variances of the two groups are different.  $t_{calc} = 0.543 < t_{0,05;408} = 1.96$ , which means that the null hypothesis is accepted. The same decision can be taken also based on the minimum level of significance that can accept  $H_1$ . Since this is higher than 0.05 (Sig.-2tailed = 0.588), the null hypothesis is accepted. Analyzing the discrepancy between the two percentages it is noted that it is 2.7%. At the level of the total population, the confidence interval for this difference is between [-0.070; 0.124], containing the zero value which means that the two percentages can be equal.

„Table 4 Testing the difference between the percentages in the two groups”

Levene's Test		t-test for Equality of Means			
F	Sig	t	df	Sig.*	Mean Diff.
1.194	.275	.543	408	.588	.027
		.543	386	.587	.027

\* 2-tailed

### Kolmogorv-Smirnov Test

Kolmogorov Smirnov Test is a nonparametric test used to test differences between two independent samples. [6] Based on Kolmogorov-Smirnov, I shall test if the views on the statement “The room is furnished aesthetically” are different depending on the gender of the respondents.  $H_0$  = Maximum difference between the two

cumulative frequency is zero  $H_1$  = Maximum difference between the two cumulative frequencies is different from zero

„Table 5 Distribution of percentages according to the two groups”

	Gender		Total
	M*	W**	
total disagreement	4	0	4
disagreement	26	6	32
neither agreement nor disagreement	30	36	66
agreement	74	84	158
total agreement	90	52	142
Total	224	178	402

\*Man

\*\* Woman

The sizes of the two groups of respondents to this question at the level of the sample were 178 women and 224 men. (Table no.5)

„Table 6 The values calculated for the Kolmogorov-Smirnov test”

		The room is furnished aesthetically
Most Extreme Differences	Absolute	.110
	Positive	.100
	Negative	-.110
Kolmogorov-Smirnov Z		1.092
Asymp. Sig. (2-tailed)		.184

a Grouping Variable: Gender

$D_{calc} = 0.110 < D_{\alpha} = 0.195$  so  $H_0$  is accepted, i.e. between the two groups there is no difference. By analyzing the minimum level of significance for which we can accept  $H_1 = 0.184$ , we can draw the same conclusion, that the null hypothesis is accepted. (Table no.6)

### Mann-Whitney Test

The *Mann-Whitney test*, also known as *Wilcoxon-Mann-Whitney* or *rank-sum test*, is used like the previous test to assess whether two independent samples were drawn from the same population, or from populations with the same distribution, for the variable being tested, which is assumed to be at least ordinal. [5]

As a first step I established the two hypotheses, meaning that  $H_0$  indicates that there is no difference between the two groups in terms of the analyzed variable, and  $H_1$  expresses that there is a difference between those groups in the analyzed population.

In this part of the essay I will test the existence of a significant difference between the two gender categories with to the importance of the services quality in choosing hotel.

Following the application of the test I obtained the table containing the size of each group in the sample, the rank sum and average ranks.

„Table 7 The sum of the ranks for each group”

Gender	N	Mean Rank	Sum of Ranks
man	230	204.42	47017.00
woman	180	206.88	37238.00
Total	410		

The sub-samples are of large dimensions, both being more than 30 people. (Table no.7)

„Table 8 Values corresponding to the U test”

	Services quality
Mann-Whitney U	20452.000
Wilcoxon W	47017.000
Z	-.220
Asymp. Sig. (2-tailed)	.826

a Grouping Variable: Gender

The decision can be taken based on the values calculated  $Z_U = -0.220$ , which is compared to the value in table of the level of significance  $\alpha = 0.05$ . It can be noted that  $Z_U = -0.220 > Z_{\alpha/2} = -1.96$ , therefore null hypothesis is accepted. The decision may be taken based on the level of significance. It has the value 0.826, higher than 0.05, which determines us to accept the null hypothesis. (Table no. 8)

### 3. Conclusion

Following the bivariate analysis we can not guarantee with a 95% probability that:

- the means related to the appreciations of the possibilities of leisure in the Centre Development Region during the stay at the level of the two different groups are different at the level if total population,
- between the percentages of people who have travelled alone at the level of the two groups there is a difference in the total population,
- between the two groups there are differences in terms of opinion regarding the arrangement of the rooms,
- between men and women there is a difference in terms of the importance given to the quality of services as the criteria underlying the choice of a hotel.

As a final conclusion I can state that there are no differences between the behaviour of the tourist services consumer by gender, at least in terms of the variables analyzed.

#### 4. References

- [1] C. Constantin, Marketing Information Systems - marketing analysis and data processing applications in SPSS, Infomarket Publisher, Braşov, 2006.
- [2] C. Florescu, P. Mâlcomete, N. Al. Pop, Marketing: Explanatory Dictionary, Economic Publisher, Bucharest, 2003
- [3] C. Lefter, Marketing research - theory and applications –Infomarket Publisher, Braşov, 2004.
- [4] I. Cătoi, N. Teodorescu, Consumer's Behaviors, Uranus Publisher, Bucharest, 2004 (2<sup>nd</sup> revised and supplemented edition)
- [5] J.P. Marques de Spa, Applied Statistics Using SPSS, STATISTICA, MATLAB and R, Springer-Verlag Berlin Heidelberg, 2007 (Second Edition)
- [6] N. K. Malhotra, Marketing Research: An Applied Orientation, Akadémiai Kiadó, Budapest, 2005 (Third Edition)



## The evaluation of job satisfaction – study conducted in the organisations from Bucharest

Viorel Lefter

*The Bucharest Academy of Economic Studies*

*vlefter@ase.ro*

Ramona Ştefania Puia

*The Bucharest Academy of Economic Studies*

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

### Abstract

The increasing of employee job motivation represents for the human resources departments a strategic objective to enhance performance and achieve the fundamental objectives of the organization. But we can not substantiate methods to improve employee motivation without knowing the reasons for their dissatisfaction. In this paper we intend to do a quick review of the most popular models for assessing the degree of job satisfaction used in Europe and to present some preliminary results of a study evaluating the job satisfaction of employees in organizations in Romania led, currently in Bucharest organizations.

**Key words:** motivation, job satisfaction, human resources.

**JEL classification:** M50, M12

### Introduction

In order to achieve political and strategic directions to improve motivation and job satisfaction of employees in Romania, is absolutely necessary to evaluate the decisive factors influencing satisfaction, motivation and work performance of employees in different countries of Europe, more developed in terms of management practices. We can not keep in mind that a generally valid recipe at European level can only be a utopia, especially given the existing mosaic of cultures and particularities of each country, its historical background and level of development. We can only to draw some conclusions based

on different surveys conducted in several European countries and to build a new approach of the employee job motivation in Romania. In this paper we tried to point out some of the methods used in Europe to assess employee job satisfaction and to highlight some of the main factors influencing the motivation of employees.

### The European Motivation Index

In Europe, there is intense concern regarding the employees' level of satisfaction and whether they are motivated to provide the quality of work in accordance with the standards set by the organizations. One of the most significant indicators calculated at an European level is The European Motivation Index, an initiative of Efectory organization, one of the largest organization concerned with research related to the workforce in Europe. The European Motivation Index provides valuable information regarding the satisfaction, the motivation and the commitment of the employees throughout Europe, but also other critical variables in human resources management.

The European Motivation Index makes an average of the scores obtained in various European countries and takes into account the direct dependence of these values of the factors that may influence the human resources such as management style, development opportunities offered by each organization, the degree of internal communication, etc.

The human resources variables (HR variables) incorporated by this indicator are based on reliable conclusions obtained

through the analysis of different theoretical models. The variables also took into account the trustworthy opinions of the best known specialists in human resources.

Traditionally, human resource management aims the welfare of employees by monitoring and increasing job satisfaction. Satisfaction is actually the key factor in creating a pleasant working atmosphere and increased productivity. Every organization wants to increase performance, and this is directly dependent of the work conducted by employees.

The first variable considered in the indicator of motivation is the commitment of European employees. Commitment enables the organization to grow up and be competitive on the market. It is a key variable in determining employee performance. Commitment implies the strong relationship between the employees and the organization. This link motivates the employee and determines their employment outcomes. Commitment can take three forms:

Affective commitment – an employee remains in the organisation because he wants this, because he identifies himself with the organization;

Normative commitment – an employee stays in the organisation because he feels compelled to continue working;

Long-term commitment - an employee remains in the organization since his departure personal costs are too high: for example, where age no longer allows him to find another job.

Of course, ideal would be for any other company to have employees who are bound through an affective commitment to the organisation, bringing added value and being determined and proactive when working and contributing decisively to the high quality of products and services.

Another variable considered by The European Motivation Index is the involving of the employees in their work. This can be defined as the degree to which the employees of an organisation express their passion for work. Passionate employees accumulate a larger amount of information in a much shorter time and express their creativity. They could be characterised as the ambassadors of the organisation, as the

involvement determines them to focus on the company's objectives and achieve the expected results expressed by the management of the organization. Involvement often causes customer satisfaction, reduced turnover rate and efficient services.

The third variable considered is employee satisfaction, the satisfaction that one feels from the experiences of the workplace. Satisfaction enables employees to work in a more enjoyable, stimulating and facilitating performance work process. This variable is one of the most frequently measured in Europe. The organizations are aware of the fact that dissatisfaction determines only disregard, absenteeism and bigger turnover rate in the company. Satisfaction degree may vary depending on the size envisaged. For example, an employee may be content with his work and less satisfied with the opportunities he has in terms of financial rewards or career perspectives.

The most important variable took into account is, of course, the motivation of the employees. It is hard to define motivation, as it is rather a process that determines the employees to act, to make effort in order to obtain high results at work. The main motivating factors at the level of an organization are:

- A good financial reward;
- Attractive fringe benefits;
- The attractiveness of the job;
- Authority, responsibility and job autonomy;
- Results recognitions;
- Intellectual and professional development;
- Professional career opportunities.

In 2007 and 2008, the European Motivation Index study [1] was conducted in eight European countries by calculating and averaging the results obtained in each country. On a scale of 1-10, the motivation index is around 6 in 2007 being higher in Germany, Holland, Belgium and Sweden. We note the emergence of differences within the four dimensions considered in 2008, primarily an increase in employee job satisfaction and motivation across Europe, but a decrease in their commitment to the company and maintaining a degree of

involvement. In 2008, the European motivation index decreased from 6.67 to 6.65. But we can not appreciate the importance of this decrease, whereas the study did not provide information on the number of the organizations, number of employees interviewed or the types of questions used.

The studies conducted by Effactory revealed that the Germans are the most work involved employees in Europe. Moreover, along with Belgians, the Germans are the most satisfied employees in the countries surveyed, giving an average score of 7.1. In contrast, employees in Britain recorded a lower level of satisfaction; the average score in the first months of 2009 was 6.1, identical to that found in France, perhaps because the two countries are both affected by the global economic crisis.

### The European Employee Index

The European Employee Index was developed by some human resources specialists in the northern European countries (Sweden, Denmark, and Norway). The research and the developing of the model were based on annual questionnaires conducted in more than 20 countries which offered the best international benchmark. Accordingly to this model, the employees' motivation, their job satisfaction and sense of loyalty are the result of a large number of factors directly related to the employees' perception of job and work environment. In the European Employee Index, these factors were gathered into seven dimensions, levers that the company and the individual manager can pull in order to improve motivation, as we can see in figure 1.

Reputation is the employees' perception of the general knowledge of the organisation and how this is perceived externally, both as a workplace, as a player in society and in relation to the products that the organisation delivers.

Senior management is the perception of the general direction of the organisation and the people in charge.

Immediate superior is the quality of the management and support offered by formal immediate superiors as perceived by the

individual employee in the daily work and which is reflected in an assessment of the qualifications of these superiors.

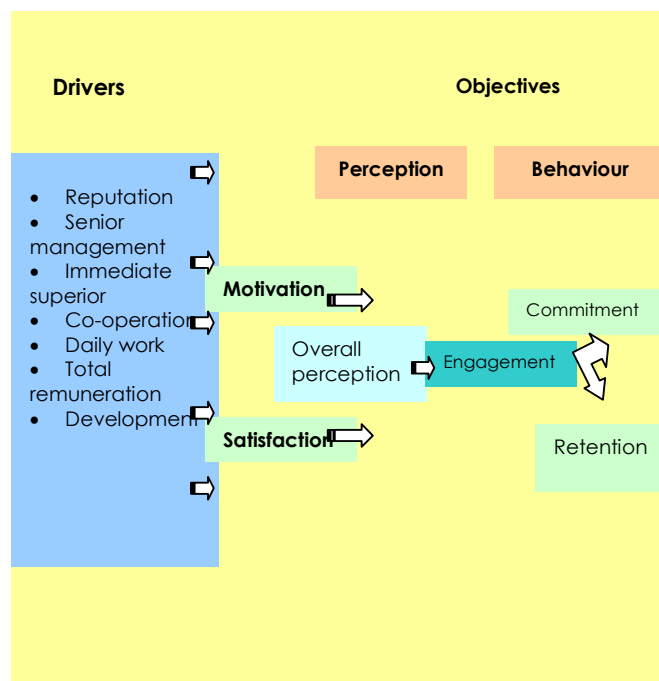
Cooperation is the quality of the interaction between people in the organisation – in relation to the performance of a specific task, the general sense of community and atmosphere as well as the social interaction with colleagues both in and outside the workplace.

Daily work is the employees' general perception of the specific content of their daily activities in the workplace and the working conditions related to the performance of these activities.

Total remuneration is the employees' perception of all the elements involved in the compensation that they receive for performing their job.

Development is the employees' perception of the individual acquisition of competences (both professional and personal) which takes place in connection with the employment in the company. Competences can be acquired in connection with formal education, courses, on-the-job training, everyday challenges and feedback from managers.

Figure 1. The European Employee Index Model [2]



The last study conducted in 2008 shows no change in the top two countries that have the highest motivation and satisfaction: Denmark and India, two very different countries. For every country, a different driver was found to be the most important, definitely influenced by the cultural features. For instance, senior management is especially important for employees in Ireland, the United States and Japan. Immediate superior is important in United Kingdom and Japan, while co-operation means a lot for the employees in Netherlands. In the Czech Republic and Russia remuneration plays the most important role. The study also brings into light the fact that, no matter the country, the development of human resources and the daily activity are very important factors for increasing employees' satisfaction.

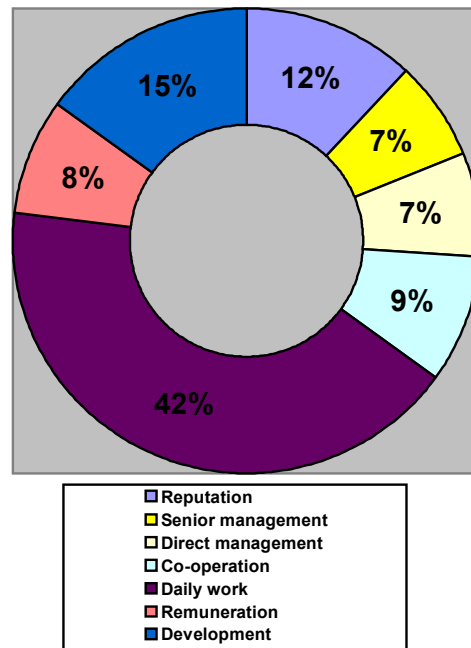
Figure 2. Global results of the study  
The European Employee Index 2008

Position in the study (2008)	Country
1	Denmark
2	India
3	Norway
4	Brazil
5	Finland
6	Holland
7	USA
8	Sweden
9	Germany
10	Russia
11	Estonia
12	Ireland
13	France
14	China
15	Spain
16	Italy
17	Poland
18	United Kingdom
19	Czech Republic
20	Japan

In figure 3 we present the most important job satisfaction factors for Scandinavian

employees.

Figure 3. Job satisfaction factors in Scandinavia



### Study regarding job satisfaction evaluation conducted in the organisations from Bucharest

The study conducted to evaluate job satisfaction inside Bucharest organisation was conducted in different companies from Bucharest on a sample of 99 employees, the organizations belonging to different domains of activity.

The questionnaire is conducted on an electronic platform [www.surveymonkey.com](http://www.surveymonkey.com) allowing real time processing of responses from people participating and statistically processing of all information. Survey console is an electronic platform used by large U.S. companies and universities around the world like Microsoft, World Bank, Napster, Alcon, White & Case, UBS Investment Bank, U.S. Bank, etc.

The questionnaire can be accessed by any other person at the web address <http://evaluaareasatisfactieiingajatilor.surveymonkey.com> and it is very easy to fill.

The questions used were the standard type: Multiple Choice - allowing the choice of one or more responses from a number of

variants, the Open-ended text - open questions allowing the respondent's opinions, Matrix Boards - questions matrix type, offering relevance to provided answers, testing both the appearance of a phenomenon and the phenomenon level.

Most of the respondents were aged between 21 and 30 (50.00%) and between 31 and 40 years (28.26%). Most respondents were female (76.09%). 71.43% of the men and 82.86% of the women who responded to the questionnaire have executive workplaces, the rest having managerial positions. Overall, 80.22% of respondents occupied executive positions and 19.78% had management positions. As it regards the level of education, most of the respondents have higher education, only 12 of those surveyed having a bachelor degree. More than 90% of the respondents have worked more than 6 months, so they have work experience.

The surveyed employees belong to very different fields of activity. Regarding the type of organization, interviewees fall into: 41.76% work in public institutions, 52.75% work in private organisations and 5.49% in non-profit organizations. 49.45% of the respondents are working in large organizations, with more than 250 employees, the rest of them working in SMEs.

In the research conducted to assess the degree of job satisfaction of employees, we established eight categories of factors that may influence the job satisfaction:

- Cooperation within the organisation and the department;
- Communication and the flux of information;
- Direct management and the relationship with the immediate superior;
- The daily work and the work conditions;
- Professional development;
- Reputation and organisational culture;
- Remuneration;
- Work/life balance;

As regarding cooperation within the organization and department, 31.18% of the employees fully agreed with the statement "In the department where I work, people are cooperating very well" and 47.31% agreed

with. The high percentage (over 78%) of the employees satisfied with how they communicate and collaborate in the department is also the same when it comes to collaboration with other departments, 52.22% of respondents stating that collaboration with the other departments within the organization is without major problems.

Furthermore, we observed that only 31.03% of the respondents were in total agreement with the fact that both at the level of the organization and the department, the communication is working out smoothly. Also, the interpretation of the questionnaire responses suggests that age does not influence the way they collaborate within the department, although often we tend to believe that older people are more rigid.

The study revealed that, as it concerns the communication of the fundamental objectives of the organization, the respondents said that often they are made aware of the organization and department goals and strategies. We conclude, however, that often changes taking place in the organization are not sent on time because at the statement "All the changes taking place in the department I belong are communicated in time", 26.67% of the respondents were undecided, 17.78% disagreed with and 4.44% were in a total disagreement with the statement.

With regard to direct management and the relationship with the immediate superior, 9.78% of the respondents believe that they are directly involved in every decision affecting their work. 48.91% felt that they have a word to say regarding their work, 13.04% said that they are rarely involved in business decisions and only 1.09% responded that they are never involved in taking decisions. Regarding the way the superior fulfils its duties, half of the respondents indicated that most of the times, the immediate superior meets its duties in time.

A very acute and important problem for the Romanian employees, with multiple social implications, is workload. The study revealed that 16.30% of the employees surveyed considered that the workload of their job is very high, 45.65% considered it high and no one considered it very small.

On the other hand, the Romanian employees are largely satisfied with the work they are performing, the content of their work fulfilling their self-respect needs. 66.30% of the respondents believe that most of the times, the work they are performing makes them happy.

Differentiated by gender, men are in a higher proportion satisfied each time (18.18%) and most of the times (63.64%) by their work content against women (5.8% - each time, 66.67% - most of the times, 21.74% - sometimes, 5.8% - very few times). Another significant result is that young people between 21 and 30 years responded in a large percentage that are only sometimes (28.89%) or very few times (2.22%) satisfied with their work.

In Romania, the employer brand concept arose with the advent of multinational companies who came with the managerial know-how gained over many years of experience in other capitalist countries. From the perspective of the reputation and the values promoted by the organization, the study highlights that often the values of the organisation do not correspond to the employees' values, 48.91% of the respondents indicating that only sometimes there is a correlation between the value systems. However, when they were asked about the sense of loyalty for the organization they work in, 17.78% expressed their opened loyalty, 40% of the employees would recommend the organization to other friends and more than 30% considered that their organization is loyal to them.

Although a large percentage of the surveyed employees declare they do not feel exploited inside the organization where they work, many of the respondents would leave the organization if they would find another job or are undecided: "Had I found another job, I would leave the organization tomorrow". The responses were: Strongly Agree 15.73%, Agree 8.99%, Undecided 37.08%, Disagree 21.35%, Totally disagree 16.85%.

The employees participating at this study were asked to rank, in an ascending order of importance, the main factors that motivate them at work. Not surprisingly at all, we found that the income is still the number

one in the hierarchy. 33.33% of the employees placed on the first place the income. 24.44% of the questioned employees ranked on the first place the work environment and the team, 18.89% considered the most important the intellectual development, 17.78% the professional opportunities and only 5.56% placed on the first place the working conditions. We also noted that the second option of the respondents after the income is, in most of the cases, the career development.

## Conclusions

The study conducted revealed a not at all surprising fact: that there are many factors that determine the employees dissatisfaction in Romania, factors related to the degree of collaboration and communication with the management of the organization, the rewards system used, the working conditions, the extended program and the stress at work, the organization values and the extent to which it offers the opportunity develop a professional career.

However, it is surprising to see that, in comparison with the results of the studies conducted previous years ago in European organisations, the respondents' satisfaction increased. Perhaps because the organisations are now more aware of the fact that human resources are the most important resource of the modern organisation.

## References

- [1] <http://www.motivation-index.com/indexes/>
- [2] <http://www.ennovaconsulting.com/Employee-surveys-318.aspx>
- [3] Adair, J. (2006), *Leadership and motivation. The fifty-fifty rule and the eight key principles of motivating others*, Kogan Page, London and Philadelphia.
- [4] Lefter, V. Deaconu, A., *Managementul resurselor umane*, Editura Economică, 2008.
- [5] Eskildsen, J. K., Kristensen, K., (2003), *Work motivation and job satisfaction in the Nordic countries*, *Employee Relations*, Vol. 26, No.2, pg. 122-136.

# Leadership in Opposition to Facilitating Change for the Romanian Organizations

LILE Ramona  
HANGANU Silvia  
"Aurel Vlaicu" University Arad  
ramonalile@yahoo.com

## Abstract

One of the most important roles of the Organizational Change expert is based upon his or her expertise in the *process* of change itself. The Organizational Change expert must be able to coach and educate senior managers in how the process of change takes place in Romanian organizations. Change is a process that follows a relatively predictable pattern. Unfortunately, many managers have never been educated about the change process. It should come as no surprise that leading change without knowledge of the change process itself typically leads to failure of the change effort.

This lack of senior management understanding of the change process itself creates one of the most important roles for the Organizational Change's expert — Change Process Advisor/Educator. The Organizational Change expert should be prepared to advise/educate senior managers on how to effectively lead change.

Management change is not the regulation of the Organizational Change expert. Management change is the responsibility of the company's senior management. The Organizational Change expert should serve senior managers as an advisor/educator and coach.[2]

**Keywords** : leadership, change process, crisis, strategy.

**JEL classification:** L19

## Principal Steps in Management-Leadership Change

In this article we will not get involved in the debatable over how many realism steps there are in the change management process. A lot of experts disagree many with strong arguments.

For our purpose of advising/educating managers on how to effectively lead change, lets follow [10] model of eight steps:

1. Establish a sense of urgency.
2. Must be create a Guiding for change
3. Develop a good Strategy for the Management Change, specific for every organization
4. Communicate the Change Strategic Plan to all organizational members
5. The big power Employees for Completely - Based Action
6. Create Short-Term for Wins organization
7. Consolidate gains and produce more change.
8. Important the Change Organizational Culture

### 1. Establish a Sense of Urgency

A lot of managers agree with [10] that the first step in a change effort is to establish a sense of necessity. Managers are very busy people. To get the attention and commitment of the organizational managers, the change leader must convince these busy managers of the importance, the urgency, for the change.

The manager, with the guidance of the Organizational Change expert, should consider ways to counteract what [10] calls "sources of complacency":

1. the absence of a major and visible crisis

2. too many visible resources
3. low overall performance standards
4. organizational structures with narrow functional goals
5. measurement of the wrong performance indexes
6. lack of feedback from external sources
7. a "kill-the-messenger-of-bad-news" culture
8. denial of problems
9. too much "happy talk" from senior management

## **2. Must be create a Guiding for change**

The manager in the Romanian organization must be create a strong coalition of organizational leaders to guide the change effort.

The issue here is not executive knowledge. We have met some extremely knowledgeable executives in organizations. The issue here is "buy-in." Without buy-in from key players, the change effort will be fail.

The big experts in this domain, [10] suggests four principal key member characteristics for effective coalitions:

1. position power the coalition needs key players, including board members and line managers
2. expertise and diversity the coalition needs the expertise and diversity necessary to make informed, intelligent decisions
3. credibility the coalition must have the credibility, based on the members' reputations, to be taken seriously
4. leadership the coalition must have proven leaders [p. 57]

[10] also suggests qualities to avoid; people to keep off the team. He recommends avoiding big egos and "snakes."

These team leaders must pass along essential information to organizational members. Team leaders must immediately confront rumors and provide inspiration for their teams. These leaders must "know how to encourage people to transcend short-term parochial interests" [10, p.65].

## **3. Develop a good Strategy for the Management Change, specific for every organization**

Every organization must be already have a clear strategy and a good vision for future. When leading a specific change effort, it is important to develop a strategy for that management change, in the Romanian organization.

The change management in every organization should actively break participation from all of the coalition members. This participation provides valuable input into the decision-making process, and it gives the coalition members a sense of ownership in the strategically plan [2].

[10] believes the following six characteristics should be present in an effective vision:

1. imaginable
2. desirable
3. feasible
4. focused
5. flexible
6. communicable

An imaginable and desirable vision paints a picture of a very appealing future. [10] correctly states the vision must "appeal to most of the people who have a stake in the enterprise: employees, customers, stockholders, suppliers, community" [10, p.73]. Obviously, you cannot please all the people, all the time. But the strategic development process should, at least, consider the long-term interests of all stakeholders. If groups of stakeholders believe they are we forced to make unreasonable sacrifices, resistance to change maybe insurmountable.

## **4. Communicate the Change Strategic Plan to all organizational members**

A group strategic and well-crafted development plan is of small value if it sits on a shelf gathering insufficiently. The value of the strategically plan is the guidance they provide in goal setting and decision making. To provide guidance they must be communicated throughout the organization.[2]

The expert in this domain [10] warns managers about "under communicating" and I sending "inconsistent messages." The general managers must think beyond communicating to only their immediate subordinates. A strategically plan must be developed to communicate the vision to all the members in the organization. Now in Romanian organization



must be exist the survive plans because is crisis period.

[10] offers the following seven suggestions for communicating the strategy:

1. simplicity
2. metaphor, analogy, and example
3. multiple forums
4. repetition
5. leadership by example
6. explanation of seeming inconsistencies
7. give-and-take

A lot of forums and repetition are essentials for successful communication of the strategy. The strategy must be communicated through training sessions, meetings, press releases, the company's intranet, etc.

Finally, give and take is necessary to maintain an open, interactive organizational culture. General managers should actively solicit feedback and make modifications as necessary.

## **5. The big power Employees for Completely -Based Action**

The powering employees for the Romanian organizations are based on the leadership principle called unique and simply theory. The theory (perhaps, more accurately) leadership style begins with establishing a objective with the employee. Then, the leader's remaining responsibility is to help clear the path so that the employee can accomplish the objective. Empowering the employee is dramatically different from the management style of micromanaging and controlling.

In this new management style, managers serve as facilitators. Managers work to acquire the resources their employees need to reach their objectives. These resources could include the important things: time, money, personnel, or training.

[10] states, "new behavior, skills, and attitudes will be needed when major changes are initiated" [p.108]. Satisfying these needs may require considerable training.

Employee empowerment may also require changes in management. The command-and-control management style must go. If these old-style managers cannot be retrained, they must be dismissed. [10] correctly states, [if] "others see that these people are not being confronted ...they become discouraged" [p.114].

## **6. Create Short-Term for Wins organization**

In general business leaders, especially in the Romania, ignore the short-term results. While it is important to have long-term plans for success, no change agent should ignore the importance of providing some short-term wins.

Usually, anytime a change expert is leading change there are resisting forces and driving forces. It is important to keep the driving forces committed to the cause. All general managers are under pressure to present short-term wins. Therefore, the coalition managers must have something to show. Short-term wins build the credibility of the plan for change.

[10, pp.121-122] lists three characteristics for good short-term wins:

1. Its visible
2. Its unambiguous
3. it's clearly related to the change effort

Short-term wins, with these three characteristics, should be woven into the timetable for the change effort. [10] recommends "six months" for small companies, and "eighteen months" for big organizations.

Short-term wins let organizational members know that the sacrifices are worth it. These win also "turn neutrals into supporters" [10, p.123]. It is important to build and maintain momentum for the change effort.

[10] offers the following general rule: "the more cynics and resisters, the more important are short-term wins" [p.123]. Kotter goes on to say, "Short-term pressure can be a useful way to keep up the urgency rate" [p.127].

## **7. Consolidate Gains and Produce More Change**

In this part, after create and consolidate some short-term wins, general managers must continue to perseverance monitor the progress of the change effort. Remember, the resisting pieces are "waiting for an opportunity to make a comeback. Whenever you let up before the job is done, critical momentum can be lost and regression may follow." [10, p.133].

This is a good time to revisit Kurt Lewin's Forcefield Analysis. Re-evaluate the current scenario. What or who are the resisting pieces now? What or who are the current driving

pieces? Current circumstances may call for a new plan to build support. Perhaps it's time to expand the guiding coalition.

[10] believes, "the credibility afforded by the short-term I wins [can be used to] push forward faster, tackling even more or bigger I projects" [p. 140].

During large transformation efforts, multiple changes may be taking place at the same time. It may be necessary to sequence these changes to maximize the use of resources (time, energy, and money). The guiding coalition members should contribute and "buy-in" to this sequencing or scheduling of events. [2]

This part requires general management's best efforts to not only maintain but also to build momentum for the organizational change.

## 8. Important the Change Organizational Culture

[10] eighth step is the same thing Kurt Lewin called "refreezing" in his Three-Step Model of Change. Once positive change happens, management must work to make it part of the organizational culture.

The new organizational culture must be reinforced by the policies for recruiting, selecting, promoting, compensating, evaluating, and training.

## 9. Conclusion - Managing the Transition

Organizational change plans in the Romania are rarely accomplished in one quick step. Implementation usually requires general managers who can lead the organization through a transition and crises period.

[1] discuss three major activities and structures to lead the transition: activity planning, commitment planning, and change-management structures.

Activity planning "involves making a road map for change, citing specific activities and events that must occur if the transition is to be successful" [5]. Activity planning should receive participation from all key stakeholders. Achievable, incremental objectives should be identified on the "road map."

While it is important that activity planning be well thought out, the plan must be adaptable enough to react to the feedback received during the transition. A successful transition will

include both proactive and reactive decisions. Activity planning should provide the general direction for efforts during the transition period.[2]

Commitment planning involves "identifying key people and groups whose commitment is needed for change to occur" [5]. Commitment planning should be done early. Commitment is essential from those who can wield influence and control resources.

Change-management structures for the transition period can help provide needed direction and security for this frequently turbulent time. Members of major constituencies should play major roles during the transition.

## 10. References

[1] Beckhard, R. & Harris, R. "Organizational transitions: Managing complex change" (2nd ed.). Reading, MA: Addison-Wesley (1987)..

[2] Beithler, A.M. "Strategic Organizational Change: A practitioner's Guide for Managers and Consultants", 2<sup>nd</sup> edition, Practitioner press international. (2006).

[3] Beer, M. "Organizational change and development: A systems view". Santa Monica, CA: Goodyear. (1980).

[4] Burke, W.W. "Organization development: Principles and practices". Boston: Little, Brown, & Co.(1982)..

[5] Cummings, T.G. & Worley, C.G "Organization development and change" (7th ed.). Cincinnati, OH: South-Western. . (2001).

[6] Emerson, R.M. "Power-dependence relations". *American Sociological Review*, 27, (1962). pp.31-40.

[7] French, J.R.P. & Raven, B. "The bases of social power". In D. Cartwright (Ed.), *Studies in social power*. Ann Arbor, MI: Institute for Social Research, University of Michigan, (1959). (pp. 150-167).

[8] French, W.L. & Bell, C.H., Jr. "Organization development"(6th ed.). Upper Saddle River, NJ: Prentice-Hall. (1999).

[9] Greiner, L.E. & Schein, V.E. "Power and organization development: Mobilizing power to implement change" Reading, MA: Addison-Wesley. (1988)

[10] Kotter, J.P. "Leading change". Boston, MA: Harvard Business School Press(1996).

[11] Mintzberg, H. "Power in and around organizations". Englewood Cliffs, NJ: Prentice-Hall, (1983). (pp.24-26).

[12] Salancik, G. & Pfeffer, J. "Who gets power — and how they hold on to it: A strategic-contingency model of power". *Organizational Dynamics*, 5, (1977). p.3.

[13] Worley, C, Hitchin, D., & Ross, W "Integrated strategic change: How OD helps build competitive advantage". Reading, MA: Addison-Wesley. (1996).

# Human Resource Management Improvement in the Romanian Trade Enterprises in the Context of the Demands Induced by Globalisation and the EU Integration

Lector dr. Luț Dina Maria

*Universitatea Creștină „Dimitrie Cantemir”, Facultatea de Management Turistic și Comercial Timișoara*

*E-mail: [dinalut@yahoo.com](mailto:dinalut@yahoo.com)*

## Abstract

The Romanian trade enterprises are at the end of a long and difficult period of transition towards market economy, while also facing the competitive pressures induced by globalization and the EU integration. The present paper thus suggests a possible solution to the challenges that the Romanian trade enterprises must face, bringing arguments to show that one of the answers to the complexity of the environment is to develop the human resources and to adapt the management of these resources to the demands of the environment, with the purpose of increasing competitiveness. The suggestions regarding the human resources management improvement in the Romanian trade enterprises are based on the conclusions of the research performed among the 41 companies in the Timiș county, dealing mostly in trade sector.

**Keywords:** trade, market, human resources, demands.

**JEL classification:** M12

## 1. Introduction

The Romanian trade enterprises, over 90% of them micro-enterprises and small companies, are at the end of a long and difficult period of transition towards market economy; this gives them the advantage of a higher flexibility and adaptability to the changes in the environment, but this advantage given by their small size is not enough to maintain their viability in the context of the influences and demands coming from the environment.

The external environment in which Romanian trade enterprises work, has a distinct characteristic: in addition to the

factors currently generating changes at world level, the companies in our country are also confronted with the action of some specific factors, whose intense manifestation was caused by the major political and economic transformations that took place after 1989 (the authority void following 1990, the changes in the field of ownership, the multiple changes in the operation and structure of the economy, etc.).

The Romanian trade enterprises are also facing the competitive pressures induced by globalization [1], [4], and the EU integration.

Romania's integration in the EU firstly leads to the increase of competition both on the domestic market and on the external one, with companies forced to cope with the Western technologies, product supply, and price-quality ratio offered by similar companies in Western Europe. At the same time, during the past years, we have seen, as a form of globalisation, an afflux of large-scale distribution, mainly sustained through direct foreign investment, making visible in Romania the same major phenomena that mark commerce at world level: concentration, development of integrated distribution systems, the use of new information and communication technologies. [2]

In the context of the competitive pressures specific to trade, the challenges faced by Romanian trade companies (most of which are small or middle-sized) are numerous and refer specifically to: the reduction of costs so as to attain a level of performance comparable to that in the EU countries, at a time when the adoption of the community acquis in certain fields related to commerce (food safety, compliance with the technical regulations for products that are potentially hazardous for the consumers' health,

regulations regarding product certification and standardisation, etc.) also involves additional costs; practising some competitive prices, but which should provide sufficient profitability as to allow the sustaining of the investments imposed by the technological upgrades and the rise in the consumers' expectations.

Under these conditions, companies that wish to obtain performance must be interested in the implementation of some modern organisation methods, in the use of integrated management systems that can support them and their employees in their attempt to adapt to the new requirements.

The experience and results recorded by world famous companies show that these challenges can be successfully approached by focusing priorities towards the *development of human resources*. We believe that the development of human resources through a management focused on effectiveness, efficiency, and performance is a factor that can generate competitiveness for the Romanian trade companies as well, in a competitive environment induced by the processes of globalisation and regional integration.

Based on these considerations, aiming mainly to improve the *human resource management in Romanian trade companies in the context of the environmental requirements in order to increase competitiveness by developing human resources*, I performed a research among the 41 companies in the Timiș county dealing mostly in trade sector.[2]

## 2. Research methodology

The research aimed to show the way in which human resource issues are approached (taking into account their role and importance within an organisation), as well as the degree to which the human resource management system contributes to the increase of the performance of these companies, as well as their adaptation to the demands of the contemporary competitive environment.

When approaching the aspects mentioned above, the research comprised two distinct channels: on the one hand, the managers' perception and their attitude towards the elements studied (with the help of information resulted from the application of Questionnaire 1), and, on the other hand, the employees' perception and attitude towards the same

elements (with the help of the information resulted from the application of Questionnaire 2). This approach allowed me to perform a parallel analysis regarding the more or less different or compatible position of the two categories of respondents.

In order to have a better understanding of the problems of human resources management in enterprises with main activity of commerce, we have used as a **research method - the survey (inquiry)**, and as an **instrument - the questionnaire**.

The sample method chosen for the inquiry by survey that we have conducted is simple aleatory. In our case, the first operation for the sampling was to established the population interviewed. This is formed, on the one hand, by managers (human resources managers, where there are such job titles or by top managers and managing owners) in enterprises dealing mostly in trade sector, and on the other hand, by employees in these enterprises. In this respect, sampling units were enterprises dealing mostly in trade sector, from Timis county, having as stratification criterion the size of enterprises, depending on the number of employees (micro-enterprises: 0-9 employees, small enterprises: 10-49 employees, middle-sized enterprises: 50-249 employees, large enterprises: over 250 employees).

Starting from the data base of trade enterprises in Timis county (which can be found in CCIAT Timiș), we identified a total for each category based on size. Afterwards, we established the proportion of surveys that were to be applied on each category of enterprise. Based on the list obtained and the estimated number we established a sampling step for each layer, a step which was eventually applied. Finally, a number of 41 enterprises *accepted to be included in the research* all having as main activity commerce and all carrying out activities in Timis county.

The surveys were conceived separately for the 2 target groups that were studied in the field of commerce: managers and their employees. From this point of view, the hands-on approach of the problems of human resources takes into consideration the main dimensions of organizational structure: the managerial dimension and the executive dimension. Our researches catch the

multitude of relations and variables that are established between the two dimensions in the process of human resources management. From this perspective, the methodology of research, both in projecting instruments and in collecting and analyzing data has seen important adaptations.

Given the large difference between the sampling volume and the quality of respondents in the two target groups (managers and employees), the complexity and the used indicators were different. If, in the case of *managers the survey was direct, in the case of employees, the surveys were self-managed*. The fact that the questionnaires were directly applied to managers, presupposed a face-to-face communication relationship, stimulating the verbal behavior of respondents. For employees, the self/management of questionnaires facilitated the increase in sampling volume, but it also implied the risk of obtaining refusals to answer and obtaining non-answers.

Our research aims to follow concrete aspects which represent *specific objectives of research* and which have been captured by applying the two questionnaires.

**Questionnaire I, applied to managers**, includes 31 questions and facts and it targets subjects from the field of human resources. Thus, the following aspects related to human resources are studied:

- The existence, inside the surveyed firms of a **strategy of human resources** and of some employees or collaborators specialized in HRM (questions 1-5).
- As a concrete strategy of human resources in policies and activities related to human resources, the questions were aimed at:
  - the characteristics of a **recruitment policy and selection of personnel** (questions 6-10);
  - the existence or inexistence of an **integration policy in the firm of new employees** and the actors who put into practice this policy (question 11);
  - characteristics of **the training policy of employees** (questions 12-14);
  - characteristics of **the assessment policy of professional performances and development of employees** for the surveyed firms (questions 15-20);
  - characteristics of **motivation and rewarding policy of employees** by: assessing the peculiarities of the rewarding system of employees (questions 21-23); assessing the

satisfaction of employees by looking at managers appreciation (question 24); highlighting motivational factors used by managers to motivate employees (question 25).

- Self-evaluation **of performance as a whole and of the relationship between the results of the firm, human resources management and employee satisfaction** (questions 26, 27, 29).

- Assessing **managers views on the importance of human resources** and highlighting the most frequent problems from the field of HRM that managers are facing in the surveyed firms (questions 28, 30).

- General characteristics of surveyed firms (questions 31).

**Questionnaire II, applied to employees** in the trade enterprises surveyed, has a total of 14 questions distributed equally from each of the studied themes:

- **Motivational factors taken into consideration for employees** in order to carry out an efficient activity and to obtain good results (questions 1, 2, 4).
- The problem of evaluating **motivation and employee satisfaction** as well as determining factors (questions 9, 10, 11, 12, 13);
- The problem of assessing **individual performance, management and company performance** as a whole, as well as the relation between them, by looking at employees' appreciation of: their own results (question 3), quality of management (questions 5, 6, 7, 8).
- Socio- demographic characteristics of respondents (question 14).

The time awarded for surveys was estimated to 25 minutes for respondent managers, and 15 minutes for respondent employees.

Finally we obtained answers from 41 managers (human resources managers, and in their absence, we discussed with representatives of the firms: *managing owners*, executive managers, associates, administrators) and 193 employees all belonging to the executive area. In order to processing data we used SPSS version 13.0 (Statistical Package for Social Sciences) and EXCEL software for Windows. Apart from outlining the image of the human resources

problematic in surveyed trade enterprises, the research has underlined, with the help of correlation analysis [3], the existence of statistical relations among some variables that define the rapport between motivation - performance - satisfaction or the influence of quality management on performance of a company as a whole etc.

### **3. Suggestions regarding the human resource management improvement in the Romanian trade enterprises in the context of the demands induced by globalization and the EU integration**

Following the analysis and the results obtained, we can conclude that there is a general state of disorientation and confusion, a type of behaviour meant to generate substantial short-term material gain, and this can be seen both at the level of the managers and at that of the employees. This behaviour is largely sustained by the objective social, economic, and technical conditions in which the respondents operate. We are witnessing, at the same, a vacillating behaviour going either towards self-leadership, self-motivation, self-control, or towards guidance, control, or even constraint and extrinsic motivation. The explanations of this behavioural model can be found in the cultural and behavioural model that characterised the previous period, and at the same time in the inability of the managers (or the managing owners, who prevail in the small and medium-sized trade companies) to capitalise on and develop the human resources they have at their disposal, either due to the lack of information, of professional or material skills and abilities, or simply due to disregard.

On top of all this comes the dissolution of the general system of values without the complete consolidation of a new system of values that should be a reference point for the manifestation of a new behavioural model.

The dire need is therefore felt for a *new system of values at the macro-economic and macro-social level*, and for the **creation of a new inter-human relations culture** at the micro-economic level, and the interiorisation of this culture by all the members of the work groups, which should lead to the shaping of a new mentality, a new attitude towards work, substantiated in the practical manifestation of a

genuine competitive behaviour.

An essential part in this respect is played by the promotion of an effective managerial style that presupposes the sharing of some humanist values recognised and accepted by all the members of the company, which will lead to the increase in employee satisfaction and at the same time the rise of their loyalty towards the company. Under these circumstances, those managers with a managerial philosophy based on well defined values will totally change the approach to human resources: they will treat employees not only as a costly resource or a mere means to obtain profit and do business, they will interpret human relations not only from the point of view of their concrete manifestation in financial contracts, and they will conceive the workplaces so as to stimulate employees to reach performance.

We believe that such a human relations culture should focus on values and principles such as: dignity, correctness, and consistency in thoughts and actions, mutual respect, trust in the others and in oneself, the involvement in self-improvement and professional and personal development, the promotion of a differentiated, personalised appraisal, the promotion of flexibility and adaptability in thoughts and actions, the encouragement of initiative and creativity, and last, but not least, involvement in the work performed. The challenge for the owners, managers, and at the same time for the employees in trade companies is to find the most appropriate ways and means to transpose these values and principles into practice.

Our research performed among a series of companies operating in the field of trade in the county of Timiș reveals that most of these managers are not fully aware of the role played by human resources in determining the competitiveness of a company and the fact that the effectiveness of the human resources management influences the company's performance. This reality is confirmed by the fact that most of the activities in the human resource field are delegated to non-specialists, and the organisation and carrying out of these activities are unsatisfactory. It is true that a large part of the commerce companies are small companies that do not justify the

setting up of a human resource department, but there can be other ways or solutions to manage human resources, so as to capitalise on the experience and training of some specialists in the field.

We therefore believe that at this point, one of the most important requirements for the development of human resources refers *mainly* to the **professional training of human resources**, in order to acquire the knowledge and qualifications corresponding to the new technological, informational, and communicational developments taking place in the world at this time, in all fields, and which are also felt in the Romanian trade. The emergence of new occupations or the enrichment of the profile of some occupations specific to trade lead to the increase in the demand for skilled staff, as well as to the increase in the level of professional training of the workers in this field, making **continuous learning and training** absolutely vital. These conditions are essential in order to maintain (or reach) competitiveness in trade companies, in the actual context of globalisation and EU integration, and address the *managing owner* (concentrating several functions and therefore one of the central elements in the development of human resources in these companies), as well as the *sales staff* (ensuring the direct contact with the consumer and influencing the image and the – favourable or unfavourable – attitude of the buyers towards the company). Therefore, investment in professional training and proper involvement of the human resources in trade is actually a preoccupation aiming to improve the quality of the trade act.

Secondly, I believe that we need to **reconsider the strategy for motivating the trade staff**, in the sense of increasing the weight of the subjective dimension of labour, so that, in addition to paying substantial and fair salaries as a reward for the contribution to the company performance, participation should also be stimulated through non-financial means.

As the results of our research show, motivation is too often associated (both by the managers and the employees) with a high salary, and too little with non-financial rewards. *It is time for the employers in the Romanian trade companies (as well as those in other fields) to understand that there are other means, besides financial motivation, that can be used to*

*motivate employees and keep them in the company.*

**Non-financial motivation** is a viable and, at the same time, a complementary alternative to stimulate employees and make them more faithful, more efficient, and better performing. Moreover, for small-sized trade enterprises, whose economic and financial power is rather small, this type of motivation becomes a necessity in the attempt to generate employee loyalty and decrease staff turnover, to increase individual performance and, finally, the competitiveness of the company. There are multiple instruments for non-financial motivation, including: the presence of a set of clear rules and well-defined and realistic individual objectives, the highlighting and rewarding of special merits, the creation and maintaining of a friendly attitude among the employees, based on cooperation and mutual respect, consultation and involvement of the employees in the setting of individual goals and of the means of rewarding results, as well as in the solving of some problems connected with the current activity, the leaders' interest in the employees' professional and personal development, the existence of a transparent system of rewards and promotion, etc.

The financial means of motivation, of an extrinsic nature, are efficient especially when one aims at increasing productivity in a short time, but also for a short time. The decrease or removal of these motivational means almost automatically leads to the decrease of productivity. For this reason, obtaining high and lasting performance is done, in the context of the increase in work complexity and degree of professionalism, by creating a motivational complex based primarily on intrinsic motivation, and only secondly on the extrinsic one. This aim involves mentality and attitude changes on the managers' part, as well as on that of the employees: on the one hand, *managers or company owners need to have a long-term broad vision of the company evolution and a clearly shaped managing strategy, in which human resources should be given a central place and role;* on the other hand, *employees need to adopt the set of norms and values specific to the culture of the company for*



*which they work.*

Although the general reward system has an overall influence on the behaviour and performance of employees within a company, one must take into account the **individual motivation** as well, considering the unique character of the human being, each person's different wishes, aspirations, and objectives. A very important role in this respect is played by the *system of appraising and measuring the employees' professional performance*, which needs to be rigorously conceived, transparent, and most of all to allow the differentiated highlighting of individual performance and merits, rather than one standard evaluation for all employees.

The problem connected with the non-individualised motivational system is not characteristic only for trade. The human resource management in Romanian companies is still largely influenced by the old approach, deeply rooted in people's conscience, but employers are not the only ones promoting such a system; the law sometimes enforces standard evaluations for all employees, without taking into account the personality factor. Employees can only be efficiently motivated by knowing their needs (or rather need hierarchy) and allowing them to satisfy these needs.

To this end, the owners or managers of trade companies can resort to different motivational theories, adapted to each employee's situational context and motivational structure.

#### 4. Conclusions

For the Romanian trade enterprises the impossibility to make long-term investments in the development of human resources actually means an impossibility to adopt the new forms of organisation, which are more modern and more efficient and could help maintain competitiveness.

In such a situation, I believe that it would be a viable solution for trade companies (but also for small companies in other fields), in their confrontation with large-scale distribution, to *integrate or participate in various forms of cooperation between companies*. For Romanian trade companies, building company networks would be an opportunity to develop human resource management and also to learn by relating to others in a cooperative environment.

Public trade policies also play an important role in this respect, as they should promote and support the development of human resources within small and medium-sized enterprises, as a main means to increase their competitiveness.

#### 5. References

- [1] Giddens, A., Hutton, W., „On the Edge: Living with Global Capitalism”, J. Cape Ed., London, 2000.
- [2] Luț, Dina Maria, „Managementul resurselor umane - vector al competitivității în firmele românești de comerț”, Editura Eurostampa, Timișoara, 2009.
- [3] Rotariu, T., (coord.), „Metode statistice aplicate în științele sociale”, Editura Polirom, Iași, 1999.
- [4] Steger, M. B., „Globalism-The New Market Ideology”, Bowman&Littlefield Publ., Maryland, 2002.

# The impact of using expatriate employees in multinational companies on human resource management

Aurel Manolescu

*The Bucharest Academy of Economic Studies*

*Aurel.manolescu@yahoo.com*

Cristian Virgil Marinaş

*The Bucharest Academy of Economic Studies*

*Cristian\_marinas@yahoo.com*

Ramona Ştefania Puia

*The Bucharest Academy of Economic Studies*

*Ramonapuia@gmail.com*

## Abstract

The global economy and its current characteristics are strongly influenced by the development of multinational companies, players increasingly important in the national economy of any country, regardless of its location on the globe. Moreover, human resources management began to be recognized as a determinant factor of success or failure of international affairs [1]. The theoretical or empirical approaches regarding the links between human resources management and overall business strategy in an international context is intensively explored by the specialists in the field. This article aims to analyze some of the influences of the expatriation practices in multinational companies on human resource management: the main reasons for using expatriates and their countries of origin, selection practices, training practices and the success rate of expatriation.

**Keywords:** human resources, strategy, potential, employees.

**JEL classification:** M54

## 1. Introduction

The internationalization of corporate activity, becoming more frequent in recent years highlights new topics for discussion and research on the strategies and management practices. Both theoreticians and management practitioners began to raise questions about the best methods to operate at an international level and if inside multinationals the practices should be converging or diverging [2].

A number of studies suggest that technological development, global communications systems and the cooperation between organizations will remove the barriers caused by different values and traditions of national cultures, resulting in similar managerial practices and therefore convergence inside multinationals. Contrary, the arguments supporting the divergence suggests that at the level of the sub-units of multinational companies, cultural differences significantly influence the management process. Perhaps there can not be established a clear verdict about the necessity of divergence or convergence of the managerial practices in international companies as it is an extremely complex issue, influenced by a multitude of variables. However, most studies conducted so far argue that expatriation practices used by multinationals have a decisive role in the convergence or the divergence of managerial practices in general.

## 2. The impact of using expatriate employees on human resource practices in multinationals companies.

But what are the expatriates or „expats” in a language commonly used in multinational companies? Expatriates are employees with international experience who know very well the organisational culture of the company, catalysing local talents and enhancing their development potential. Often, when the know-how transfer from the local to expatriate management is complete, local managers are assigned leverage decisions.

As regards human resource management, since 1982, Tung [3] achieved a first comparative study about expatriates conducted in 80 American companies, 29 European companies and 35 Japanese companies on the following topics:

- Employment policy – the reason of using expatriate employees;
- Selection methods;
- Selection criteria;
- Training;
- The success and failure rate of expatriation and the motivation.

More recently, three studies were conducted to compare management practices on expatriation (Peterson, Sargent, Napier & Shula-Shim, 1996, Peterson, Napier & Shula-Shim, 2000 and Tungli & Peiperl, 2009). All of these studies are focusing the multinational companies from Germany, Japan, United Kingdom and USA as they host the majority of top multinational companies, classified according to their turnover (The Global 1000, 2000). The study conducted in 2009 by Peiperl and Tungli [4] in 136 companies (35 from Germany, 20 from Japan, 34 from the United Kingdom and 47 from USA) analyses four aspects of the expatriation: why use expats and their countries of origin, selection practices, training and the success rate of expatriation. Surprisingly, the 2009 survey results are very similar to the results obtained by Tung in his study, with over 25 years ago.

The study revealed a variety of responses regarding the main reasons why multinational companies are using expatriate employees. For example, in Germany, the main reason is „to develop international management skills”, in Japan and in the United Kingdom it was „to set up a new operation” and in the United States it was „to fill a skill gap”. In Table 1 are presented the reasons why the multinational companies from Germany, UK, Japan and USA are using expatriate managers and their importance given to a 6-point Likert scale. If we were to try to emphasize an indicator of convergence, the study emphasised that all analysed companies have placed "to set up a new operation" and "to train and orient local staff" among the main 5 reasons for the use of expats.

Table 1. Reasons for filling managerial positions with expatriates.

	Germany	UK	Japan	SUA	Total
To set up a new operation	4.70	5.13	5.21	5.25	5.07
To fill a skill gap	4.18	4.83	4.68	5.33	4.82
To develop international management skills	4.91	4.77	4.11	4.53	4.63
To train and orient local staff	4.41	4.57	4.32	4.61	4.50
To control the operation	4.00	4.07	4.61	4.53	4.29
To ensure the same company standards worldwide	4.48	4.00	3.56	4.43	4.22
To coordinate with headquarters	4.12	3.80	4.68	4.16	4.14
To provide career development opportunities	4.03	4.53	3.41	4.23	4.14
To establish and maintain corporate culture	4.09	3.83	3.74	4.14	3.99
To learn about local business practices	4.30	3.90	4.11	3.60	3.94
To maintain the image of the operation as "foreign"	3.15	1.90	2.72	1.91	2.35
To find jobs for surplus managers	1.88	1.60	1.72	1.68	1.72

(source: Tungli & Peiperl, 2009)

The study conducted by Tungli and Peiperl (2009) but also the studies done by Peterson (2000) and Tung (1982) revealed that the most of expatriates are parent-country nationals. But, as we can see in Table 2, in Britain and American multinational companies the expatriates originate from countries other than the mother country, the highest percentage being in the UK (37.45%). By contrast, the multinational companies from Japan use in 98.76% of the cases, Japanese expatriates managers. In Germany we also found a poor use of expatriate managers coming from another country than the country of origin (11.86%).

Table 2. The origin of expatriates.

	Germany	UK	Japan	SUA	Total
Parent – country nationals	79.42%	55.90%	98.76%	67.41%	71.72%
Third – country nationals	11.86%	37.45%	0.47%	23.11%	20.92%
Expats in the headquarters	8.72%	6.65%	0.77%	9.48%	7.36%

(source: Tungli & Peiperl, 2009)

According to Tung's study, in the early '80s, only 3% of U.S. multinationals, 5% and 14% of Japanese multinationals in Europe measured the technical competence of candidates in any way. Networking skills were assessed in 5% of cases in the U.S. and 21% in Western European multinationals. None of the Japanese company interviewed reported such assessment for expatriates. The 2009 study highlights the use of various methods in the selection of candidates, structured interviews being used regularly and seldom references and self-nomination. Japanese multinationals use these two last methods more often and in a lesser degree the structured interviews. The rarest methods used for selecting expatriates are psychological and cognitive tests. Only in Britain sometimes are used these last

methods when selecting employees for foreign assignments.

Using expat employees requires training before departure. The most used types of training for expatriates are language courses, intercultural communication courses: country specific cross-cultural training and general cross-cultural training. (Table 3). In recent years specialists found that an increased number of expatriates originate from developing countries. Therefore human resources professionals and trainers need to adjust their training programs both in terms of content and in terms of group that is addressed. For example, often for expat employees is provided English language training, although they will not be detached in countries with English as an official language. The main reason is that English language became an "official" language of communication in most multinational companies.

Table 3. Predeparture training provided for expatriates.

	Germany	UK	Japania	SUA	Total
Foreign language training	4.60	3.79	5.05	4.26	4.35
Country specific cross cultural training	3.37	3.27	4.25	4.27	3.78
General cross cultural training	2.49	2.97	4.85	4.13	3.50

(source: Tungli & Peiperl, 2009)

Besides formal and specific pre-departure training, more general pre-departure preparation might involve informal conversation and exchanges of helpful tips and advice through gatherings and other encouraged interactions between pre-departing employees and their families and any other available inpatriates. In the pre-departure preparation, a mentor or coach from the home workplace could be assigned to keep in regular contact during the assignment, helping the expatriate navigate

through the inevitable adjustment and ongoing challenges. The extensiveness of the training time, experiential exercises and supportive learning materials should depend on the degree of the learning and adjustment required with the inpatriate assignment.

There are also situations where the efforts of selection, training and motivating of the employees detached in various countries are useless, expatriates returning home earlier than it was planned. The reasons brought into light are diverse: operational problems, poor performance on the job, inability to adapt to local circumstances, family problems.

Tabelul 4. Failure rates.

	Germania	UK	Japonia	SUA
Less than 10%	90.60%	93.40%	94.40 %	86.30 %
More than 10%but less than 20%	0.00%	3.30%	0.00%	2.30%
Equal to or more than 20%	9.40%	3.30%	5.60%	11.40 %

(source: Tungli & Peiperl, 2009)

Analyzing the enormous costs involved in using expatriates (30% of expats in Russia, 27% of expats in Hong Kong, 26% of expats in Japan, 25% of expats in Switzerland and India earn more than \$ 250 000 per year [5]) we may wonder why their numbers increase from one year to another. Besides the fact that they know very well the management and the company policies, expatriate employees are more involved in the business than non expatriates, but much harder to keep.

A study conducted by Kenexa Research Institute indicate that more than half of expatriate managers are seriously thinking to leave the organization as they tend to see the relationship with their employer as a short time project. However, when it comes to job involvement, expatriates are more focused on current tasks, 53% of them being fully committed to their job.

### 3. References

- [1] Schuler, R.S, Budhwar, P.S., Florkowski, G.W. (2002) *International Human Resource Management: Review and Critique*, International Journal of Management Reviews, 4(1): 41 – 70.
- Scullion H., Linehan M., (2005) *International Human Resource Management – A critical text*, Palgrave Macmillan, pp. 22 – 43.
- [2] McGaughey, S.L., De Cieri, H., (1999), *Reassessment of convergence and divergence dynamics: Implications for international HRM*, International Journal for Human Resource Management, 10, pp. 235 – 250.
- [3] Tung, R.L., *Selection and training procedures of U.S., European and Japanese multinationals*, California Management Review, 25(1), pp. 57 – 71.
- [4] Tungli, Z., Peiperl, M., (2009), *Expatriate practices in German, Japanese, UK and US multinationals companies: a comparative survey of changes*, Human Resource Management, January-February 2009, Vol. 48, No. 1, pp. 153 – 171, Wiley InterSciencee, [www.interscience.wiley.com](http://www.interscience.wiley.com)
- [5] HSBC Bank International Expat Explorer Survey 2009, Report one: Expat Economics, vizualizat la data de 21 martie 2009, [www.offshore.hsbc.com](http://www.offshore.hsbc.com) .

## Career Management in the Psychiatric Hospital Socola Iasi

Alexandra Marinescu,  
*Student A.S.E. Bucuresti*  
Gabriela Marinescu  
*Professor Ph.D. UMF Gr.T.Popa, Iasi*

### Abstract

Career can also be studied as a mix between the individual and organizational elements. The job perception and the attitude of the individual depend on the compatibility between what is desirable (skills, needs, preferences) and what the job offers (motivation, constraints, opportunities, in short, rights and obligations).

Career orientation is a relatively stable pattern of talents, values, attitudes and occupational activities.

Career has been analyzed as a dynamic process with double dimension:

- External: the objective sequence of positions that the individual crosses during his active life
- Internal: the interpretation that the individual gives the individual experiences of its objectives in terms of subjectivity.

**Key words:** career, motivation, organizational context

**JEL classification:** J59

### 1. Introduction

This study is an analysis of organizational context inside which takes place the career evolution in an organization from the health system. The organizational climate reflects the way in which employees are motivated to grow professionally through relatively stable patterns of talents, values, attitudes and occupational activities.

The individual progress is measured multidimensional according to the shifting within an organization or occupation: horizontal shifting (skills and abilities

development), hierarchical shifting (to the top-level of the hierarchy), shifting towards obtaining influence and power. The concepts and models regarding career are found in endless combinations, each unique mix giving again the unity measure in diversity.

The created organizational context has to allow identifying the technical skills and the preferences of employees regarding the career and determining the organizational structures that fit with the guidelines identified. Following these issues regarding career may be useful in establishing job descriptions, growing stages, in order to find a good or reasonable relation between the organization's needs and possibilities and preferences of each individual starting from the moment of hiring (enrollment).

Career influences several aspects of a person's life, its evolution rising questions like:

- How much money he will win?
- What clothes he will wear?
- What benefits will result from this job?
- What organization / company he will work for?
- What people he will get in touch with?
- What kind of work he will do?
- Where he will work?
- How long he will work?
- What responsibilities he will have?
- What things he will learn?
- What skills are necessary?
- What personal interests will find expression in this work?

### 2. Material and method

The case study was conducted at the Psychiatry Hospital Socola Iasi and the following methods and tools were used in order to collect and process the information:

1. Questionnaire on organizational climate and human resources in terms of career satisfaction
2. Direct observation,
3. Polls Interpretation
4. Centralization of results;
5. Graphical representation
6. Descriptive analysis.

The investigation regarding the organizational climate and career development was made at the Psychiatric Hospital Socola on 2 groups which consist of 80 people. The questionnaire regarding career development was applied to a sample of 74 respondents of which:

Table 1 Structure of respondents by job nature

	Types of jobs	Number of items	%
1	Assistant Psychologist	2	2,7
2	Primary care nurse	26	35,13
3	Stretcher	24	32,43
4	Bearers	8	10,81
5	Resident doctor	4	5,41
6	Medical recorder	1	1,35
7	Orderly	9	12,17

Table 2 Structure of respondents by age:

Table 3 Structure of respondents by length of service:

	Length of service	Number of items	%
1	Less than two years	8	10,81
2	Between 2-5 years	20	27,03
3	Between 5-10 years	44	59,46
4	Over 10 years	2	2,7

Table 4 Structure of respondents after studies

	Study	Number	%
1	a post-	16	21,62

	secondary school		
2	post-secondary studies	32	43,24
3	University Graduate	24	32,43
4	Postgraduated	2	2,7

Tabelul 5 Structure of respondents after salaries:

	Salary	Number	%
1	500-1000 RON	10	13,51
2	1000-1500 RON	40	54,06
3	1500-2000 RON	16	21,62
4	Peste 2000 RON	8	10,81

We examined the following specific aspects of career management, namely:

1. the safety of a long-term job,
2. career development opportunities within the organization
3. the promotion system within the organization according to their performance,
4. regular training system;
5. regular job redesign based on skills and knowledge of employees,
6. the degree of autonomy and responsibility given in fulfillment of its responsibilities;

	Age	Number of items	%
1	20-25 years	4	5,41
2	25-30 years	26	35,14
3	30-35 years	6	8,11
4	35-40 years	12	16,22
5	40-45 years	16	21,62
6	45-50 years	6	8,11
6	Over50 years	4	5,41

7. improvement of professional expertise and managerial skill development.

### 3. Case Study

Actual implementation of the study was conducted during September 2009 - March 2010. In order to made this study we have

asked for the agreement of the head of the institution.

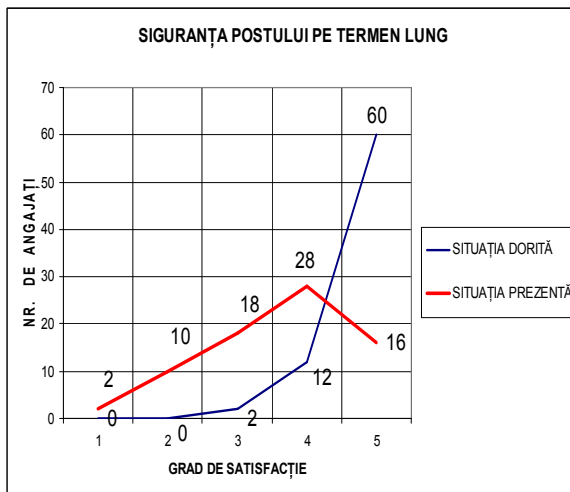
Difficulties encountered during the investigation:

- lack of time from respondents;
- a part of the respondents didn't answer to all the questions;
- difficult or inappropriate questions

Following the application, processing and analysis of questionnaire responses were established key elements influencing career management: organizational climate, value system, value hierarchy, human resources satisfaction to the conditions offered by hospital. Data was also analyzed from the concepts point of view: communication, performance evaluation, motivation, rewards, organizational culture.

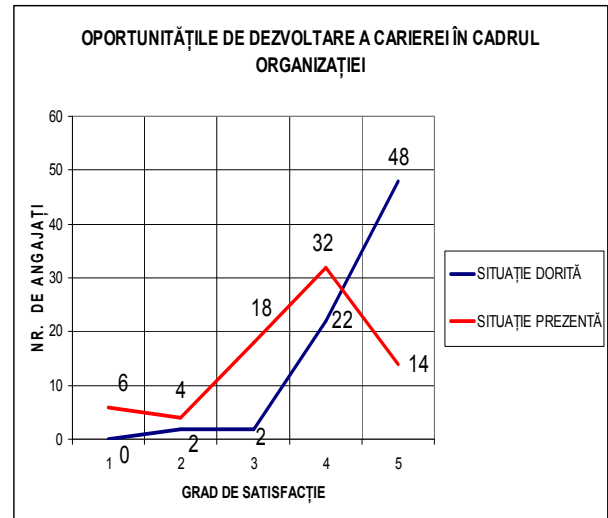
#### 4. Results

1. After long-term job security criterion we found that 97.29% of the respondents pay a lot of attention to this criteria, but 40.54% have no confidence in job security, especially within the crisis, when budgeting are threatened by large layoffs.

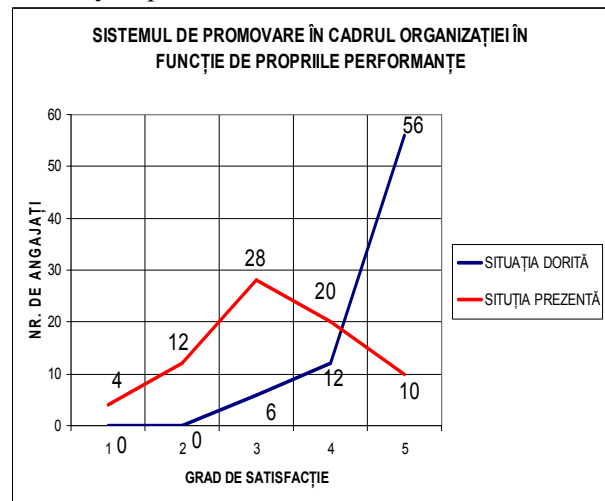


2. After the criteria of career development opportunities within the organization we found out that 62.16% of respondents are satisfied with the career

development opportunities within the organization, and 94.59% of them are very interested in career perspective

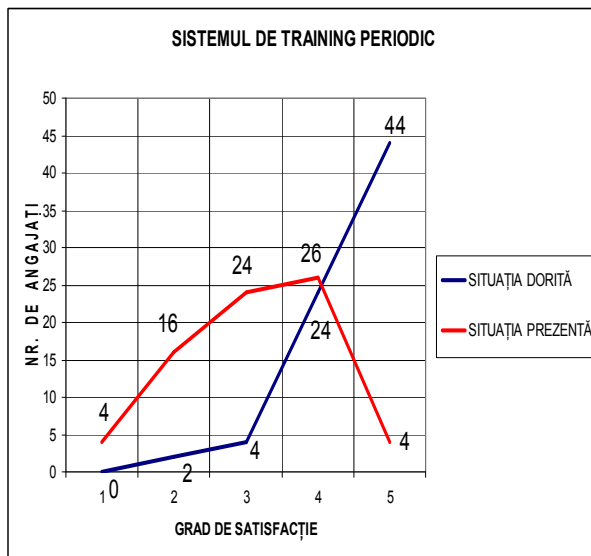


3. After the criteria of promotion system within the organization according to their performance, we found that 59.45% of employees are unhappy with the promotion within the hospital, while 91.89% considered this very important to them.

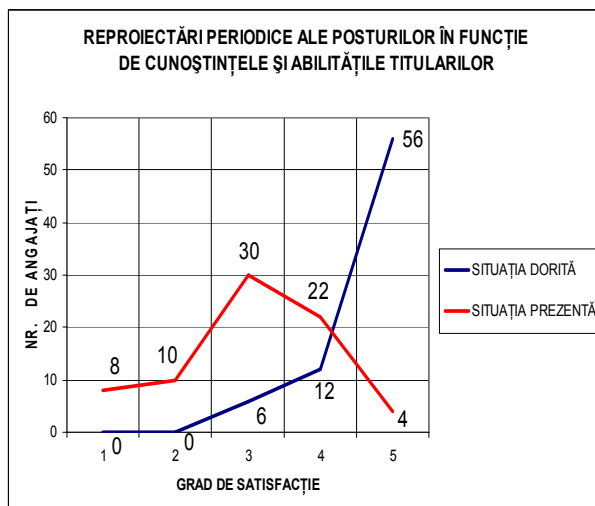


4. Following the criteria of lifelong learning, 59.45% of respondents are not satisfied with regular training system, and 91.89% consider that training system should be improved in the future

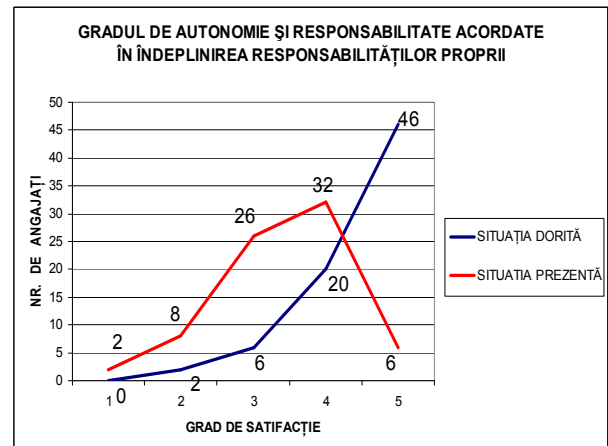




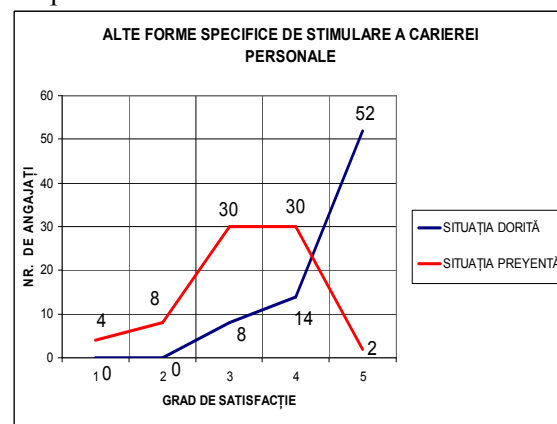
5. After the criteria of specialized skills, 91.89% consider this very important, but 64.86% are dissatisfied with the regular job redesign based on specialized knowledge and skills.



6. Following the criteria of autonomy and individual responsibility, 48.64% of respondents are not satisfied with responsibility and freedom granted in accomplishing his own responsibilities, although 89.18% considered this very important to them.



7. After the criteria of supporting the individual in career development, 56.75% of employees are not satisfied with the types of personal career incentives applied in the hospital.



## 5. Conclusions

The career development, the resonant organizational climate, the continuous learning, performances, innovation, creativity, efficiency have lower percentage values. We believe that this is due to the fact that the authoritative style of leadership predominates in the hospital. Employees are concerned about accomplishing the tasks and respecting the organizational measures. Can be observed that many respondents appreciate that the job climate is a pleasant one, or at least acceptable.

The study and statistics show that such sectors of activity are attractive to people who have as career anchor the safety, stability and prestige. In many public sector health organizations we can meet traditionalists'

individuals, conformists who adopt the values and standards of the organization in which they work. Their main goal is to maintain balance and peace of the professional and family life. The image of these people is described by expressions as "trusted assistant" for superiors, because of their desire to do what is requested. The main reason of obedient behavior is the exercise of the chosen profession, the authoritarian style of managers, the bureaucratic climate, but also the desire of a having a secure job, to get a decent income and to ensure a financially comfortable retirement perspective .

An individual's career and its problems move their center towards lifelong learning, vocational and multicultural, specific and interpersonal skills. Professional individuals, intuitive "players", multiple intelligences are concerned about reaching contextual performances and developing discernment.

Choosing and developing the career are managerial strategies directed outwards, strategies that resonantly integrate individual goals into the group or organization's goals.

In a resonant organization managers and employees must communicate for the good of the individual and the organization. For example, the career employees develop and pursue its plan proactively and not reactive, and support and not obstruct or managers neglect the development of staff. Career is a cumulative process that, as employees accumulate experience in a post at a certain hierarchical level they develop their skills entitle them to occupy important positions in hierarchical levels or above. In general, a certain level positions tend to be steps toward the next higher stations, complex phenomenon that we refer to pyramids and hierarchical organizational structures.

## 6. Bibliography

1. Adair, J., *Effective Leadership*, Aldershot, Grower, 1983
2. Amblard, H., *Management des ressources humaines*, Eyrolles, Paris, 1988
3. Armstrong, M., *Performance Management*, Kogan Page, London, 1997
4. Căndea, R., Căndea, D., *Comunicarea managerială*, Editura Expert, București, 1996
5. Certo, S., *Modern Management*, Prentice Hall, Upper Saddle River, New Jersey, 1997
6. Coates, C., *Management total*, Teora, București, 1999
7. Constantinescu, P. s.a., *Analiza, decizie, control*, Editura tehnică, București, 1978
8. Covey, S.R., *Principle-Centered Leadership*, Simon&Schuster, London, 1991
9. Drucker, P., *Management*, Harper&Row, New York, 1973
10. Drucker, P., *Managing for the Future*, Truman Talley Books/Dutton, New York, 1992
11. Gavrilesco, O., Iosifescu, Ș., Prodan, A., *Management Educațional*, Editura CDRMO, Iași, 2003- vol.1
12. Harrington, H.J., *Management total în firma secolului 21*, Teora, București, 2000
13. Herseni, T., *Psihologia muncii de conducere*, Editura politică, București, 1970
14. Hofstede, G., *Managementul structurilor multiculturale. Softwar-ul gândirii*, Editura Economica, București, 1996
15. Johnson, G., *Comportament organizational*, Editura Economica, București, 1998
16. Lippitt, R., White, R.K., *Autocracy and Democracy: An Experimental Inquiry*, Harper&Row, New York, 1960
17. Manfred F. R. Kets de Vries, *Leadership Arta și Măiestria de a*

- Conduce, Editura Codecs, București, 2003
18. Marinescu, G., Management Public Modern, Editura Tehnopress, Iasi, 2010
  19. Mathis, R., Nica, P., Rusu, C., Managementul resurselor umane, Editura economica Bucuresti, 1997
  20. Mihaș, I., s.a., Management, Alba Iulia, 1998
  21. Mintzberg, H., The nature of Managerial Work, Harper&Row, New York, 1973
  22. Nica, P., Iftimescu, A., Management, Editura „Universitatii Alexandru Ioan Cuza” Iasi, 2003
  23. Nicolau, A., Liderii în dinamica grupurilor, Editura științifică și enciclopedică, Bucuresti, 1977
  24. Păuș, V.A., Comunicare și Resurse Umane, Editura polirom, Iași, 2006
  25. Peters, T., „Putting Excellence into Management”, Business Week, July 21, 1980
  26. Prodan, A., Management de succes. Motivatie si performanta, Polirom, Iași, 1999
  27. Schein, E.H., Organizațional Culture and Leadership, Jossey – Bass, San Francisco, 1985
  28. Tellier, Y., Leadership și management, Editura Cavallioti, București, 1999
  29. Ursu, I., Stegăroiu, D., Rus, I., Stiluri de muncă ale cadrelor de conducere din unitățile economice, Editura Științifică și enciclopedica, Bucuresti, 1978
  30. Vroom, V. H., The New Leadership Managing Participation in Organizations, Prentice Hall, Englewood Cliffs, 1988
  31. Zlate, M., Leadership si Management, Editura Polirom, Iasi, 2004

# Considerations on Monitoring and Evaluation of Public Funded Projects as Part of Their Implementation

Desiree M.A. MARINESCU  
*Academy of Economic Studies, Romania*  
*desiree\_marinescu@yahoo.com*

## Abstract

An increasing interest in public funded projects is emphasised during the last period.

Monitoring and evaluation represent two of the main activities included in the project cycle. Understanding the concepts and the reason of performing them with due diligence contribute to a successful implementation of public projects as well as provide useful information for improved future public interventions.

The management performance of public projects is assessed through specific indicators defined along the 5 criteria set out by the OECD – relevance, efficiency, effectiveness, impact, sustainability.

**Key words:** public funded projects, evaluation, monitoring

**JEL classification:** H43

## 1. Introduction

European Union provides financial assistance through various programmes to support national development efforts. The growing interest for public funded projects and the amount of allocated funds outlined a new principle important for the use of public financial resources: *accountability*.

Responsibility for public money requires particular attention to assessing Government actions. Therefore, evaluation, and monitoring, is not only a process that assess the results in relation to a defined set of criteria and specific performance indicators, but also a process that analyses the performance of existing actions and provides recommendations for improving future interventions.

The present article presents the concepts of evaluation and monitoring to better understand their role in project implementation.

## 2. Evaluation and monitoring concepts

In 1992, the European Commission adopted a set of tools for developing and managing a project, based on logical framework analysis method, called Project Cycle Management (PCM). Moreover, this method has been widely used by many other financing organisations, including some EU Member States, and encouraged by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD).

The six phases of the project cycle are detailed below.

**Programming** is the first phase of the PCM, consisting in setting up the framework, the general guidelines and principles for cooperation, agreement of sectoral and thematic focus. It outlines the broad ideas for projects and programmes.

**Identification** is carried out under the established framework by analyzing problems, needs and interests of possible stakeholders. Ideas for projects and other actions are identified and screened. Pre-feasibility studies that help to identify, select and compare specific options are conducted. The outcome is a decision on whether or not the options developed should be studied in more detail.

**Appraisal** analyses all the important aspects of the project idea, given the overall objectives and priorities, the key quality indicators and the views of main stakeholders. Relevance and feasibility issues are key issues in this phase and detailed plans for implementation of activities are prepared. The outcome is a decision to take the project forward, or not.

In the **financing** phase a decision is taken by the relevant parties about whether or not to

fund the project.

**Implementation** refers to the material and human resources allocated to implement the project, employed to achieve the project scope. Activities implemented under the project typically involve procurement of contracts for studies, technical assistance, goods and works. Evolution of project activities is monitored and, if necessary, adjustments are proposed when changes in the initial conditions occur. At the end of implementation, a decision whether to close or extend the project should be made.

**Evaluation** is an estimative, systematic and objective as possible activity of the project design and implementation results. The scope is to assess consistency by comparing project results with proposed objectives, by determining the relevance, efficiency, effectiveness, impact and sustainability of the project.

The assessment must provide reliable and useful information, allowing the incorporation of lessons and best practices. It leads to a decision to continue, change or stop a project, and its conclusions are taken into account when planning and implementing similar projects.

Practical Guide of the European Commission (PRAG), prepared by DG Budget defines the main purposes for conducting

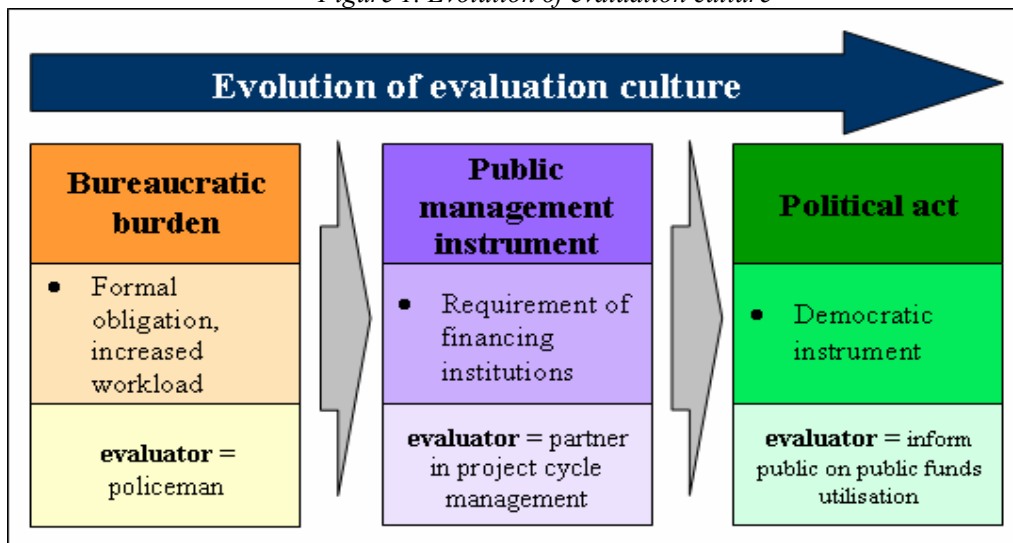
evaluations, as follows:

- to contribute to assistance development, including information for determining policy priorities;
- to help the efficient allocation of resources;
- to improve quality of implemented actions;
- to report on achievements and results of interventions.

Evaluation is considered to the process that allows independent analysis of the benefits of a public funded intervention, by reporting to specific, such as the impact of funded projects, their efficiency and effectiveness, continued relevance to the beneficiaries needs as identified the programming phase.

The evaluation should provide objective analysis and present analysis the assessed project. Independent evaluation is the assessment made by entities outside the activity under evaluation. These entities are outside the control or influence of those responsible for the development or implementation of actions.

Figure 1. Evolution of evaluation culture



In addition to evaluation, another important activity is monitoring. Monitoring represents a

task which can not be missed. Thus, an effective checking on the operation of management and control system, including

monitoring system is made.

The need for monitoring of project implementation is determined by:

- ensuring sound financial management;
- fraud and irregularities prevention;
- ensuring that project meet schedule and objectives are achieved;
- possibility of early intervention when problems come up.

Financial corrections may arise from the identification of deficiencies in management and control system, and because of changes in environment.

An operational monitoring system envisages the following:

- a monitoring plan;
- a risk assessment;
- an effective and clearly determined operational structure;
- sufficient resources for monitoring;
- monitoring actors know their roles and fulfil them accordingly;
- monitoring tools are mobilised according the schedule;
- visibility monitoring is conducted;
- monitoring conditions are achieved;
- effective resolution of discrepancies.

Monitoring is conducted at several levels through specific instruments. Monitoring is taking into consideration as well horizontal priorities, which refer to cross-sector issues, impact on society as a whole:

- equality regardless of gender, religion etc.;
- environmental impact;
- relevance to minority and vulnerable groups.

Monitoring activities are carried out continuously and as planned during the project implementation, and if adjustments are needed the required measures are taken, including decisions on rescheduling activities.

### 3. The evaluation cycle

Evaluation can be conducted during the implementation of the project (interim evaluation), at the end (final evaluation) or

after the implementation (ex post evaluation), either to support a better targeting of the project or to draw useful lessons for future programmes. Evaluation should lead to a decision to continue, revise or stop a programme, and the conclusions and recommendations should be taken into account in designing and implementation of future programmes.

#### Ex-ante evaluation

The main purpose of the ex-ante evaluation is to gather information and to make analyses to support in defining objectives, to ensure that these objectives can be met; the instruments used are effective in terms of cost and possible subsequent evaluations relevant. European Commission stresses out that a quality ex-ante evaluation is required for the following main reasons:

- allow a proper assessment of the level of proposed financing and resources to understand if it is consistent with the results and expected impact;
- ensure the premises of an ex-post viable evaluation, and hence the justification for the results and impact, which is largely dependent upon the quality of intervention preparation at the beginning stage

#### Interim evaluation

Such types of evaluations aim to verify the investment programme progress and to propose possible changes during implementation, until it is finalised.

Many times confusions are made on terminology. The following table presents a comparison table between the assessment (particularly referring to interim evaluation), monitoring and audit concept.

Table 1. Comparison between assessment-monitoring-audit concepts

Question	Evaluation/ Assessment	Monitoring	Audit
<b>What?</b>	Mainly, analyses on efficiency, effectiveness, impact, relevance, viability of policies	Mainly analyses on efficiency and effectiveness as a systemic management activity	Standard checks of financial operations and declaration on legal and contractual compliance. Additionally, it is made the Performance Audit, referring to efficiency and management issues
<b>How?</b>	In-depth analyses	Quick and continue analyses, applied immediately for improvement of following actions	Checking on financial reports
<b>Who?</b>	External evaluators specialised on specific subjects	Internal and external evaluators	Professional external auditors
<b>When?</b>	Once or twice, during implementation, to re-orient the programme if needed; essential is the ex-post evaluation which provides lessons for future actions	At regular intervals, few times per year	During or at the end of implementation

The ex-post evaluation of a project is conducted after the completion of the project, focusing more on the impact.

General purposes of ex-post evaluation are as following:

- offering the best opportunities to learn useful lessons for the beneficiary of the evaluated project for future similar situations;
- maximizing the diversity of issues and areas covered by the assessment process.

The methodology used is based on four major sources of information: monitoring reports, interim evaluation reports, views collected from the authorities responsible for implementation and in-depth investigation (case studies).

#### 4. Evaluation criteria of public funded projects

The most applied criteria in evaluation of public funded projects are the *DAC 5 Criteria*. These are developed by the Organisation for

Economic Cooperation and Development (OECD). The five criteria are as following:

1. *Relevance*: examines the extent to which stated objectives are appropriate to the addressed issues and the project feasibility in relation to the environment where it is implemented;
2. *Efficiency*: evaluates the link between resources involved in project, activities performed and obtained results if the cost is reasonable, in other words *value-for-money*;
3. *Effectiveness*: concerns the degree to which the project achieves its objectives through the envisaged activities and provision of foreseen outcomes;
4. *Impact*: follows the impact of short, medium and long term, how the project affects the environment, the political and social aspects, changes in behaviour etc.;
5. *Sustainability*: refers to long-term positive benefits that the project can bring, taking into account its connection with other projects.

These criteria are not limitative. Additional

criteria include: coherence, economy, utility, consistency, distributional effects, acceptability etc.

These criteria are not necessarily considered in all phases of the project cycle. The relation between the evaluation criteria and the temporal scope of the evaluation is defined according to their main applicability:

- the relevance criterion is assessed during ex-ante evaluations;
- the efficiency and effectiveness criteria are assessed during interim evaluations;
- the impact and sustainability criteria are assessed during the ex-post evaluations.

## 5. Conclusions

Monitoring and evaluation as part of project cycle have a significant importance in assessing project implementation and contribute to defining future actions. Each of them has a specific role. However, confusions in terminology are often seen. The DAC criteria applied through specific indicators provide common grounds for assessment. Understanding better both activities contribute to successful public interventions.

## 6. References

[1] Androniceanu, A., Abăluță, O., Curteanu, D., Popescu, I. - Managementul proiectelor cu finanțare externă, Ed. Universitară, București, România, 2004.  
[2] Doherty, T.L., Home, T. - Managing Public Funds – Implementing Changes, A Thoughtful Approach to the Practice of Management, Ed. Routledge, Londra, Marea Britanie, 2007.

[3] McCollum, J.K., Banacu, C.S. - Managementul de proiect – O abordare practică, Ed. Universitară, București, România, 2005.  
[4] Opran, C., Stan, S. - Managementul proiectelor, Ed. BREN, București, România, 2008.  
[5] DAC Principles for the Evaluation of Development Assistance, OECD, 1991.  
[6] Guidelines for Phare Programme Implementation in Candidate Countries for the Period 2000-2006 in Application of Article 8 of Regulation 3906/89, Brussels, Belgium, 1999.  
[7] Evaluation – an essential component in the process of formulating and implementing public interventions, Ministry of Public Finance, Managing Authority for Community Framework Support, Evaluation Central Unit, 2007.  
[8] Evaluating EU Activities – A Practical Guide for The Commission Services, Comisia Europeană, DG Budget – Evaluation Unit, Brussels, Belgium, 2004.  
[9] Evaluating EU Expenditure Programmes – A Guide for Ex-post and Intermediate Evaluation, Comisia Europeana, DG Budget, Brussels, Belgium, 2005.  
[10] A Methodological Framework for Project Evaluation, IFAD, Office of Evaluation and Studies, 2006.  
[11] Phare Programming Guide – Guidance for Phare Country Co-ordinators, Brussels, 2000, 2001, 2002, 2003, 2004, 2005, Brussels, Belgium.  
[12] Phare and Transition Facility Evaluation Guide – Part I: Approach, Procedures, Methodology and Reporting, Comisia Europeană, Aid Coordination Unit, Brussels, Belgium, 2005.  
[13] Project Cycle Management Guidelines, Brussels, European Commission, 2004.  
[14] Project Cycle Management Handbook, Brussels, European Commission, 2002.  
[15] Transition Facility – Programming and Implementation Guide, Comisia Europeană, Brussels, Belgium, 2003.



## New Management. Empowerment and Ethics

Gabriela Marinescu

*Profesor univ.dr. U.M.F. Gr.T.Popa Iași*  
*E-mail: marinescu.gabriela@ymail.com*

Alexandra Marinescu

*Studentă, A.S.E. București*  
*E-mail: alexandra\_m@yahoo.co.uk*

### Abstract

This paper is just an attempt to more penetrate the complex phenomenon of management in organizations. The theory and the experience of many organisations show that the empowerment is a dynamic system of values, useful to distribute the authority, resources, responsibilities, benefits and opportunities between the members of a group. The empowerment help managers to make decisions more efficiently, to motivate their teams and to satisfy better their employees, clients, partners and the community. By the other part, ethics, in the philosophical acceptance of the concept, it takes part in this system of values, enriches and supports its dynamics.

**Keywords:** empowerment, bioethics, heart management, values.

**JEL classification:** M19

### 1.Introduction

The organizations and their management, in the largest acceptance of the syntagma, go through a difficult process of transformation and adaptation to the changes of general paradigms like globalization, consumerism, IT equipment and even global warming, phenomena that influence directly the relationships, the institutional relations, legitimacy, responsibility.

How can empowerment and ethics positively influence the manifestation of these phenomena? The management is compatible with social and then economic efficiency as far as the reforms in Romanian system includes deregulations and decentralization. On the other hand, responsibility must be stimulated not only for those inside the system but at the

level of each individual that must take care daily of their state. We notice it problems gravitate around the concept of responsibility, an essential term both for empowerment and ethics.

### 2. Theoretical and Empirical Study

“Empowerment” represents according to some authors<sup>1</sup>, “offering responsibilities to the staff of an organization simultaneously with creating opportunities for their assumption. Power and authority from organization are distributed officially by clear establishing of responsibilities concomitantly with the assurance of the means of fulfillment of the understood, motivated and assumed tasks.

Ethics, according to the moral philosophy<sup>2</sup> and by the principle of justice, becomes the regulator of the system of values, especially in the situations where resources are insufficient for the needs and responsibilities superior to rewards.

The system of values of an organization is first made of human values, specialists, professionals trained to fulfill the mission of the whole to whom they belong and are devoted.

The right division of power, authority and responsibility among the members of the group supposes managerial changes, first in communication, the most frequent source of conflicts, failures but also successes. Two or more people agree to certain objectives and to attain them they come into contact, collaborate, inform, execute, answer,

---

[1] Olaru, M., Isaic-Maniu, Al., Lefter, V., Pop, Al. N., Popescu, S., Drăgulănescu, N., Rauceanu C., Tehnici și instrumente utilizate în managementul calității, Ed.Economică, București, 2000, p.133

[2] Harris, J., Bioethics, The history of bioethics, Readings in Philosophy, Oxford, 2001, p.1

contradict each other and enjoy. Empowerment, as a balance of resources and responsibilities, may be a real means of progress if the members of the group are motivated and act ethically and reasonably despite the differences<sup>3</sup> among them. To come to a consensus, the members of the organization and first of all managers must possess the ability to lead and communicate convincingly. The reasonably-emotionally intelligent managers use as “compass” of public ethics integrity, responsibility, empathy. This leads, slowly but surely, to the increase of trust in those who lead, the increase of self respect and respect of others, the diminution of stress or a better management of it.

The transformation of the managerial communication in a real progress factor is accelerated or retarded by the work atmosphere “established” in the institution, by the natural principles of correctness and justice, ethics and empowerment.

Empowerment may be idealized like a balance in relative equilibrium, a barometer of responsibilities in terms of motivation, possibilities and resources. Ethics, as integrity and justice of a professional exceeds the written codes and becomes the organization binder, the unwritten law that may interpret a written law, if the values it subscribes to, require that. Empowerment accentuates the duality of management more precisely, the simple and clear organization on one hand, the delegation of authority and power, on the other hand (delegation that is made in favor of those people seeking to maximize the ratio positive effects – negative effects /costs).

Empowerment and ethics allow the construction of a strong and famous identity by implementation of an individualized, flexible, high quality and stimulating management. This type of management circumscribes to the triad, «responsible - ethic – practical» in the management of a real and modern organization.

Management: “Responsible -Ethic -Practical”  
(R.E.P.)

A triad of power and organizational culture, “Responsible – Ethic - Practical” becomes condition and cause of a modern and new managerial system since:

- Responsibility supposes the clear definition of organization’s mission and

objectives depending on the real and relatively secure financial, human, material and IT resources. Responsibility refers to the obligations of the organization members and to their assuming possibilities by establishing some behavior rules accepted and used by both managers and their subordinates. Authority decentralizes responsibly and in a motivated manner because obligations and rights are explicit and managerial relations pursue objectives both for the individual and the unit.

Once created, the new culture, relying on authentic values, becomes the cause of some performances that will be, at their turn, a reason for future ones imposed by the permanent changes of micro, macro and world environment.

Managerial responsibility, on the other hand, represents the obligation to fulfill the activities attributed to the position. Thus:

- It is an assumed obligation, a reason for which it can never be delegated;
- It is a formal and informal engagement to exercise the management functions afferent to a job and a hierarchic level, giving value to the supposed and acknowledged competences;
- It is a willing agreement, a contract on the basis of which the manager assumes clearly defined rights and obligations;
- It means the formal description of the activities attributed to a manager that can be found in the job description;
- It is an organization strategy from the following points of view:
  - Responsibility of top managers;
  - Distribution of tasks for other positions;
  - Responsible actions: individual and group actions

Responsibility also represents a unique set of changing subassemblies of individual, collective, moral, professional, social, natural, formal, partial or total responsibility.

Professional responsibility covers the space of legal practices of a profession in the and supposes the exercise of managerial attributions with specific competences and under the empire of law and reasonable-emotional discernment. It supposes the mediation of group interest conflicts, the pre-eminence of the general or public and collective interest to the detriment of the personal fraudulent one.

---

[3] Popescu, A., Diferențe de gen în managementul performanței, Centrul Parteneriat pentru Egalitate, 2006

The moral responsibility naturally adheres to the professional responsibility, both of them forming a whole circumscribed to the values, beliefs, and customs of a community or group. "To do" or "not to do" become both moral and professional. The compass of the institutional ethics is made of integrity, responsibility, empathy.

- Ethic becomes an extremely complex concept as manifestation and effects, special and different from any other field. The central concepts with which the institutional ethics operates are duty and usefulness. What do these mean in the health field? Judge's duty and responsibility before the client are not influenced by his/her motivation, too?

A set of moral rules resulted from the abidance by the most elementary notions of ethics must contain:

1. Abidance by the engagements made. We all want to have the certitude that the promises made by others are kept because not abiding by this elementary norm, the social interaction built with effort tends to stop and relationships will deteriorate. Any moral theory is useless if it does not abide by the promises made or conditions change.

2. Non-violence. Indirect threat of physical integrity by psychic pressure, worry, lack of motivation leads to the appearance of some complexes with negative implications in the work environment; truth will be hidden and life will be distorted. With rights and obligations correctly highlighted in codes of ethics and bided by equidistantly we may built a communication way by which conflicts may be prevented.

3. Mutual help. Morality and bioethical code regulate the human behavior in the health institution. "Management and other organizational processes must be capable to assure the maximum probability that, in all interactions and relations within the organization, each member, in the light of past, values, wishes and their expectations, should consider experience as being supportive and that this will develop and maintain for them the feeling of value and importance of their own person"<sup>4</sup>.

4. Respect for the other may start from the expression "each human being is superior to me". Ethics asks for compassion, empathy as

reciprocal manifestations of an intelligence manifested by our fellow creatures.

5. Respect for property and the equidistant law in a state of rule. People want to use the right of property over goods and if they consider that their own body is a property this represents a corollary of the respect for person.

### 3. Conclusions

The modern organization relies on people with very diverse needs, wishes, feelings, and emotions. The motivation of each individual for the work they do is the result of a complex system of intrinsic and extrinsic factors, subjective and objective, that combined give an average of everyone's behavior in society. Each employee is a multiple and controversial personality who wants to be known and acknowledged, appreciated, motivated for what they do. In practice they notice that the subjects involved in different activities adopt more easily an ethical attitude if they are motivated (financially, professionally, spiritually). Work in some field suppose more than in any other domain, intellectual, practical, emotional implication transposed in managerial communicational interactivity. Conscious that they belong to the organization and that they mean a lot to it, motivated corresponding to solicitations, activity and competences, individuals get involved emotionally and ethically and come into strong interaction with third parties becoming more flexible, more optimistic and especially more correct, more credible and more productive. Their achievements are acknowledged, appreciated because the information exchange – ideas, rules, solutions, warnings - occurs at a correct rate of priorities of everyone towards partner or group. Credibility, the core of the image, correctness and quality result from the practicing of emotional, ethical, motivating management liberated from political-bureaucratic, collective or individualist aberrations.

Management comes holistic and oriented towards the creation of value, measured in satisfaction of all people involved: managers-patients-employees-community. The results of implication of ethics, its effects in the terms of political economy are not totally quantifiable in the measure units corresponding to the lucrative enterprises.

- Practically the value system proposed by empowerment in management means first a

---

[4] Likert, R., The Human Organization: its management and value, Administrative Science Quarterly, vol.12, nr.3, dec.1967, p.503-506

serious reconsideration of criteria and indicators used for financing and evaluating different activities, in the multitude and complexity of its facets. It practically means the increase of authority and competence of the organizations' managers hindered by restrictions in using their own funds, by ministerial decisions, and conservative conceptions. The informational asymmetry specific to some organizations is a strong argument for managerial-decisional decentralization absolutely necessary at all levels so as to become more practical, ethical and motivated.

As a corollary of the ideas expressed above, we sustain that empowerment and ethics support a management of competences, the only one developing a strategy of desirable and possible things based on hierarchy and also orientation, mobility, flexibility, and heterogeneity.

#### 4. Bibliography

1. Kupper, H, N., *Controlling Konzepte* Poeschel Verlag, Stuttgart, 1995.
2. Johnson, G., *Comportament organizațional*, Editura Economică, București, 1998
3. Likert, R., *The Human Organization: its management and value*, *Administrative Science Quarterly*, vol.12, nr.3, dec.1967
4. Nicolescu O., Verboncu, I., *Managementul organizației*, Ed. Economica, București, 2007
5. Nemec, J., Wright G., (coord.), *Finanțe publice*, Ed. Ars Longa, București, 2000
6. Ola, Harris, J., *Bioethics, The history of bioethics*, *Readings in Philosophy*, Oxford, 2001
7. Marinescu, G., *Management Public Modern*, Editura Tehnopress, Iasi, 2010
8. Olaru, M., Isaic-Maniu, Al., Lefter, V., Pop, Al. N., Popescu, S., Drăgulănescu, N., Rauceă C., *Tehnici și instrumente utilizate în managementul calității*, Ed. Economică, București, 2000
9. Osborne, D., Gaebler, T., *Reinventing Government*, Addison-Wesley Publishing Company, 1993
10. Popescu, A., *Diferențe de gen în managementul performanței*, Centrul Parteneriat pentru Egalitate, 2006
11. Rațiu-Suciu, C., *Managementul serviciilor dinamice*, Ed. Economică, București, 2000.

# Competency vs. and Morality – an Effective Approach to Leadership

**Maruntelu Liliana**

*Departamentul de Limbi Moderne- Universitatea Ovidius*

*e-mail: [liliana\\_maruntelu@yahoo.com](mailto:liliana_maruntelu@yahoo.com)*

**Dumitrascu Elena**

*Departamentul de Limbi Moderne- Universitatea Ovidius*

*e-mail: [elena\\_mam2006@yahoo.com](mailto:elena_mam2006@yahoo.com)*

## Abstract

This paper examines the fundamental assumptions that competency based frameworks are based upon in relation to leadership development. It examines the impetus for this structure becoming the existing theoretical base for developing leaders and tracks the historical path to this phenomenon. Research suggests that a competency-based framework may not be the most appropriate tool in leadership development across many organisations, despite the existence of these tools in those organisations, and reasons for this are offered. Varying approaches to developing effective leaders are considered and it is suggested that leading is complex as it requires both competencies and qualities in order for a person to be an effective leader. It is argued that behaviourally-based competencies only cater to a specific part of the equation when they relate to leadership development.

**Key words:** leadership, behavior, competency, development;

**JEL classification:** M12/F23/ J24;

## 1. Introduction

A great deal of attention has been given to leadership development, and it has emerged as a profitable industry in its own right over the last decade. This paper questions the effectiveness of a competency framework for developing leaders in a work-related environment and considers the reasons why it may not be appropriate as the prevailing theoretical base for developing leaders. Further, although competencies may be suitable for some types of skill development, the competency framework system from whence it

derived is not easily migrated to cater to the complexities of leadership and its development. Developing leaders is a complex issue and a competency-based matrix may be fundamentally too narrow to prepare someone in such complexities. [4] For the purposes of this paper, 'leadership' is defined as being distinctly different from 'management'. Day (2001) suggests that a management role refers to processes and activities that need a person to manage them, whereas a leadership role is more about a person leading in scenarios whereby there are no prescribed situations or outcomes. He suggests that the leader must work in unforeseen circumstances and, in order to do this effectively, the person must have considerable skills, attributes and knowledge. The role of the leader is about engaging others to work within a context that has no predetermined outcome, and therefore both Hollenbeck, McCall and Silzer (2006) and Day (2001) caution that due to the complexity of leadership and the outcomes that are sought, we must not confuse a leader with a person who 'manages' a set and given task.

## 2. A competency-based framework reviewed

Hodge (2007) reminds us that competencies incorporate 'skills, knowledge and behaviours'. However, literature on management and leadership has extolled for some time that leadership competencies and qualities are two distinct but critical elements of effective leadership and that, in a development sense, both these aspects need to be taken into consideration (Donovan & Jackson 1991). There are numerous sources regarding competency systems and frameworks that address the

political and economic drivers underpinning the introduction of such systems (e.g. Hawke 2000, Hodge 2007).

It has been suggested that competency-based systems have led to a shift in the way training is conducted and that they have led to a more corporate based training focus; however, it is argued that the critical paths that led us to the competencies of today has had both a political and social impetus that stems from the USA over two decades ago. Gonczi (2000) questions the effectiveness of such a framework, and examines what has occurred in other countries in his attempt to evaluate it. He examines the complexities of adult education and suggests that there are many factors that determine if a worker is competent which are outside the somewhat prescriptive nature of a competency system. [10]

### **3. The limitation of developing leaders via a competency-based approach**

Competency-based leadership development has clearly emerged as a dominant framework, with research in the USA showing that over 85% of companies in that country utilised a competency framework for leadership development.[7] However, it has also been suggested in other studies in the USA that having a competency-based framework for leadership development has had limited impact on growing effective leaders [4]. In this research, it was discovered that other approaches to leadership development may be shown to be more effective, and the research outlined what they considered were the critical aspects to leadership development ahead of leadership competencies.

It could be argued that leadership is greater than the mix of skills, knowledge and behaviours which competencies were first defined as, and that the essential missing ingredient is ‘qualities’ [1] for which, we would argue, a competency-based approach is not entirely able to cater. Writers on management development often separate these two aspects of leadership, and we believe this is due to the fact that leadership is a far more complex set of abilities that extend beyond the technical competence to ‘manage’ something.

Necessary leadership traits such as integrity and intellectual capability are very difficult to develop and locate within a competency matrix.

Sixty two managers from a large financial institution were interviewed about their own progression to leadership appointment and the way they make appointments themselves. All the leaders interviewed spoke about qualities rather than competencies as the decision points for these leaders when making senior leadership appointment [3]. A convenience sampling approach was utilised for this study, and interviews were conducted in 2006 and 2007 across Victoria and New South Wales as part of a pilot study on leadership succession. All twelve spoke at length about what they looked for when appointing a senior leader.

Each interviewee was given a copy of the questions in advance and was offered full anonymity. Questions included:

- What factors did they look for in a person when appointing them to a leadership role?
- How did they assess such factors?
- How did they utilise and value the services of Human Resources in these processes?

One managing director talked about Maslow’s Hierarchy of Need as the basis he uses when talking about good leaders and also when recruiting and evaluating if a person would make a suitable leader for his organisation. He spoke at length about how he would evaluate if a person was nearing a state of ‘self-actualization’ or if they were less secure as a personality and were more focused on survival or self-gratification. The questions that this managing director would ask people in an interview were structured so that he felt he could gain insight into a person’s positioning in regard to his interpretation of Maslow’s Hierarchy of Need. Another interviewee talked about trust and intelligence being the key characteristics he used when he evaluated leadership potential.

These characteristics for effective leadership from the perspective of the interviewees do not appear readily compatible with a competency-based approach to leadership. It is also notable that in this pilot study, although all senior leaders felt that Human Resources systems had a role to play in an organisation, they did not feel that the leadership development and assessment processes commonly adopted by their Human Resources departments provided valid tools or methods when it related to leadership. One reason for this may be that there are perceived inadequacies which constrain the opportunity to engage with the less tangible, non-technical

components of leadership; the result being that ostensibly these leaders made up their own system and criteria. This research is not exhaustive, however, and needs to be further developed to understand more fully the requisite role of Human Resources in leadership preparation. From this study, for senior leaders outside of Human Resources, competencies are not taken seriously when considering leadership effectiveness, particularly in the context of identification of leadership potential and as criteria for leadership development. In this context, it is interesting to note that a recent study in the USA found that, although 85% of companies had a competency-based framework for leadership development, less than half of these companies actually used this framework for senior leadership appointment [7].

#### **4. Other factors to consider when developing leaders**

The need for skills to be gained on the job, Lombardo (2000) claims, is critical. It is about mastering a job, not just being competent at it. A number of writers (Cornford 1997, Gonzci 2000) are concerned that there exists too narrow a definition of 'competent', provided by a competency system which emphasises minimal standards of skill acquisition rather than the mastery required by the truly effective leader. Learning to engage people, design a strategy, share that strategy with others and motivate people, are not such straightforward skills for a leader to master easily; there is timing and wisdom gained, which enables this to be achieved and developed [3].

The Corporate Leadership Council (2003) suggests two major factors for successful leadership development, based on leaders in the business acting as role models, and senior executive commitment to leadership development as a distinguishing factor. The Council (2003) suggests that, if these two factors are not present in a corporation, there is far less probability that effective leaders will emerge in that business, despite the presence of competency systems. Although one could conclude that having leadership competencies in place can assist leadership development, effective role modeling and rewarding desired management behaviours that matter are more beneficial. This leads to the question of what

other elements may be needed in order to assess and design leadership education. McCall (1998) suggests that self-awareness and feedback are important elements in leadership development and that, during the evaluation and development of leaders, it is critical to gain data from numerous people about how the particular leader is able to lead. This reduces the likelihood of the assessor or educator being manipulated into believing a person is more advanced in leadership skills than they actually are [9]

It has been suggested that learning new behaviours is harder for people than learning a new job or technical knowledge (Goleman 2002). Goleman suggests that a person may be high on ability to learn a new job but very low on ability to learn new or more effective behaviours. This clearly differentiates between a competency based approach to leadership development which sees behaviour as related in a simple linear fashion to skill and knowledge, and other approaches to leadership development which conceive of behaviour as mediated by personality in addition to the other components characteristic of the competency-based approach. Lombardo (1998) suggests that some leaders are able to perform in a superior way and that these abilities are superior in first time conditions. We know that this success is also indicative of a person's cognitive ability, which, it has been suggested, is an ability a person is born with [6].

This consideration of competencies and qualities prompts the often asked question: 'Are leaders born or made?' According to Goleman (2002), leadership is learnable; Lombardo (1998) would agree with this, as would McClelland (1985) to a degree. Donovan and Jackson (1991) argue that certain aspects of leadership can be taught, but that it is not from a blank starting point. There must be a propensity for leading, and qualities in which to embed enhanced skill, for example, more effective ways of communicating and planning. The view that there needs to be an aptitude for learning and a personality make-up that is conducive to effective and ethical leadership is also supported by research conducted by Hare (2003) and Morse (2004) which suggests that over 25% of chief executives and leaders in the USA have qualities that lack integrity. Hare's view is that leaders who are charismatic may also be insincere and manipulative, and that often the people with whom they are dealing are

not aware of being manipulated. He states that other qualities such as insensitivity, blaming, impatience, unfocused and parasitic behaviours are all important deficiencies to identify when looking for and assessing a potential leader. These attributes may go unnoticed in a narrow competency assessment and a person may be deemed as competent when in fact they would be a poor leader due to the lack of certain desirable qualities. Hare is referring to traits and qualities that are more complex than basic skills, knowledge and behaviour. When examining a company's 'development offering', the Corporate Leadership Council (2003) suggested that educational frameworks rather than psychological diagnostics are the fundamental key to developing leaders. The Council suggested that there does appear to be merit in a competency framework but, if used to the exclusion of all other approaches, such a system may leave a company short on effective leaders. That is, competencies may be a part of the equation for leadership development although certainly not the whole picture.

### **5. A key educational challenge – are leaders born or made?**

If a key factor in leadership effectiveness is the culmination of more than just skills, then the other 'qualities' that make effective leaders need to be identified in order to understand if these qualities can be developed or not. One interesting perspective comes from an examination of leadership motives. McClelland (1985) has argued that the motives for leaders are not linked to values, and that these cannot be changed. His research suggests that people are either born with their motive (a doubtful proposition) or that it is developed and cemented at a very early age. He suggests that these motives are critical to leadership capability and success, however because they are established at an early age, they are generally thought to be highly resistant to change.

The three prime motivators outlined in his research are the achievement motive, the influence motive and the affiliate motive (McClelland 1985), and each is manifested in a different type of leader. McClelland's research showed that two-thirds of all effective leaders have the influence or high achievement 'driver'; however his research does show that an

individual's motive must be consistent with the motive of the organisation in order for that person to be a successful leader.

As pointed out earlier in this paper, a person is born with, or develops early, certain key characteristics, such as cognitive ability, motivators and traits. If these are critical in effective leaders, then as adult educators we must ask: can we develop such characteristics if they do not exist or, alternatively, assist in their enhancement once identified as being present in the person we are wishing to develop. If so, where does a competency framework fit in? Other research in Australia from Richards (2008) also suggests that competencies were not used in leadership appointments in a large Australian institution, despite there being in place a sophisticated competency based framework for leadership development. The phenomenon that this research uncovered for the organization was the importance of mentors, at the time of a leadership position becoming available, these being more essential to leadership success and sustainability for a leadership post than formal development. Crucially, personality characteristics or qualities, and the fact that these were congruent with the existing leadership's perceived qualities, were valued more highly by mentors than more narrowly assessed competencies. Research in other parts of the world also support such findings [4, 10, 1].

### **6. Conclusion – a multi-tiered approach to leadership development?**

Leadership development cannot simply be concerned with meeting a standard as prescribed by a competency-based system. Adult educators need to focus on developing leaders' skills and abilities to work within a particular organisation effectively, with that person having the qualities appropriate to that organisation and strategy [1,9]. The 'influencing leader' who is able to engage people may come in many guises and the opportunity exists for human resource practitioners and education professionals alike to consider each individual on merit. Adult educators play a key role in showing how educational interventions can help an individual become a better leader, however they are limited by the characteristics of the individual with whom they are dealing and the environment within which that individual operates.



We do not know what the leader of the future looks like nor what the organisation of the future looks like (Florida 2002). The workplace is changing rapidly and so is our society – politically, socially and economically. These factors all mean that leadership is becoming more important than ever. However, they also suggest that the elusiveness of the effective leader appears to be more prevalent, although we would suggest that increasingly, people are looking for ‘ethical’ leadership by people with the requisite qualities to provide this type of leadership rather than a set of narrowly prescriptive skills and practices coming off a poor character / personality / qualities base. Adult educators need not to stay safe behind a matrix of competency standards and frameworks in the pursuit of a systemized approach to their profession; rather, they should question at each turn the outputs of their work, and how best they can adapt a theoretical base to suit the needs of individuals and organisations.

If organisations want to develop people to be more effective leaders, they not only need a competency-based framework which includes a rigorous educational framework, but also must consider the type of person with whom they are dealing, and design specific interventions that are relevant for that individual in the context of their field of leadership practice.

Developing an individual’s traits and abilities may not be entirely possible, and it appears it will not come as a by-product of leadership competencies. I believe we need, with the consent of the individual, an understanding of whole personalities and must design programs appropriate from that knowledge base.

We need to understand what motivates an individual and with this knowledge, combined with their skill set, design a robust educational curriculum for that individual. The goal should be to ensure that individuals coming out of an education process actually meet the outcomes that are required for a particular role, which is what every adult educator seeks.

Leadership development is complex, as is the role of being a leader. In this paper, only certain approaches have been addressed, rather than a comprehensive examination of all methods of leadership development. More research is needed on leadership development on a more empirical basis so that we can understand the suite of tools that may be used in order to

address this most critical issue of leadership development.

This new approach may well include a number of theoretical bases coming together – psychological, educational, sociological and anthropological – as a suite of interventions that, when put together will provide a higher quality of development initiatives for leaders. This may include competencies, but only as a component of a more comprehensive approach. Only with a multi-tiered approach, which is methodologically consistent, will there be any really sustainable leadership development that can bear the scrutiny of robust research in this field.

## 7. References

- [1] Bernthal, P. & Wellins, R. (2006). ‘Trends in leader development and succession’, *Human Resource Planning*, 29(2): 31–40.
- [2] Cranshaw, J.R. (2006). ‘Justice source and justice content: evaluating the fairness of organisational career management practices’, *Human Resource Management Journal*, 16(1): 98–120.
- [3] Cornford, I. (1997). ‘Competency-based training: an assessment of its strengths and weaknesses by NSW vocational teachers’, *Australia and New Zealand Journal of Vocational Education Research*, 5(1): 53–77.
- [4] Corporate Leadership Council (2003). *Hallmarks of leadership success – strategies for improving leadership quality and executive readiness*, Washington, DC: The Advisory Board Company.
- [5] Day, D. (2001). ‘Leadership development: a review in context’, *Leadership Quarterly*, 11(4): 581–613.
- [6] Donovan, F. & Jackson A.C. (1991). *Managing human service organisations*, Sydney: Prentice Hall.
- [7] Effron, M, Greenslade, S. and Salob, M. (2005). ‘Growing great leaders: does it really matter?’, *Human Resources Planning*, 28(3): 18–23.
- [8] Florida, R. (2002). *The rise of the creative class*, New York: Basic Books.
- [9] Goldman, D. (2002). *The new leaders*, London: Time Warner Books.
- [10] Gonczi, A. (2000). ‘Review of international trends and developments in competency based education and training’, in Arguelles, A. & Gonczi, A. (eds.), *Competency based education and training: a world perspective*, Mexico City: Noreiga Press, pp. 15–39.
- [11] Hare, R.D. (2003). *Without conscience*, New York: The Guildford Press.

## A New View on Intrinsic Motivation

Matei Mirabela-Constanța  
*Universitatea din Oradea, Facultatea de Științe Economice*  
*mmatei@uoradea.ro*  
Abrudan Maria-Madela  
*Universitatea din Oradea, Facultatea de Științe Economice*  
*mabrudan@uoradea.ro*

### Abstract

As companies rely on people to cope with the current world economic crisis and with competition, in general, academics and practitioners specialists continue the research to find the answer to the classic question „*what drives us?*”. The latest discoveries regarding the implications of financial incentives on creative performance are surprising. Several findings show that rewards are often ineffective and, in some cases, they have a harmful impact on the overall performance.

The classical management instruments are outdated and companies need to engender a new vision that takes into account scientific research findings regarding intrinsic motivation. Creativity is limited by the use of financial motivation techniques. The negative effect of financial incentives on creative performance is not something to ignore.

Our aim is to emphasize the need for an improved research methodology that can enlighten the relationship between financial incentives, creativity and performance.

While there is no clear answer on the effect of intrinsic motivation on performance, many companies are building a new management conception based on autonomy, mastery and purpose, the three elements of a new operating system according to Daniel Pink’s view. [5]

**Keywords:** motivation, creativity, companies, performance.

**JEL classification:** M12

### 1. Introduction

People’s perception about work is distorted. Ideally, work should be a purpose in life and not means. But rarely this is the case. Therefore, academics and practitioners specialists try to find an answer to the dilemma: what drives people? Finding the answer to this question is even more important as companies rely on people to cope with the current world economic crisis and with competition, in general.

It is a well known fact that employees may constitute a competitive advantage, so that identifying the ideal solution for motivating them is the main concern for managers who want to improve employee performance. Over time, many motivation techniques have been applied, but the question „*what motivates us?*” remains current.

Therefore, what motivates people? Certainly the first idea associated with motivation is financial reward. Yet, what if this association is improper? Or incomplete? What if there is a possibility that what really motivates us does not cost anything? Or, on the contrary, what if the financial incentives have, in fact, the opposite effect - to degrade the performance? This seems hard to believe and without evidence we would be tempted to believe this is nonsense. But there are findings of repeated studies that show how creativity and innovation are stifled by high rewards.

## 2. Research findings

Daniel H. Pink<sup>1</sup>, a career consultant which has been concerned with the scientific study of intrinsic and extrinsic motivation, brings this research to attention in his latest book *Drive: The Surprising Truth about What Motivates Us*. He emphasises the huge gap between the latest discoveries and what happens in companies relative to the implications of financial incentives on performance. [4] Daniel Pink states that even though financial incentives are sometimes successful, in most cases they don't work and often have an opposite effect, reducing performance.

In this respect, we consider necessary to present a series of arguments which underpin the study of Daniel Pink. [6]

A. The first argument is related to a research involving the „candle problem“. This problem was invented in 1945 by Karl Dunker with the purpose of studying the *functional fixedness*, which he defines as a mental block against using an object in a new way for solving a problem.

For this problem, participants are placed in a room where on a table they find a candle, a box of thumbtacks and a matchbox. Their task is to fix the candle alight on the wall in a way that prevents wax to fall on the table. The study shows that, at first, participants try to fix the candle with thumbtacks directly on the wall. Then they try to melt the bottom of the candle and so sticking it on the wall. None of these solutions is viable. The solution is to not consider the thumbtacks box as a container, but as a support or as a platform for the candle. Participants must set the box on the wall and then use it as a candle holder. Subjects have difficulties to solve this problem because they fail to see other functionalities of the box, other than a thumbtacks container.

To study the link between creativity, motivation and reward, Sam Glucksberg, a psychology professor from Princeton University,

USA, has proposed this problem to a number of subjects which he divided into two categories. He told one of the groups to solve the problem in order to determine an average time required to find the solution. For the subjects of the second group Sam Glucksberg establishes two levels of financial reward, so that whoever solves the problem faster will receive \$ 20 and the first 20 percent will get \$ 5.

The findings were surprising: those who were promised a financial incentive needed on average 3 and half minutes longer than the others. So, the financially motivated group had lower performance than the group which was not promised anything.

To deepen the study, Sam Glucksberg changed the problem data. Like the first time, he divided the participants into two groups and kept financial incentives for one of the groups. But he simplified the problem by emptying the thumbtacks box, leaving the box empty. Surprisingly, under these conditions, the financial motivated group had better performance, obtaining a better time.[5]

B. The study of Sam Glucksberg is not unique, it has been replicated repeatedly. Renowned economist, Dan Ariely, together with his colleagues from Carnegie Melon and the University of Chicago and with MIT students, conducted a research as well. He built a set of games requiring invention, creativity, motor skills and concentration power and gave those games to the students. The researcher set three levels of incentives: low, medium, and high and then he informed the students that if they have a high level of performance they will obtain a high reward.

The study finds are summarized below:

- If the games involved primarily motor skills, the higher the financial incentive the higher the level of performance.
- If the games implied even primitive cognitive skills, as the reward was greater it lead to a lower level of performance. Those who were promised the highest reward had the lowest performance.

C. Another enlightening study was conducted in 2009 by business analysts from the London School of Economics. They studied 51 financial rewards for performance plans within companies. Their conclusion

---

<sup>1</sup> Daniel H. Pink is a former White House speechwriter and the author of the bestseller *Free Agent Nation*, a contributing editor at *Wired* magazine, he has written on work, business, and politics for *The New York Times*, *Harvard Business Review*, *Slate*, *Salon*, *Fast Company*, and other publications.

was that *financial incentives may have a negative impact on overall performance.* [6]

The general conclusion that emerges from these studies is that even though financial incentives can motivate people to make more effort, they don't stimulate creativity. Still, financial incentives are effective for simple tasks, with clear rules that do not involve innovation. For tasks that require creative solutions, financial incentives narrow thinking and distract attention from the solution of the problem towards the reward. People can't focus on finding the best solution; instead their attention is focused on the aim of obtaining the reward.

D. There are, however, studies that cast doubt on these results. Robert Eisenhower and Linda Shanock draw attention to some behavioural studies that underline the fact that when subjects are asked explicitly to find creative solutions, the financial motivated group has a better performance.

Thus, when individuals know they will be rewarded for creativity, the creativity will increase, these individuals obtaining better results than those who receive no reward. A possible explanation is that individuals will seek creative and unusual solutions with more involvement. Individuals perceive the task as requiring creativity and thus soar in seeking new solutions. To achieve the desired results, people should be informed that creativity will be rewarded; otherwise they will seek common solutions.

If creativity is currently rewarded, individual behaviour will be oriented towards finding creative solutions every time. But research shows that managers mostly reward conventional performance and not creativity, so that employees believe that this type of performance is required. [3]

Despite the fact that the promise of financial rewards can motivate individuals to engage in the laborious process of searching for information, when employees have to generate creative solutions or to solve a problem, they will get better results if they are intrinsically motivated rather than being concerned about getting a reward.

### 3. A new management philosophy

Although there is no clear answer yet on the effect of financial incentives on creativity and on the implications of intrinsic motivation on performance, many companies are building a new conception based on autonomy, mastery and purpose, the three elements of a new operating system according to Daniel Pink's view. [6] Some of the new work process approaches are presented bellow.

#### A. ROWE

One radical example is the Result Only Work Environment (ROWE). This new system was founded in 2003 by Cali Ressler and Jody Thompson, two American advisers. *The Result Only Work Environment (ROWE) is a new management philosophy based on the premise that giving employees complete control over their time is the best way to increase productivity in the workplace.* [2]

This working system is practiced today in about 20 companies in North America, and the results of its implementation are: increased productivity, increased commitment at work, increased job satisfaction and reduced staff turnover. ROWE implies unlimited paid vacation time, no schedules, no mandatory meetings, and no judgments from co-workers and bosses about how employees spend their days. [4]

The inventors of the system, Cali Ressler and Jody Thompson, believe there are several techniques that can ensure successful implementation of ROWE: [7]

##### 1. *Make meetings optional.*

Employees should have complete control over their time, they are the ones who have to make the decision whether to participate at meetings or not.

##### 2. *Stop judging how people spend their time.*

3. *Reward employees based on results, not on how much time they put in at the office.*

4. *Don't prescribe what work-life balance looks like for your employees.*

Employees know best what they need and managers must respect the decisions they make.

##### 5. *Don't handpick who gets to be flexible*

and who doesn't.

To be efficient, this result- based program must be applied to everyone.

*6. Stop managing by walking around.*

The best way to check the work progress of employees is by email. Meetings and telephones disrupt and divert attention.

*7. Quit using fake crises as a management tool.*

Time pressure decreases the quality of work results and frustrates employees.

*8. Stop relying on human resources to do the "people" part of your job — get clear about performance goals, communicate often, and hold people accountable.*

The two inventors emphasize the importance of communication. Managers should pay attention to the needs of employees and focus on how to help them succeed.

*9. Trust your people like you trust yourself.*

Managers should trust their employees. If employees feel under surveillance, this work system will not have the results expected.

### **B. 20 percent rule**

Another version of how intrinsic motivation (autonomy, mastery, purpose) can be used to improve workplace performance is the *20 percent Rule* adopted by Google company. Employees have the possibility to use 20 percent of their work time for personal projects, having complete autonomy over that time, their team and the techniques used. Products created in this time period represent approximately 50 percent of all the products made in one year (such as Gmail, Google News etc.). [6]

### **C. Other examples**

Like Google, Atlassian, an Australian company has implemented the same work system based on autonomy. After implementation, the company reported an increase of workplace performance.

Another example of the effect of financial incentives on performance in opposition with that of intrinsic motivation comes from the comparison between two encyclopedias: on one hand, Encarta, Microsoft's encyclopedia published by highly financial motivated professionals, and on the other hand, Wikipedia. The Wikipedia project has been successful, although no one has received any money to work

on it, while Encarta has been withdrawn.

Microsoft Encarta is a digital multimedia encyclopaedia created in 1993 and discontinued in 2009. In 2008 the complete English version consisted of more than 62,000 articles, photos, illustrations, timelines, maps and atlas, and others.

Wikipedia is an online, free encyclopaedia which has grown rapidly into one of the largest reference web sites. Created in 2001, Wikipedia consist now of more than 15,000,000 articles in more than 270 languages. The English version has more than 3,250,000 articles.

### **4. Conclusion**

Financial incentives are the most popular tools used for motivating employees. Yet, if employees must generate creative solutions they will get better results if they are intrinsically motivated. Still, decades of research did not succeed to produce general agreement concerning the effects of reward on creativity [3].

Today's society is oriented towards innovation. The classical management instruments are outdated and companies need to engender a new view that takes into account scientific research findings regarding intrinsic motivation. Creativity is limited by the use of financial motivation techniques. The negative effect of financial incentives on creative performance is not something to ignore.

In order to fully understand the implications of intrinsic motivation on performance and creativity, specialists must develop an improved research methodology. Our belief is that a much complex approach of the relationship between creativity and motivation is required. It is necessary to take into account other variables, such as: time, information, past experiences.

### **5. References**

- [1]. Blakely Lindsay, *Four Radically Different Cultural Models: Best Buy, Google, GE, SEMCO*, [http://www.bnet.com/2403-13059\\_23-237201.html](http://www.bnet.com/2403-13059_23-237201.html), published on September 2008, consulted on April 7, 2010.

- [2]. Blakely Lindsay, *What Is a Results-Only Work Environment?*, [http://www.bnet.com/2403-13059\\_23-237128.html](http://www.bnet.com/2403-13059_23-237128.html), published on September 2008, consulted on April 7, 2010.
- [3]. Eisenhower Robert, Shanock Linda, Rewards, Intrinsic Motivation, and Creativity: A case Study of Conceptual and Methodological Isolation, *Creativity Research Journal*, vol.15, 2003, [http://www.kidscoinsproductions.com/Research/Creativity\\_and\\_Rewards.pdf](http://www.kidscoinsproductions.com/Research/Creativity_and_Rewards.pdf), consulted on April 6, 2010
- [4]. Oancea Daniela, *Revolutia lui Dan Pink*, *Revista Cariere*, nr. 159, martie 2010.
- [5]. Pink Daniel H., *Drive: The Surprising Truth about What Motivates Us*, Published by Penguin Group, USA, 2009.
- [6]. Pink Daniel H., *The surprising science of motivation: Dan Pink on TED.com*, TEDGlobal 2009 Conference, August 2009, video on [http://blog.ted.com/2009/08/the\\_surprising.php](http://blog.ted.com/2009/08/the_surprising.php), consulted on April 7, 2010.
- [7]. Ressler Cali, Thompson Jody, *How to Get ROWE Working for Your Team*, published on September 2008, [http://www.bnet.com/2403-13059\\_23-237220.html?tag=content:col2](http://www.bnet.com/2403-13059_23-237220.html?tag=content:col2), consulted on April 7, 2010.
- [8]. [www.gorowe.com](http://www.gorowe.com).

# The Evolution of the Romanian Leasing Market Related to the Current Global Crisis

Mărăcine Mihaela Simona

*"Constantin Brancoveanu" University, Pitești*

*Faculty of Management Marketing in Economic Affairs*

*mihaela.maracine@yahoo.com*

## Abstract

In the same context in which the Romanian economy becomes increasingly close to the developed economies and aims to achieve the intended objective of mature market, leasing, as financial transaction makes its own way by adapting to the shocks of the changes. The current financial crisis had a strong impact on the Romanian leasing market, reflecting the temporary decline of an emerging economy, with still fragile mechanisms.

**Keywords:** leasing, leasing market, financial crisis, leasing companies.

**JEL classification:** F59;R40;

## 1. Introduction

Leasing has appeared and developed once with the amendment of the nomenclature and the increase of the value of machinery and equipment making up the object of international trade. The rapid obsolescence, the high volume of investments that certain equipment require, such as computing, transportation, apparatus and measurement instruments, in terms of ongoing processes of modernization, led to the emergence of the leasing companies. [1]

The leasing market witnessed in 2009 the largest drop in history: -74% to 776.65 million euros because of the economic crisis. Although the views are optimistically directed to 2010, in the sense of stagnation, a return to the level of 2008 will not be possible in a time shorter than 3-4 years, according to the estimates of the

Association of Financial Companies from Romania (ALB).

The leasing companies still calculate their losses since 2008, and the last weeks of 2009 have served only to maintain the negative evolution of this market. The currency fluctuations, the economic instability and the increase of the unemployment rate are the main causes, according to the analysts, of widening the imbalance in this segment of business. [2]

The areas of accelerated decline were exactly those which reported significant increases every year: the auto industry, constructions and real estate. Globally, it is expected to have a decrease of about 76% of the auto leasing, of 77% of the leasing for equipment and of approximately 40% of the real estate leasing. Under these conditions, all the leasing companies had modest performance in terms of the volume of new contracts, others have chosen only to preserve their existing portfolio of contracts; others have achieved a balance between the three major product segments by reducing the volume on the car segment.

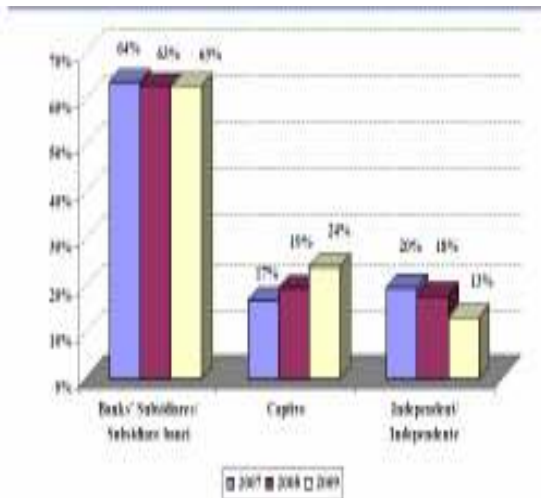
But all were forced to cope with the degradation of the payment behaviour of their customers, with the increase of the reserves, and, not least, with the "resettlement" of the legislation on the pollution tax and forced execution or enforcement. In the last 12 months, the intensification of the resale activity meant for the leasing companies to allocate significant human and material resources, the most affected being the specialized companies subsidiary of the banks or independent ones.

The advantage held by the captive companies was represented by their access to the existing

know-how and infrastructure within the groups to which they belong, such as warehouses, the existence of specialized servicing sites or even of some sales entities/forces specialized in selling second-hand cars.

The ALB data shows that the market share of the independent leasing companies fell to 13% from 18% in first half of 2009 compared to same period in 2008, in favour of the IFN captive companies (24%) and of the banking ones (63%), detailed the president of ALB [5].

”Figure 1. Romanian Leasing Market Structure by Type of Lessor 2007 – 2009”



Source: Association of Financial Companies – ALB Romania

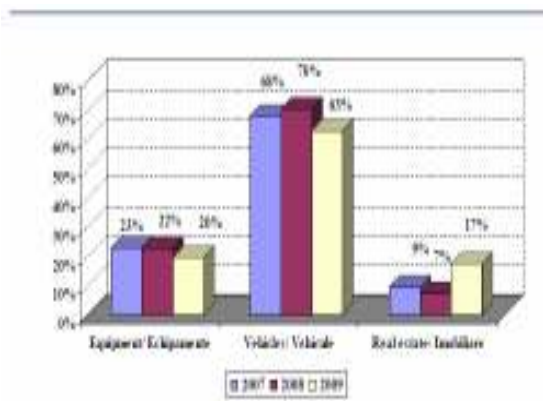
In 2008, the largest loss reported by a leasing company amounted to 50 million euros. The same company has passed last year through 20-million frauds. The large losses caused the company to stop the funding activity and to focus solely on the resale of the recovered goods. [3]

Even if for other companies the losses were slightly lower, most of the players reduced, in the first half of 2009, the financing on the car segment, even by 60%. The measure was prompted by the sharp decline in sales of cars, both for import and for domestic production. Specifically, in the first nine months of 2009, the sales were reduced by 52% as compared to the

same period of 2008, according to the data announced in October by the Association of Car Producers and Importers (APIA). [6]

Concerning the structure of the leasing market in the first six months of 2009, vehicles had a share of 63%, as compared to 70% in the same period of 2008, and the share of equipment financing fell to 20% from 22% in favour of funding the real estates, which have gained share at 17% from 7% in the first six months of 2009.

”Figure 2. Romanian Leasing Market Structure by Asset Type 2007 – 2009”



Source: Association of Financial Companies – ALB Romania

## 2. Losses for the leasing companies

Because they granted funding with 10 to 15% advance, in some cases even 0%, the leasing companies find it very difficult now to cover the loss caused by the customers who cannot pay the lease rates, by reselling the repossessed goods. These goods are now sold with an average loss of 30-40%, as estimated by the director of a leasing company. Which is the cause? It is the limited expertise that these companies have in the recovery for cars, commercial vehicles and recovered industrial equipment. The lack of such an expertise is eventually justified, since the object of activity of these companies is the financing of assets and not their trade, the dealers or suppliers being good at the latter activity.



A leasing company representative believes that companies could have recovered more of the value of the repossessed goods if there had been professional operators for the resale services, who could deal with everything that means the preparation and best use of those goods. So far the solution is that of not repeating the mistake, namely that the leasing companies will establish a higher advanced money and less specialized assets, which they may make the most of more easily, as most players in the market claim.

On the other hand, companies expect in 2010 to deal with fewer cases of late payment of the leasing rate. The National Bank of Romania (BNR) has approved, some time ago, the access of the leasing and consumer-finance companies to the Central Banking Risks (CRB). Thus, firms will be able to check on the applicants for funding if they had arrears in the past and they can report on the bad payers. Compared with the Credit Bureau, where the population's loans are reported, at CRB only the loans higher than 20,000 lei are recorded.

### 3. Solutions for the crisis

- Even since last year, the large companies have began to develop various services auxiliary to the classic leasing product, designed to provide added value to the customers. At the same time, they have restructured the internal activity, so that the applicants can obtain financing with less bureaucracy. The classical procedure is to analyze the file by the risk department and the transmission of the decision to the salesperson. Currently, the answer can be given on the spot by the sales agent after a scoring analysis. If one accepts the funding, the agreement can be downloaded from the internal program and signed on the spot, and the client can go home by car. [4]
- Another made facility available to customers by several major leasing companies is the ability to access financial information online. The customers can check the contract, they can follow the issued invoices and the progress of the payments, including those relating to car insurance. Customers can also send messages through an application

directly from their account related to various problems, these being further directed to persons authorized to handle the problem. This way, there is a time saving. The customer is no longer moved from one department to another since, from the very beginning, he is contacted by a qualified person to help him in his specific problem.

- The leasing companies should be very mindful of the costs during the crisis and not to invest now in areas with low potential for development next year. [7]
- On the other hand, companies have turned to sale&lease-back products since the product provides immediate liquidity and at the same time the costs and risks lower for companies, these being taken from the operational leasing company. The sale&lease-back option is one of the winning solutions towards which a growing number of companies in Romania will turn in the next period because of the liquidity problem they are facing.
- The financial crisis could eliminate the opportunistic companies and those that have financing problems. The major players have turned to implementing some scoring models to reduce the response time in the analysis of the applications for funding and now offer to customers the possibility to monitor the lease contract online.

### 4. The operational leasing market has growth potential

What will happen on the domestic leasing market this year exclusively depends on the economic context. Some experts believe that the operational leasing market will remain at the level of 2009. Others do not exclude a slight increase, up to 10%, provided that the economic situation does not worsen. Nevertheless, the market analysts talk about the very high potential in the next three years, of the Romanian operational leasing market, but also of the similar markets abroad. It is assumed that in the next three years, 63% of the European companies will use the operational leasing solutions.

In Romania, the operational leasing market was estimated, in the summer of 2009, to 20,000 units. Operational leasing is an outsourcing solution through which the client-company transfers all the tasks related to the fleet car management to the leasing companies.

The crisis is an opportunity for the large operational leasing companies. The impact of the financial crisis will be felt on the operational leasing market by the increase of the costs with the liquidity, especially since the main players on the Romanian market are subsidiaries of the major European and international companies.

Despite the low visibility in Romania, operational leasing is gaining ground on the local market precisely thanks to the large companies that are familiar with the benefits of outsourcing the fleets' management services. With an estimated value of 800 million euros, the local market of operational leasing has a share of less than 10% of the total auto leasing market, according to Arval company, but the increase of the costs related to the maintenance and administration of the fleet, to the fuel prices, to the taxes related to the carbon dioxide emissions will turn more and more the attention of companies towards the operational leasing. The market growth potential for the next years is estimated at over 30%.

At present, few local companies are moving towards outsourcing the financing services of vehicle use, of maintenance and administration of the auto fleet. Thus, the degree of penetration of the operational leasing on the market of the vehicles used by companies is low, of approximately 4%.

## 5. Conclusion

2010 is predicted to be as difficult as 2009, noting that the leasing companies have learned something from the new rules of economy, in terms of the global crisis.

The optimists can hope for a stable or slight market growth, based mainly on the timid attempt to solve some very old problems of the Romanian economy, with direct reference to the infrastructure, environment and even agriculture problems. And in these optimistic circumstances, the level of the leasing market in 2010 will be below the level recorded in 2005.

## 6. Bibliography

1. Achim Monica Violeta - Leasing – o afacere de succes (Leasing - a successful business), Ed. Economică, București, 2005;
2. Paula Alexandrescu – ”Cel mai optimist scenariu pentru piața de leasing – Declin de 60% în 2009” (“The most optimistic scenario for the leasing market - 60% decline in 2009”), 10 September 2009, [www.wall-street.ro](http://www.wall-street.ro);
3. Gabriela Zamora – ”Piața de leasing în continuă scădere” (“The leasing market continues to decline”), 4 December 2009, [www.reportereconomic.ro](http://www.reportereconomic.ro);
4. ”Soluții de criză pentru companiile de leasing” (“Crisis solutions for the leasing companies”), 31 December, 2008, [www.bloombiz.ro](http://www.bloombiz.ro);
5. [www.alb-leasing.ro](http://www.alb-leasing.ro)
6. [www.apia.ro](http://www.apia.ro)
7. [www.fianciarul.com](http://www.fianciarul.com)

# Strategies of Merges and Acquisitions on the Telecommunications Market

Gheorghe Meghișan  
University of Pitești  
E-mail: *gheorghemeghisan@yahoo.fr*

Georgeta-Mădălina Meghișan  
University of Craiova  
E-mail: *madalina\_meghisan@yahoo.com*

## Abstract

The acquisitions are generally associated to merges. In reality, the two operations are distinct from an economic point of view.

When Vodafone adventured for the first time overseas, its expansion methods were the acquisitions. Through these, Vodafone was a minority investor, the rest being divided between the other companies such as: the financial investors or other telecommunications companies. Such approach towards the international expansion was dominated by a desire to minimize the risk, investing in many countries. Throughout its fusion with AirTouch, Vodafone extended in new countries (not only the USA, because AirTouch owned several subsidiary companies abroad) and consolidated its position as shareholder in some international acquisitions.

**Keywords:** strategy, market, acquisition, re-branding.

**JEL classification:** L1

## 1. Introduction

A survey made on 100 multinational headmasters from North America, South America, Europe and Asia shows that more than 70% of these opted for acquisitions, because of their quality to lead to profitable growth objectives within the shortest period of time [1]. Thus, the acquisitions represent a substantial part of the total of 43.436 operations of merges and

acquisitions announced for 2007 and susceptible to correspond to some transactions valued 45.000 billion dollars. [2]

## 2. Merges and acquisitions – a Phenomenon of Actuality

„The action of merging represents the union of at least two preexisted societies throughout the absorption of one by the other or the creation of a new society that “absorbs” its creators” [3]. The absorbed society is dissolved and its patrimony is transferred to the absorbent society. It is created thus, what is called the dissolution without liquidation.

Contrary to fusions, „acquisitions are more advantageous, because they correspond to a taken of control of the new entity without no ambiguity.” [4] If the target is quoted on the stock market, the taken over can be made throughout a public offer of buying or exchanging.

Besides the alliance, an advantage of the merges and acquisitions is their reactivity and the rapidity in the new markets’ development and services’ providing, if we take into consideration the problems that may result from the different interests between the partners and the complex decision processes of alliances. Within this optics, the merges and acquisitions became a veritable strategies competing with that of alliances.

Besides these advantages, the merges and acquisitions strategies can lead to the growth of the operators’ market power. In fact, the

buyer of an enterprise assures the control [5; 6]. This signifies that the absorbing operator can react more independent and, thus, more rapidly, than if it had conceived an alliance or a co-enterprise for the same purpose.

Regarding the inconvenient of the strategy of merges and acquisitions within the telecommunications field, they can be resumed to: the risk of integration of the absorbed operators is made not as well as it was expected, the risk of voting power decreases regarding the issue of new stakes to finance the acquisitions (this is the case of the WorldCom operators that made various acquisitions), the financial risk to a more important debt reported to the intrinsic capital, but also the limits to fund collecting [7; 8].

In terms of structure and strategy of the mobile communications sector, there are evident two primary influences. The first one, is represented by the impact of fusions and acquisitions and the second one concerns the privatization impact.

### **3. The Growth through Acquisitions – the Case of Vodafone Telecommunications Company**

Before the taking over of the AirTouch from USA, Vodafone was an important company listed on the stock market of UK. Unusual, no other telecommunications operator didn't achieve an important stake in this company. Vodafone began as a subsidiary of Racal in 1984, with a similar license dating from 1982 and, at that time, it was the only competitor from this sector for Telecommunications (BT).

The parent company (Racal) knew all about technology, but it didn't know how to sell its products. Once Vodafone generated success on the mobile telephony market, a public offer became feasible and wanted as a way to generate liquidities for Racal. An internal public offer of 20% of the capital took place at the end of the years 1980 and freed Vodafone from the restrictions imposed by the parent company. The enterprise, renamed Vodafone Group, freed itself from Racal in September 1991.

The first digital mobile operator of the UK market, with a license dating from 1991, Vodafone became and remained leader on the market, eventhough it had to confront competition from the part of other three digital networks – Cellnet (60% owned by BT and with

a license from July 1994), Orange (with a license from April 1994) and One-2-One (with a license from September 1993). BT acquired the minority stake of Cellnet and Securicor in October 1999. The majority shareholder of Orange was Hutchison Whampoa, with headquarter in Hong Kong. One-2-One was owned by Mediaone from USA and Cable & Wireless from U.K. It was sold in March 1999 and bought by Deutsche Telekom.

Vodafone was the company with the most thought of internationalization from the four operators present on the UK market. At the end of 1998, it showed interest in Europe, some of the companies being fully acquisitioned, other being partially bought so as to obtain licenses. In other parts of the world, it had stakes in, for instance, Australia, Fiji, Malta and South Africa. However, it was not present on two markets outside Europe: USA and Japan.

Taking into consideration its international strategy, Vodafone could take advantage of its unusual situation. Its critical point was that Vodafone would also expand itself so as to gain a coherent network worldwide and gain economies of scale or it could wait to be taken over by other American or European operators. Not surprisingly, it preferred the first option and was capable to fulfill this, because of the rapid growth of its stakes on the market

### **4. Re-branding**

The users of mobile telephony services in developed markets would change the brands without no concern that the new service is more different than the current one. It is still unclear if the mobile telecommunications market can develop a powerful loyalty towards the brand, but the providers prefer to believe in this possibility. This is the reason why, on the 28<sup>th</sup> of July 2000, the company announced that Vodafone AirTouch would become Vodafone Group and would be treated, whenever possible, as simply, Vodafone.

A disadvantage of Vodafone towards Orange is the fact that the latter already had a set of brand values and an image that helped it to register a rapid growth regarding the users' number. It is not surprisingly the fact

that France Télécom was moving faster to make Orange become its universal mobile telecommunications brand. As a comparison, we could say that the Vodafone brand lacks a personality. Collecting various brands on different markets, Vodafone needed a powerful global brand image.

The wish was that the Vodafone brand becomes universal, but the initial step was the mix with an existing brand – for instance, D2 brand of the ex-Mannesmann in Germany would become D2 Vodafone; in Italy it took the name of Omnitel Vodafone and in Portugal of Vodafone Telecel. A similar re-branding took place in Greece, Holland, Spain and Sweden, with the exception of Belgium and France, because Vodafone didn't own the majority package of stakes within the relevant operator. Vodafone remained under its own name in Malta and Hungary, but it could not take a re-branding politics in Poland and Romania, for the same reason.

**Table 1. Vodafone Group's operations in Western Europe, 30th June 2003**

Country	Operator	Holding (%)	Subscribers (thousands) <sup>1</sup>	Prepaid (%)
Austria	A <sup>2</sup>	-	-	-
Belgium	Proximus	25,0	1 047	-
Denmark	A	-	-	-
France	SFR	43,9	6 012	-
Germany	Vodafone	100,0	23 261	53
Greece	Vodafone	74,8	2 724	71
Ireland	Vodafone	100,0	1 765	71
Italy	Vodafone	76,8	15 044	92
Holland	Vodafone	99,8	3 312	58
Portugal	Vodafone	100,0	3 129	73
Spain	Vodafone	100,0	9 184	57
Sweden	Vodafone	99,1	1 331	30
Swiss	Mobile Com	25,0	895	-
U.K.	Vodafone	100,0	13 313	59

*Source: Compilation from Vodafone Annual Report and Account for 2002 and 2003 and [www.vodafone.com](http://www.vodafone.com) [9; 10]*

<sup>1</sup>The subscribers represent the Vodafone's proportion, based upon the percentage within the holding, on the total percentage of network's subscribers.

<sup>2</sup>A – Vodafone signed a partnership accord with Mobilkom Austria in Austria; TDC Mobile in Denmark; Radiolinja in Finland and O2 in Sweden, where the Vodafone's roaming services are marked by the associated names. The company has also agreements with Swisscom to cover Liechtenstein. These agreements cover the cooperation regarding the roaming services and also, the development, marketing and management of the associated products.

## 5. Vodafone worldwide

Vodafone owns stakes also outside Western Europe, two of them are the most important, judging after the corresponding subscribers' number.

First of them is Verizon Wireless from USA. In April 2001, Vodafone paid 973 million dollars cash for 34,5% of stakes from the second operator from Mexico, Grupo Iusacell in which Verizon Communications already owned 37,5% from stakes.

The second one is in Japan. At the beginning of December 2000, Japan Telecom, one of the most important rivals of the MTT Company, was partially owned by AT&T and BT throughout a holding, in which, the former owned 10% of the stakes. In exchange, Japan Telecom owned 54% from the J-Phone Communications' stakes (JPC), a holding that, with 9 million subscribers was the main rival of NTT DoCoMo Company – both received free licenses from the Government, and a third license was allocated to KDDI Company. Vodafone owned 20% from BT Company's shares. In exchange, J-Phone Communications was controlling the three companies: J-Phone East (JPE), J-Phone West (JPW) and J-Phone Tokai (JPT). Japan Telecom was operating also the J-Sky service, which was providing Internet access for 4 million subscribers. This complicated situation led to the thought that BT and Vodafone would fight for what it was supposed to mean JPC, a real treasure. In December, Vodafone bought 15% from Japan Telecom's shares from two of its railway companies for the amount of 2,2 billion dollars cash. However, in December, as a response to a planned take over of 16% from the AT&T Wireless' stakes from DoCoMo, AT&T offered to sell the stake in Japan Telecom. In February 2001, Vodafone offered to buy the stake for the amount of 1.35 billion dollars cash. As a result, Vodafone had also direct and indirect stakes of 39% in JPC Company. In May 2001, BT agreed to sell the stakes owned in Japan Telecom for 5.3 billion dollars. Vodafone owned 45% direct stakes in Japan Telecom, 45% direct stakes in J-Phone and minority packages in the three subsidiary companies of J-Phone. It had also inherited from BT the

possibility to buy another 5% from the stakes of J-Phone's subsidiaries.

Vodafone arranged that the J-Phone's subsidiaries merge under the name of J-Phone Co in November. As a result, Vodafone ended up with 39,67% from J-Phone's stakes, while Japan Telecom owned 45,1%, but the stake owned by Vodafone in Japan Telecom meant the fact that its economic interests in J-Phone were about to 60%. In October, they reached 69,7%, when Vodafone bought from East Japan Railway Co 8% from the stakes of Japan Telecom in cash, as part of a tender offer to buy a total of 21,7% for 2,6 billion dollars and thus it gained the control upon Japan Telecom with 66,7% from the stakes.

The acquisition of a key company in China, the greatest growing market from the world, it wouldn't so simple, but the situation was made easier by IPO, part of China Mobile (Hong Kong). In October 2000, Vodafone signed an agreement to buy 2,18% from China Mobile's stakes (HK) for 2,5 billion dollars cash. In May 2002, it acquired up to 3,27% by subscription of new stakes worth 750 million dollars. [11]

At 24<sup>th</sup> August 2001, Vodafone completely stand off from the South Korea market, probably the most advanced market regarding the mobile telecommunications development, selling 11,68% of its stakes in Shinsegi Telecom to SK Telecom for an estimated amount of 150 billion dollars.

## 6. Conclusion

The case study raises a number of points helping us to understand how the value of Vodafone Company decreased. The Vodafone's strategy of extension throughout acquisition is a result of the time circumstances. During its mandate as CEO, Chris Gent saw how the Vodafone market raised, and if he spent almost 200 billion dollars, few were cash. The investment in Vodafone was seen as a better business than the investment in companies that Vodafone owned.

Vodafone's strategy had some deficiencies from some points of view. For instance, mobile telephony penetration can not exponentially rise, even though the saturation is not achieved till there are not achieved greater levels of penetration as it was thought that it happened several years ago; the achievement of new networks would not lead to an unending growth

of the Vodafone's turnover. It is obvious that Vodafone was not aware of this strange characteristic of mobile telephony, and this led to the 3G movement and the acknowledgement that the mobile data will continue there, where the mobile voice can not reach. The recent technological problems that stumbled the introduction of GPRS and 3G technology don't have much to do with operators or the equipment providers.

Surprisingly, Vodafone continues to trust its projects, having a business model that remained unchanged over the time. Due to the rise of the demand for voice services or SMS, Vodafone can be right to continue, no matter what the analysts' opinion would be.

The critics show a rise of the competition, with the tendency of the decreasing of the average income per user and a rise of the acquiring costs for the subscribers and the regulation will stand against the excessive roaming costs and fixed-mobile calls.

Vodafone rose especially throughout two acquisitions – that of the AirTouch in USA and Mannesmann in Germany.

The ability of Vodafone to coordinate these international businesses in its favor was restricted by the presence of other shareholders. Its international businesses were signed in the favor of all the shareholders and not only in favor of Vodafone Company. If all the shareholders' interests were the same, this would have facilitated the effective business management, but taking into consideration the fact that some shareholders tried to impose different strategic imperatives - it is the case, for instance of SFR France, having a local company, while the others were foreign – that's why, there were inevitably agreements and disagreements.

At the same time with the acquisitions, Vodafone started a rebranding politics for its international businesses. The rebranding politics represents a clear demonstration of the control that Vodafone was capable to exercise upon its different international businesses. Vodafone was capable to exercise such a control because it was a powerful shareholder in general, owning the majority stakes.

## 7. References

- [1] Dialogic, November 2006  
[2] Thomson Financial, 2007  
[3] M. Olivier, G. Schier, "Fusions-acquisitions" Ed. Dunod, Paris, 2009, pp. 145  
[4] M. Gouali, "Fusions-acquisitions", Paris, 2009, pp. 76  
[5] A. Bouyad, P.-Y., Legris, "Les Alliances stratégiques – Maitriser les facteurs clés de success", Ed. Dunod, Paris, 1997;  
[6] M. Warwick, "The merger mania gripping the telecoms markets has moved into overdrive and is spiraling out of control", Academy of Management Journal, no 30, pp. 589-596, 1997  
[7] T. Azzabi, "Alliances mondiales et télécommunications mondiales – Le défi relevé?", Communications et Informatique, no 69, April 1997, pp. 27-30  
[8] A. Bouyad, P.-Y., Legris, "Les Alliances stratégiques – Maitriser les facteurs clés de success", Ed. Dunod, Paris, 1997  
[9] Vodafone Annual Report and Account for 2002 and 2003  
[10] [www.vodafone.com](http://www.vodafone.com)  
[11] Annual report and Accounts for 31.03.2002, p. 8

## Project Management Techniques

Mihalache Anita

*Universitatea George Barițiu, Brașov*  
*anita.mihalache@gmail.com*

Sălăgean Liana

*Universitatea George Barițiu, Brașov*  
*lianaugb@yahoo.com*

### Abstract

Project management is a technique that can aid in the planning, scheduling, and monitoring of complex projects characterized by numerous, non repetitive jobs called activities. Examples of projects that would use project management include:

- developing a mass rapid – transit system for a metropolitan area;
- organizing the relocation of a corporate headquarters;
- planning the production of a concert, film, or play;
- developing and marketing a new automobile;
- constructing a high – rise office building.

Without thoughtful planning, projects like these are likely to be loaded with unanticipated, missed deadlines, poorly allocated resources, and a guaranteed budget. In short, any significantly complex project will almost assuredly cost more and take longer to complete than would have been the case had project management been used.

**Key words:** project management, techniques, methods, planning, control, evaluation

**JEL classification:** M10, O22

### 1. Introduction

Analysts using project management can discover critical information essential to effective project planning and control. In particular, they can determine, in advance:

1. The individual activities constituting the project;

2. The interrelationship among these activities with respect to their chronological sequencing; that is, which activities must be arranged in series (one after the other) and which can be run in parallel (simultaneously);

3. Educated estimates of the time and monies required for the normal completion of each activity;

4. The time needed to complete the entire project;

5. The activities that are the most likely to extend the project completion date (critical – path activities);

6. The earliest dates that the different activities can be started and finished without changing the project completion date;

7. The latest dates that the different activities can be started and finished without changing the project completion date;

8. The amount of time that individual activities can be delayed without causing the project to be delayed.

The importance of project management to business is wonderfully illustrated by the Microsoft Corporation begins their ad for the microcomputer software package.

Producing a brochure. Introducing a new product. Moving your entire company across town. Every project has a start date, a completion date, and a date beyond which you absolutely, positively, cannot go. The drop dead date. Blow that date and you've got positively, absolutely no excuses.

Microsoft Project tells you which activities are essential to keeping your schedule. And which you can let slide. Give it your best to worst “what – if” scenarios. It tells you what must be accomplished. By whom. By when. At what cost.



## 2. Traditional Project Management Methods: P.E.R.T. and C.P.M.

The most commonly used methods in project management are the program evaluation and review technique (P.E.R.T.) and the critical – path method (C.P.M.). Although developed independently during the 1950s, these two methods are essentially only two distinctions usually made. The first difference is the way activity durations are estimated. In C.P.M., only a single time value is used. For P.E.R.T., a three – valued distribution is used to generate a weighted average time. Therefore, C.P.M. can be viewed as a deterministic method, whereas P.E.R.T. is a stochastic model. The second distinction is that, whereas PERT focuses exclusively on the planning and management of time, C.P.M. extends its focus to include time – cost tradeoffs. Therefore, the ultimate decision regarding which of these two methods to employ will rest largely on two criteria:

1. The complexity of the project and the variability of project activity durations;
2. The budget for the project.

Nevertheless, for our purposes, we will not discriminate between two methods. Both will be explored later in considerable detail.

## 3. Project Management Structure and Limitations

There are two basic rules that we must follow in laying out a project network:

1. Each activity is represented by a single arrow or arc.
2. No two activities can begin and end on the same two event nodes.

Rule 1 is essential in order to provide a unique identity for each activity. The need for rule 2 is a little more subtle and for this reason will be discussed in detail later, when concept of the dummy activity variable is examined. Let it be sufficient to say for now that, without rule 2, spurious constraining relationships would be in would make the analysis of the network impossible.

Before begin to plan any project, information regarding the basic elements of a network must be generated and organized. In particular, you will have to, at the bare minimum:

1. Identify each activity (task or job) necessary to complete the project identification number;
2. Estimate how long it will take to complete each activity;

3. Identify the predecessor activities for each subsequent activity in the project;

There are also several limiting features of P.E.R.T. – C.P.M. models. These include[1]:

1. All activities must be completed before the project can be completed: that is, no task can be partially finished or overlooked;
2. All activities must be completed in chronological order; that is, no later event can occur before all prior events have been completed;
3. No activities can be repeated; that is, no looping can occur;
4. For stochastic activities (P.E.R.T.), the distribution is limited to the beta – type;
5. The project must end with one and only one terminal event;
6. The critical path consists of the activities, from beginning to end event, with the longest cumulative time duration. (In the case of P.E.R.T., the duration is the mean time lapse).

## 4. The Critical Path Method (C.P.M.)

So far, we have been spending most of our time on understanding the language and schematic representation of a complex project schedule through the use of a network. We know how to identify the individual activities constituting a project, to make estimates of how long each will take, to establish the dependent or independent relationship between each (serial or parallel configuration), and to diagram it chronologically. But this understanding does not provide us with information that any manager obviously must know, such as how much time the total project will take. Since completion can occur only after each individual activity is completed, the total time for the project will be equal to the most time – consuming path through the network. This route is called the critical path. To determine this essential piece of information we will have to calculate five key time criteria [2]:

1. Earliest start time for the  $i^{\text{th}}$  activity,  $ES_i$ ;
2. Earliest finish time for the  $i^{\text{th}}$  activity,  $EF_i$ ;

3. Latest start time for the  $i^{\text{th}}$  activity,  $LS_i$ ;
4. Latest finish time for the  $i^{\text{th}}$  activity,  $LF_i$ ;
5. Slack time for the  $i^{\text{th}}$  activity,  $S_i$ .

The earliest start and finish times are, literally, the earliest time that any activity can begin or end, respectively, taking into consideration the time constraints established by precedent activities in the network. The latest start and finish times reflect the latest that an activity can begin or end, respectively, without extending the total time needed to complete the entire project. The slack time reflects the amount of time that any activity can be delayed without extending the project completion time; we find it by measuring the difference between the early and late start ( $LS_i - ES_i$ ) or the early finishing and late finishing times ( $LF_i - EF_i$ ) of the activity of interest. If an activity has zero slack, it cannot be delayed without the entire project being delayed. This means that the path through the project of activities that have zero slack time will be the longest path, and these activities are, therefore, the critical – path elements.

### 5. Project Cost – Time Tradeoffs: Cost Crashing

Sometimes, even painstakingly careful project planning will not ensure completing the project on time or staying within budget limits. When this occurs, managers have a choice: (1) do nothing and incur any contractual late penalties that may result from an overdue project, or (2) bring in more resources to shorten the critical – path activities (and the corresponding total project duration) so that the due date is met. The selection of a specific strategy depends on the magnitude of the late costs and the non economic costs resulting from client ill – will when there is a project deadline overrun versus the added costs involved in bringing in extra resources needed to keep the project on time. The method used to make this delicate assessment is called cost crashing. It is usually possible to decrease the time needed to complete an activity by concentrating greater resources on that activity. This frequently means allocating more skilled people (or the same people, working overtime), additional equipment, or more money, or some combination of these [3].

A step – by – step process illustrating the application of the cost – crashing technique follows.

Step 1. Construct a summary table consisting of the following column headings: (1) activity; (2) expected activity completion times for (a) normal and (b) crash conditions; (3) activity costs for (a) normal and (b) crash conditions; (4) change in activity cost (usually an increase); (5) change in activity completion time (usually a decrease); and incremental cost per unit time.

Step 2. Identify only the critical – path activities that can be “crashed” (non critical activities can be ignored, because crashing activities with slack will not decrease the earliest completion time for the project).

Step 3. For those activities identified in step 2, construct a summary table identical in format to the one designed in step 1.

Step 4. From the table developed in step 3, select the activity with the smallest incremental cost – per – unit – time quotient (column 6). Use the crash – time value for this activity to replace the normal value used in the original network, and recalculate the new critical path for the project. If, however, this time increment is greater than one unit, it is often circumspect to crash by single – time – unit increments to avoid making larger than necessary time reductions. You will soon see how multiple – time – unit reductions can sometimes shift the critical path midstream, and cause superfluous expenditures on activities no longer critical. If there are two or more activities with the same incremental cost per unit time, make separate critical – path calculations for each, and select the activity that results in the lowest project completion time.

Step 5. From step 4, calculate the sum of time along all network paths. The path with the longest total time is the new critical path (there may be no change from the original network).

Step 6. Repeat steps 2 through 5 until all critical activities are crashed. Display the relationship between project costs and completion time for this network.

## 6. Stochastic Project Management: Project Evaluation and Review Technique (P.E.R.T.)

When we can make time estimates with a high level of confidence – such as with projects that are repetitive and with which we have considerable experience – a single time value may be sufficient. But what happens if the project does not have these characteristics? What does manager do when faced with a complex, non repetitive project for which there is no previous experience? Our time estimates, in this setting, would be guesses, and the use of a single time value possibly would be naïve. It is precisely in these more ambiguous situations that P.E.R.T. is most useful.

The P.E.R.T. approach uses three time estimates to gauge the probability of completion of each of “n” activities along a specific path: (1) most optimistic, a; (2) most pessimistic, b; (3) most likely, m. These three time estimates from a continuous, bounded, and usually skewed probability distribution called the beta distribution.[4].

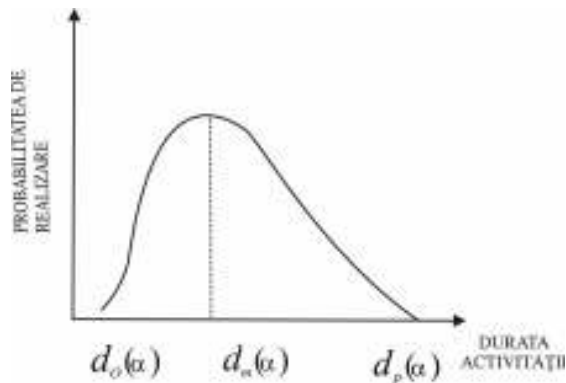


Figure 1 – The Beta Distribution

This distribution, although not mathematically proven to be the most suitable for P.E.R.T., has been represented the expected completion time for the  $i^{\text{th}}$  activity and is given by the following relationship:

$$t_i = \frac{a_i + 4m_i + b_i}{6}$$

The mean duration along the entire critical path,  $t^*$ , is equal to the sum of the individual expected completion times for the activities constituting the critical path:

$$t^* = \sum_{i=1}^n \left( \frac{a_i + 4m_i + b_i}{6} \right) = t_1 + t_2 + \dots + t_n = \left( \frac{a_1 + 4m_1 + b_1}{6} \right) + \left( \frac{a_2 + 4m_2 + b_2}{6} \right) + \dots + \left( \frac{a_n + 4m_n + b_n}{6} \right)$$

where:

n – number of critical path activities.

The beta distribution standard deviation

for the  $i^{\text{th}}$  activity  $S_i$ , is:

$$S_i = \sqrt{\left( \frac{b_i - a_i}{6} \right)^2}$$

The standard deviation for the expected project completion time  $s^*$ , is approximated by:

$$s^* = \sqrt{\sum_{i=1}^n \left( \frac{b_i - a_i}{6} \right)^2} = \sqrt{\left( \frac{b_1 - a_1}{6} \right)^2 + \left( \frac{b_2 - a_2}{6} \right)^2 + \dots + \left( \frac{b_n - a_n}{6} \right)^2}$$

Once the critical path is determined, it is possible to determine the probability of completing the expected critical path within a given duration of time by using the standard normal distribution. This makes it possible to determine the probability of completing the project, along any path of interest, within a given period by using the mean and standard deviation along that path and the properties of the standard normal distribution [5]. It is important to keep in mind, however, that, in actuality, the set of activities that eventually forms the realized critical path may be different from this statistical estimate.

## 7. Conclusions

Almost any organization can extemporaneously plan, schedule, and monitor a complex project – even though that project may comprise numerous tasks for which little or no experience has been accumulated – so long as budget overruns are of no concern. If the budget is of concern, however, it is important to use project management techniques to streamline this difficult process. The two most popular tools of project management – the critical path method (C.P.M.) and the program review technique (P.E.R.T.) – are, essentially, identical in concept.

## 8. References

- [1], [2], [3] Sălăgean L. – *Administrarea întreprinderii de comerț, turism și servicii*, Editura Omnia Uni S.A.S.T., Brașov, 2010, pag.140;
- [4] Zaharia M., Sălăgean L., Staicu D.F. – *Metode cantitative în fundamentarea deciziei*, Editura Ecran Magazin, Brașov, 2002, pag. 209;
- [5] Sălăgean L. – *Modelarea deciziei de gestiune*, Editura Omnia Uni S.A.S.T., Brașov, 2006, pag. 124.

# The Importance of Quality Information In Continuing Education Throughout Life

Mitu Cristina-Dana  
Ovidius University  
Modern languages department  
Univesitatii Street, Constanta  
Romania  
mitu.cristina\_dana@yahoo.com

## Abstract

In this paper we present important aspects of quality information in the continuing education and training or professional reconversion in today's economic and social environment affected by global economic crisis. Here we have integrated current results on the characteristics of the activity of institutions with responsibilities in continuing training which we have filtered through personal experience in the area of education.

**Key words:** information, quality, continuing education, economic and social environment

**JEL classification:** M19

## 1. Introduction

Approaching economic development issues we always consider the local, regional, national aspect of it. Characteristics exist for each level regarding the nature of information, its quality, its present interest and usefulness in the field of study and of the decision act that we prepare. For a better response to existing conditions in the economic, social or political environment we have to refer to standardized information existing at that time.

Using standard indicators, according to EU methodology was particularly necessary for Romania. This not only involves a transfer or automatic translation of EU indicators, but an experimental effort, change and training.

This involved an action in two directions:

- identification system of indicators used in EU countries and their comparability analysis of existing indicators in the national system

- harmonization of evaluation indicators in accordance with EU methodology

For this purpose has been made a National System of Education Ratios. For example, this is a tool for all those involved in the design, implementation and evaluation of educational policies. It is compatible with international systems of indicators, mainly the European Statistical System built by Eurostat (Statistical Office of European Communities), in which Romania participates through the National Statistics Institute.

## 2. Useful indicators

Indicators are numeric expressions which are characterized by social and economic phenomena (such as structure, growth, etc.). Indicators are built on quantitative data or qualitative information. This information is based on statistical data, but also on qualitative information, such as those referring to attitudes, features or behaviors.

The use of indicators is favored by these circumstances:

- need for public liability, based on specific criteria for measuring progress;
- need for comparability, using common references in the context of globalization and regional integration;
- interest in decentralization and quality assurance, which has as a consequence the use of precise criteria for assessing and reference to common indicators;
- education approach in an integrated vision, which considers education with vocational training and social cohesion;
- including lifelong learning as a basic principle of educational policy.

Indicators are not significant in itself, detached from context and used as mere

statistical benchmarks. Definition and use of indicators is only part of a cycle that includes these sequences: primary data collection; construction of the indicators; indicators reporting on various criteria analysis; evaluation of educational policies in relation to such criteria; decision taking.

There are some important functions of the indicators, among which we mention: distance measurement against objectives; identification of problematic situations or of those unacceptable; argument concerns and options underlying educational policies.

### **3. The importance of professional training in human resources development**

“Competitiveness of an economy depends on the wisdom of its decisions, the ability to make decisions necessary to reform and skills to follow the tasks they involve this kind of investment”. With a remarkable premonition, author Edgar Faure stressed that the international competitiveness next 20 years will depend largely on investment in youth and lifelong vocational training.

Under the current circumstances of globalization of economies, of the new knowledge society, education and training throughout life become a vector of sustainable economic development of the global balance, of creating a zone of concentration of economic and social performance with a set of economic values, cultural, ethical and appropriate human models of various cultural patterns, of the need to preserve national identity.

The skills acquired through training, workplace training, training courses, distance learning either formal public and private institutions, or in non-formal and informal, all have positive effects on economic and social development of society, and the human personality.

Effective training system depends on several factors:

- Balance between the different sources of financing (domestic and foreign sources, public and private sources, funds coming from some international financial bodies like the World Bank, IBRD, EU;
- Increased demands in terms of continuous training;

- Accelerated speed of change, improvement and perfection of human capital stock;

- Emphasized processes of demographic aging assets. Changes in coming decades will be significant and particularly in countries with rapid aging population. This causes pressure on opening the range of free movement of labor on a reformat and large labor market.

Advantages of investment in human resource in modern society we look at it as a great opportunity for individual, family, enterprise and society; the assess of the education's effect and training can be explained by its two coordinates:

- Quantitative aspect of education and training gained in years of study on different levels of training (measured by education or stock in the form of indicators that reflect the level achieved in the implementation of educational policies and strategies);

- Qualitative aspect (measured by internationally comparable scores).

The improvement of the education and training act is very closely interlinked with the value and quality of the information used. To do this, we consider all sources of information with local, regional, national or international nature to exploit existing experience in this area.

It is necessary to use a partner the civil society by non-governmental organizations with activities in our study where from the institutional point of view the information is not complete or relevant. Mostly, the effects of such activities are centralized in the county, regional or national statistics.

Research activities in the field of statistics shall be undertaken to ensure collection, processing, analysis, dissemination and official statistical data sets up the necessary evaluation of education policies, informing public opinion development of scientific surveys, forecasts and development strategies, transmission of statistics to international bodies and for other internal and external users. The main objective in statistical research in Romania is to build systems of indicators harmonized indicators at European level and internationally through the use of research methods to ensure comparability of data on European and international level. Harmonization of statistical system in Romania with the

European statistical system is achieved by putting together the concepts, definitions and classifications used in statistical research methods of data collection and application of common law rules for data transmission to European and international official bodies.

Research methods used in all fields of statistics can be exhaustive statistical research methods (censuses, statistical reports) and statistical survey methods (sample surveys). These methods are the statistical data which, together with administrative data sources, provides the necessary statistical information for constructing indicator systems in all fields of statistics.

#### **4. Statistical research methods used in continuing training and education**

To ensure data and information required all users of statistical data, National Institute of Statistics draws up annual programs of national statistical research on development regions, counties and other regional structures. Statistical research in education is achieved annual or other periodicity depending on information needs, the nature of indicators and possibilities for organizing and conducting; periodicities are correlated as much as possible with European and international statistical practice. Official statistical services are authorized to request and obtain free information and statistical information from natural or legal person whatever the form of ownership of the institutions of central or local public administration, NGOs and other organizations. The research of social phenomena and processes is performed by these types of statistical research: exhaustive statistical research, statistical sample surveys (other surveys).

For expanding the volume of data required and reducing the application of statistical subjects, National Institute of Statistics has access to financial data that Finance Ministry holds regarding public institutions with the principle of confidentiality of data and statistical information.

These data sources are part of the administrative sources, representing collections of data at the aggregate level of public institutions for training needs. Administrative sources are used mainly to complete the statistical information system with additional data, to verify the estimates

obtained based on statistical sample surveys (sample survey).

In general, administrative data are recorded in tabular form and disseminated directly to National Institute of Statistics.

The advantages lie in the following:

- Supply is made without charge by administrative agencies responsible for their collection;
- There is no additional charge response of individuals or units to which they relate;
- Modern technology allows National Institute of Statistics to quickly access and process large sets of administrative data.

The disadvantages lie in the following:

- Data are collected for administrative purposes rather than for statistical purposes;
- Potential users of administrative data statistics are not considered unimportant when the administrative program is organized so that the National Institute of Statistics has limited control or no control over coverage, content, accuracy or timing.

Currently, the demand for data is growing, there are serious budget constraints and concerns regarding response rates and the burden is on the rise, so the use of data represents an attractive alternative and / or complementary to direct data collection. National Institute of Statistics' policy is to use administrative data when it presents an alternative that involves lower costs or supplement to direct data collection.

The use of an administrative data sources should follow a process of assessment data regarding coverage, content, concepts and definitions, frequency, punctuality, quality assurance procedures, as well as the establish of administrative program in time and the costs involved in obtaining and processing data. Using administrative data may give rise to privacy concerns and, usually, they are carefully controlled. Also, combining data from an administrative source with those from another source is not easy in the absence of a common identification system covering both sources. Necessary in such cases are interconnections of registers. When using data from administrative sources, the first explores:

- Administrative context in which the organization has created the administrative program (eg. legislation, objectives, needs, coverage, content concepts, definitions, frequency, punctuality, quality and setting time);

- There may be administrative data and surveys as non-responses or partial responses;

- Continuous and periodic assessment of quality of data received from administrative sources, especially because the National Institute of Statistics does not control the data collection process.

Statistical sources are the research methods used in education statistics and can be *specialized* or *unspecialized*.

Unspecialized statistical data used in statistical education are:

- Demographic statistics (data are obtained based on birth certificates, death certificates, marriage certificates or from registers of civil status offices);

- Censuses;

- Surveys that include modules or specific questions specific to education, on education level of population (Adult Education Survey).

Quality of statistical data sources provided by non-specialized statistical sources do not reach the quality of data supplied by other data sources in education, but their advantage is that they can make correlations between education and other indicators of socio-economic field (economic activity, employment status, occupation, income), correlations that may explain better the education level of respondents. This investigation, as well as many others, are performed by the National Institute of

Statistics and have become an important tool in evaluating important tool in evaluating the quality of life in general and the level of education, especially.

Specialized statistical sources are classified into two categories:

- Statistical sample data sources (investigation of education through the interview);

- Comprehensive specialized statistical data (statistical reports).

One of the specialized statistical research that provides a wide range of information about the population's education level is Adult Education Survey (AES).

## 5. Bibliography

- [1] E. Biji, P. Wagner, "Theoretical and economical statistic", Economical Publishing, 1996;
- [2] James Canton, "Extreme future", Polirom Publishing, 2010;
- [3] B. Miege, "Questionner la societe de l'information", Hermes Science Publications, 2000;
- [4] B. J. Pine, J. H. Gilmore, "The Experience Economy", ed. Public Publishing, 2010;
- [5] [www.anfom.ro](http://www.anfom.ro)
- [6] [www.edu.ro](http://www.edu.ro)
- [7] [www.insse.ro](http://www.insse.ro)



## Tendencies for development in Tourist Air Transport Services in Romania in order to meet modern customers' demands

Andreea Moraru

*Ovidius University of Constanta, Faculty of Economic Sciences*

[amoraru@univ-ovidius.ro](mailto:amoraru@univ-ovidius.ro)

Mariana Juganaru

*Ovidius University of Constanta, Faculty of Economic Sciences*

[mjuganaru@univ-ovidius.ro](mailto:mjuganaru@univ-ovidius.ro)

### Abstract

At the moment, tourist transport is a complex phenomenon, and choosing one or another of the transport forms is subject to the influence of a series of factors regarding consumer behavior. Among different forms of transportation air transport has distinct and obvious advantages – short duration of transport for long distances, relative safety, comfort and prestige, high quality services on board and at terminal level, incentives, and accessibility to relatively isolated areas. As disadvantages one may mention the high costs, the mandatory early arrival at airport, at least two hours in advance, the necessity to travel to airports which are usually outside cities, its dependence on meteorological conditions and threat of terrorism. At world level it accounts for 47% of international traffic, while at European Union level it represents 25%. As far as Romania is concerned air transport accounts for only 17-19%, below the European average both for foreign tourists arrival in Romania and for Romanian tourists travels abroad, but a growth tendency during the past few years is obvious.

**Keywords:** travel, air transport services, tourism, competition, progress.

**JEL classification:** L89

### 1. Introduction

At the moment, tourist transport is a complex phenomenon, and choosing one or another of the transport forms is subject to the influence of a series of factors regarding consumer behavior. To general variables that concern the characteristics of the journey – distance, duration of transport and holiday, comfort, accessibility, safety, price others may be added – the arrival and departure schedule, possible bonuses, facilities concerning infrastructure, status, prestige, possibility to savor the trip, and even to turn it into an attraction per se, destination and origin geographic position.

These variables lead to strong competition among different forms of transport. But, at the same time, due to the unprecedented development of tourism, the experience modern tourists have, their needs and desires in permanent transformation, a tendency to associate two or more modes of transport in the same tourism package is present.

Bearing in mind these variables one may accomplish a competitive analysis of the transport modes both at world level and particularly for Romania.

Among different forms of transportation air transport has distinct and obvious advantages – short duration of transport for long distances, relative safety, comfort and prestige, high quality services on board and at terminal level, incentives, and accessibility to relatively isolated areas.

As disadvantages one may mention the high costs, the mandatory early arrival at airport, at least two hours in advance, the necessity to travel to airports which are usually outside cities, its dependence on

meteorological conditions and threat of terrorism.

At world level it accounts for 47% of international traffic, while at European Union level it represents 25%.

As far as Romania is concerned air transport accounts for only 17-19%, below the European average both for foreign tourists arrival in Romania and for Romanian tourists travels abroad. This situation may be explained by several hypotheses – high costs; an important part of tourism traffic is done with neighboring countries road transport being preferred in this case, and the preponderant use of only one major international airport, in Bucharest.

But an ascendant tendency during the past few years is obvious (table 1).

**Table 1 Foreign visitors arrivals in Romania (thousands and %)**

Foreign visitors arrivals		
	Total	Air
2004	6600	<b>705</b>
%	100	<b>10.68</b>
2005	5839	<b>919</b>
%	100	<b>15.73</b>
2006	6037	<b>1122</b>
%	100	<b>18.58</b>
2007	7722	<b>1460</b>
%	100	<b>18.90</b>
2008	8862	<b>1462</b>
%	100	<b>16.49</b>
Romanian visitors travels abroad		
2004	6972	<b>687</b>
%	100	<b>9.85</b>
2005	7140	<b>881</b>
%	100	<b>12.33</b>
2006	8906	<b>1225</b>
%	100	<b>17.70</b>
2007	10980	<b>1944</b>
%	100	<b>17.70</b>
2008	13072	<b>2404</b>
%	100	<b>18.39</b>

Source: Statistic Bulletin  
2008, p. 831 and [www.insse.ro](http://www.insse.ro)

## 2. Development and perspectives

Air transport services have known the most dynamic evolution compared to other transport forms used in tourism, ranking first at world level.

It is preferred for long distance travel (between 1000 and 4000 km) and used almost exclusively for distances above 4000 km. It is also preferred or even used exclusively in geographically isolated areas.

The development of air transport is closely linked to the evolution of tourism as a phenomenon and it has lead to the discovery and development of new destinations and the unprecedented dimension of tourism industry.

The technological progress, the innovations in air industry, and the development of specific infrastructure have lead to a rapid development of air transport, placing it on top of tourists' preferences. The growing demand for air transport services has made possible the decrease of tariffs and offered premises for stimulation of regular flights growth.

The deregulation of air transport has lead to competitiveness growth in air transport companies and allowed relatively low tariffs, together with new routes introduction. The related infrastructure also developed at high rate in order to respond to a growing demand for air transport.

Although air transport has obvious advantages - rapidity, comfort, safety, there is also a series of disadvantages that influence the development of the sector: its dependence on natural conditions, relatively high costs, fixed schedule, and terrorism.

The air transport services usually make up three categories:

- Regular services
- Charters
- Air taxi. [2]

In Romania the situation of air transport does not follow the international rule, only below 20% of foreigners visiting Romania use air transport and even less Romanians that travel abroad use it. But the statistic data show a growth tendency both for arrivals and especially for departures, registering a growth of 250% in 2008 compared to 2004.

At internal level, air transport connects Bucharest to major urban centers in the country, but for domestic tourism purposes the other forms of transport are preferred.

The growing competition in air transport market has determined the companies to adopt consumer orientated strategies, meant to raise the quality of services. Air companies in order to maximize profits diversified the service classes: from those with the highest level of quality First Class and Business Class to those with few provided services, Economy, Budget, Tourist.

During the past years consumers have become price sensitive, looking for minimum services.

Airlines were therefore forced to reduce operating costs in order to survive competition and at the same time to manage consumer needs by increased complexity and awareness of marketing.

Companies also looked for ways to increase efficiency: yield management, CRS etc.

Yield management allows maximization of income by suggesting maximum prices that may be charged for each place in the plane; yield management was defined as income maximization through competitive price strategies, loss control and demand forecast.[1]

CRS is used for seat and flights program control for efficient distribution and profit maximization and allowed the development of techniques for competitiveness growth such as yield management and frequently flights programs, becoming a competitive advantage.[1]

Competition in air transport market has grown due to the large number of low cost operators in the market, which by the nature of services provided respond to two demands: they meet the needs of less pretentious and price focused consumers and they charge low prices that allowed them to acquire important market share.

Therefore the development and diversification of local air transport services took a turn when low costs companies entered the market. The first low cost company that entered the Romanian market was My Air, in 2001 (in July 2009 its license was suspended). Subsequently Blue Air the first Romanian low cost company entered the market in 2004. Sky Europe (2005, and ended the activity in 2009), Wizz Air (2006, low cost leader in 2009), Wind Jet (2006), GermanWings (2007), Easy Jet (2007), Click Air (2007), OnAir, Alpi Eagles, Baboo (2008) and the largest low cost operator in Europe, Ryanair (2008) followed.

These companies offer plane tickets at reasonable prices for numerous destinations in Europe, turning air transport in an accessible service for those with low income. Their activity prospered in the short period they operated in Romania, recording continuous annual growth; in 2008 they transported 15.7% more passengers than in 2007.[3]

In Romania, during the past years numerous air taxi companies entered the market due to the growing demand for this type of transport services related to the development of business segment, but also in order to satisfy an increasingly sophisticated entertainment demand.

In 2007 NetJets, the largest private plane operator in Europe and Atlantis USA, noticing the opportunities decided to enter the Romanian market.

Technology made possible the unprecedented development of air transport and also tourism at world level and also in Romania.

On one hand the airplanes became safer and faster and were adapted to the needs and requirements of modern passengers.

On the other hand, the frequency of flights raised as did the number of routes and airlines.

Today flights are operated from different airports by a multitude of airlines and one must notice the impact of low cost companies on air transport services. These facilitated the access of low income population to air transport, determined the development of attractive tourist packages and gave impulse to regular flights airlines to revise their offer. Moreover during the past years the air taxi services also developed, at present a large number of such companies operating the market.

The same tendency of development and diversification of tourist services includes combined transportation arrangement such as „Fly and Drive” that involves travel by plane to destination and by car at destination or „Fly and Bed” arrangements that include flights and accommodation.

It is necessary to take measures that allow the development of air traffic on local airports. At the moment most of the air traffic is concentrated on Henri Coanda Airport, followed by Aurel Vlaicu. Although

there are several airports that may serve tourist areas, they do not function at full capacity, such as Mihail Kogălniceanu International Airport in the seaside area with only 80000 passengers transported in 2008.

The development and diversification of air transport services may be accomplished by implementing the following measures:

- development of services at airport level, minimization of waiting time and formalities;
- proper maintenance and renewal of aircrafts;
- serving new air routes and destinations;
- development of local airports especially during tourist seasons;
- development and diversification by marketing mix strategies (quality awareness, simplification of reservation and distribution systems, diversification of price categories, intensive promotion, use of Internet as means for promotion and selling);
- development of hubs in order to facilitate transfers;
- „fly and drive” and „fly and bed” arrangements.

### 3. Conclusion

The development of air transport is closely linked to the evolution of tourism as a phenomenon and it has led to the discovery and development of new destinations and the unprecedented dimension of tourism industry.

The technological progress, the innovations in air industry, and the development of specific infrastructure have led to a rapid development

of air transport, placing it on top of tourists' preferences. The growing demand for air transport services has made possible the decrease of tariffs and offered premises for stimulation of regular flights growth.

The deregulation of air transport has led to competitiveness growth in air transport companies and allowed relatively low tariffs, together with new routes introduction. The related infrastructure also developed at high rate in order to respond to a growing demand for air transport.

In Romania the situation of air transport does not follow the international rule, only below 20% of foreigners visiting Romania use air transport and even less Romanians that travel abroad use it. But the data for the last few years show a growth tendency both for arrivals and especially for departures. The further growth of the sector may be achieved by development and diversification of air transport services in order to better satisfy the customer needs.

### 4. References

1. Cooper, C.; Fletcher, J.; Gilbert, D.; Wanhill, S., Tourism. Principles and Practice, Longman, 2nd Edition, 1998
2. Minciu, R., Economia turismului, Uranus, Bucharest, 2004
3. \*\*\*Ziarul Capital, 10.02.2009
4. \*\*\*\*[www.airchartersguide.com](http://www.airchartersguide.com)
5. \*\*\*Romania Statistics Bulletin, 2008, National Institute of Statistics

## Head Hunting – Innovative Method of Recruiting

Moraru Camelia

Constandache Mihaela

„Dimitrie Cantemir” Christian University

Faculty of Touristic and Commercial Management Constanta

E-mail: [cami.moraru@yahoo.com](mailto:cami.moraru@yahoo.com), [micky\\_eve68@yahoo.com](mailto:micky_eve68@yahoo.com)

### Abstract

Classic recruitment for top management positions began to be replaced by head hunting, which, although requires a greater financial effort from the client, is an investment with quick payback. If at the beginning, this head-hunting, was practiced mostly by big corporations, who knew that the company's success are the employees with valuable experience, smaller firms now seem to resort to this kind of selection of personnel. Method called "head hunting" is more than a process, is the art to highlight existing opportunities and put them in direct relationship to experience, work of some persons concerned, so they may decide in favor of changing job, in most cases to a rival company.

**Keywords:** employees, recruitment, headhunting, human resources.

**JEL classification:** M12

### 1. Introduction

Companies engaged in recruitment offers a variety of services (recruitment, training, consulting) and some specialized exclusively on one particular type of project (activity of executive search companies or head-hunting).

In Romania, firms which offers headhunting services, are at the beginning compared with those in Europe or the United States and struggle to convince potential customers of the benefits of such services [4]. Headhunting market evolution

is not influenced only by the quality of services, but also of human resources trends in Romania.

In recent years, top management positions in foreign companies are occupied by Romanian managers. This trend is due to both increased volume of the foreign investments in Romania and professional skills of local managers.

### 2. Head-hunting process

More and more companies resort head-hunting services firms. If a traditional recruitment process involves mostly, open job announcement in the press or on a job portal and sometimes networking, followed by receipt of CVs and selecting the best candidate, in the case of head-hunting situation is slightly different [8]. One can say that classic recruitment is a reactive method of employment, meaning that the employer seeks candidates who respond to an ad. Head hunting, on the other hand, is a recruitment method which aims to hunt the best and convinced them to change their work, reserved in most cases, for middle and top management positions. So, head hunting recruitment method can be defined as a proactive approach, because such a method can attract good candidates who are not normally looking for a job.

Head hunting process seems simple at first sight, head-hunter's task is to address to

the person desired by the company and to present the offer, but in reality things are not so simple as they seem and head hunting process can last for long periods, requiring patience and tact [1].

The first step made by a head hunting company in a recruitment process is a very precise understanding of the profile search, then follows the definition of which companies will be searching and contacting people who are considered potential candidates [5]. Until there is no direct discussion with these people can not make an assessment of the closeness of the ideal profile.

Usually, head hunting firms are those who approach the candidates and not vice versa, this is precisely the difference between head hunting and recruitment and selection. As foreign headhunting firms, the Romanian ones resort to all possible means to identify the ideal candidate. Although the own list of contacts (resulting from the research process developed for previous projects) is always the most valuable, they also use the communication paths provided by the customer when he wants a certain candidate.

Head hunters use only one method: that of direct research [3]. Head hunter sets the potential targets and then, with customer approval, begin to address directly the people they consider valuable for that project. The initiative belongs throughout the project to the executive search agency, which often consult with the client organization about intermediate results. There is another version of this activity, which can be said to represent a purely head hunting activity. In this case the client has set the goal of "hunting" in the person of one or two candidates already known. Consultant's role is to arrange relocation of that person successfully to the client company. Person's belief that it is best to leave the company is the hardest part of the whole process.

In the initial phase of the process are chosen 100-150 possible candidates, so for the final stage of selection, on the short list, to remain under 10 people. The latter pass through at least two interviews with head-hunting firm, followed by two or three interviews with employers' representatives, interviews that last between 30-120 minutes, depending on the stage of development and the project purpose.

There are some things that employers are looking at candidates for key positions: confidence, ability to adapt working in an

existing team, experience, market and competitors knowledge. Also, candidates who are on the short list, should be able to understand what the organization wants to engage in the next 3-5 years [2].

Every recruitment is customized and guided by preferences and scope of the client, such a project can be handle by more human resources consultant at the same time. An executive-search process may take, depending on the complexity of positions to be occupied, between 3 weeks and 6-12 months.

Until September 2008, the most dynamic areas were represented by: the financial market, the investment funds, retail market, marketing, industrial area, IT&C market. Banking market has been a „hot” area, because 2008 was considered the best year in banking, in terms of profitability. Most wanted features are the general manager, sales manager, CFO and directors of human resources.

### 3. Who are the head hunters?

Head-hunting technique involves, in essence, stealing people's best competition [6]. For this there are people specially trained, people who are not in employment office and they are called "head hunters".

A person who is head hunter shall sum a range of qualities esentiale. A head hunter has to be a best seller, to be persuasive, persevering, diplomatic, honest, possess outstanding communication skills, have a great opening to others, experience in the field, minimum 5 years (starting point). Equally important are access to information and market knowlegde [8]. If a head hunter knows what is happening in the market, people who can give information, knows what is "hiding" behind significant business, then positive results are fairly predictable.

Besides communication, a head hunter must strictly respect the principle of confidentiality, without which the placement process can break even after the first meeting between the parties [7]. The principle of confidentiality is essential, because the process involves the recruitment of key positions. Usually, head hunter, disclose the company name only in the final stage of the process, but to compensate, the manager

gives relevant information about the client it serves.

A head hunter has to be productive from the first day that is set to do this job. Generally, large head hunting companies consultants work with seniors consultants, never with juniors in training. Most times, the head hunters are former managers from different areas, which had a strong career and to the final they "retire" to counseling.

In the big companies from abroad, the average age of a head hunter is 40 years. From the first day they move to an executive search firm, a manager can take head hunting mission, as it did before in other competitor's companies. Therefore, investment in a head hunter, is or should be zero.

Head hunters are among the highest paid employees in the economy, their profits rivaling those of executives which they place. Depending on the position that hires, head hunters can get to win 25% -30% of annual gross salary of the applicant [1].

#### 4. Pricing system

Each head hunting agency has established several criteria required on the charging system. They accept assignments for which head hunting firm has exclusivity, and payment is made only if suitable candidate is found and ends with a job. They do not define themselves simply as "service providers", they also try to establish long-term partnerships with client organizations. Therefore, consultants head hunting firms devote significant time to know and understand better organizational culture, the place occupied by leaders in the company's business strategy and all its particular aspects.

Both in Romania and in foreign companies, most head hunting firms choose pricing system in 3 stages: 1/3 at the contract signing, 1/3 the presentation short list, 1/3 after signing the contract of employment. Minimum limit charges head hunting firms in Romania is considered to be 10.000 euro, in Western countries is slightly higher. Prices for top positions, also start from 15.000 euros and can reach up to 100.000 euros [1].

For some time, the executive search market has started a new way of paying head hunter based on success fee. Pricing based on successful means that the recruitment firm receive money from the customer only when the

candidate becomes employee of the client. This pricing method shows a high degree of risk, because the employer, who requested the services of a firm working on success fee, may decide to promote someone from inside, to close the open position or to work with other recruiters.

Any head hunting agency offers clients a warranty of 6 to 12 months. If it is proved that the new employee is not good enough, as thought and is fired, then executive search firm makes a new recruit, without having to be paid [8]. There are situations in which this warranty does not apply. When the split between employee and customer is not related to quality of the head hunter's services, such as failure of the employer promises, reorganizations take place within the company or the employee received a better offer and the customer failed to detain him (it considered to be the sole responsibility of the employer for maintaining and motivating new employee), the executive search agency no longer take any responsibility.

#### 5. Conclusions

In Romania, not all firms have come to understand what multinationals already knew, namely that people particularly employees through a head hunter, are those who make large profits.

Public institutions in the West know the head hunting benefits and do not exclude this method to increase their efficiency. In our country, things are exactly the opposite, the state sector is inaccessible due to restrictive legislation, which requires a competition. Although the method is good, apparently, that is based on the idea of "best win", it can not be applied at any level and especially at the highest level since the really good professionals, do not care to submit to test, examine and evaluate by persons trained weaker than its preparation. It is clear that the mentality and laws must change and adjust to market demands, where the hierarchy of areas of interest change with changes in the economy.

Among the head-hunting's benefits include privacy, security, obtain references, targeted and efficient search. Matter and ideas coming from a consultant about the

sources of recruitment and candidates from other industries, which could have the required skills for the position.

We could say, that the main advantage is the fact that this method is going directly to potential candidates for open positions. Access to difficult resources directly to addressed by the company and guarantee offered by a head-hunting firm for candidates placed, are other advantages. During the warranty period, some head-hunting companies offer coaching sessions for those recruited and access to professional self-assessment tools.

The main drawback that companies associate it with head-hunting is the high cost of this process, but employers who realize the benefits of head hunting, are willing to pulsate considerably when it comes to identifying and hiring the best people.

Head-hunting appearance should make the companies to lift a little the guard, to think to

better motivate employees to remain in their company, to reward them at their true value, to listen not be in the position of losing them.

## 6. References

- [1] G. Butunoiu, „About Head hunting”, Wall Street Carrers, 10.03.2010;
- [2] Coetzee, M., AMG. Schreuder, ”Careers: An Organization Perspective” , Juta & Co Ltd., 2006;
- [3] Dakotta, A., „The Recruiters Guide Book”, Fables Press, Seattle, 2005;
- [4] HR Romania Team, „Head Hunting Profile (I), 19.09.2007;
- [5] HR Romania Team, „Head Hunting Profile (II), 24.09.2007;
- [6] Leopold, J., „Human Resource in Organization”, Prentice Hall Edition, 2002;
- [7] Meenakshi, G., „Principles of Management”, Easter Economy Edition, 2007;
- [8] A. Vidroiu, „Head Hunting from A to Z”, Wall Street Carrers, 4.03.2008.



## The New Products' Development Process in Tourism Marketing

**Silvia MUHCINA**

*Department of Economics, Ovidius University of Constanța, Constanța, 8700, Romania*  
*[muhcina@gmail.com](mailto:muhcina@gmail.com)*

**Simona UTUREANU**

*Department of Economics, Ovidius University of Constanța, Constanța, 8700, Romania*  
*[simona\\_utureanu@yahoo.com](mailto:simona_utureanu@yahoo.com)*

**Adrian Șerban Comănescu**

*Department of Economics, Ovidius University of Constanța, Constanța, 8700, Romania*  
*[adrys\\_serban@yahoo.com](mailto:adrys_serban@yahoo.com)*

### Abstract

The tourism activity is marked by a strong competition and frequently environmental changes, thus tourism organizations must be permanently preoccupied on the process of innovation and new products creation. In tourism marketing this process can be more risky because, generally, the budgets are higher, the users are heterogeneous, and the market is unstable. The goal of this paper is to show some important aspects concerning the process of the new products' development in tourism.

**Keywords:** tourism, products, development, customer.

**JEL classification:** L83

### 1. Introduction

For many organizations, a better answer on consumers' needs and on environments' evolution, means to concentrate efforts on the direction of new product development.

The process of new products' development is very important for the tourism organizations, because the business innovation is vital for very competitive markets.

If, for the large people, the product means a tangible object that a customer buys, in tourism marketing, the product is an assembly of several elements, that includes:

tangible components, that means the base of tourism attraction (natural, cultural, historical, artistically or other types of tourism resources, generally infrastructure of a country or tourism areas and the tourism equipments, such as accommodations places, restaurants, coffee-shops etc.), intangible elements, that means all tourism services assembly (basic and supplementary), and psychological elements (comfort, animation, environment etc.), communications about product (for example, realized through advertising, force sales, fair and exhibitions etc.) and the image of product, that means what tourists think and believe about the product [1].

Is very important to mention that, from tourism marketing point of view, the process of new products' development can be realized going from a new destination, un new type of entertainment service, a new type or place of accommodation, a new modality of transportation etc.

The generic product is the core idea of a product, but, when buy a product, customers are going from an expected product. In many cases, the suppliers tries to offer a product that is more than customers' expectations, and this is the augmented product [2].

Thus, it is necessary to think of products in all their complexity, when it's talking about the conception, development, and introduction of products.

A new product may look and work exactly like an old product, for example, but have a

completely different set of associated services and be distributed in a different manner [3].

In tourism activity, the new product can be obtained modifying some of its specific characteristics: is an „assembled” product, the result of a strong cooperation between many services suppliers (including another new service can be obtained a new product), includes natural attractions or some evidences of human activities (and that’s why, when tour-operators include another tourism attraction, can obtain a new product), must have some quality characteristics, as to assure tourists’ satisfaction (increasing or decreasing the quality level of tourism resources, infrastructure, personal etc., can obtain another tourism product) etc. [4].

## 2. New Tourism Product Success Factors

In marketing literature is generally considered that are some important factors which differentiate success at a strategic level, such as the following: linking new product development (NPD) to corporate strategy, directing a clear new product policy which specifies the level of innovativeness sought, the amount of acceptable risk, the amount of synergy with existing operations that is desired, and so on, supportive top management which sets goals and allocates resources, accepts risks and encourage flexibility and a multi disciplinary approach, and finally, an organizational structure which fosters an organic approach [5].

The same author consider, also, that those factors at the task level which differentiate success from failure include: completion of all stages in the NPD process with particular proficiency in technological and marketing activities, attention to customers’ needs throughout the development cycles, eschewing a stage-by-department approach which reinforces functional distinction between phases of development and lengthens the process, inter-functional integration and direct lines of communication between those carrying out the project and top management.

Those aspects are more important in tourism activity, because are involved many actors (tour-operators, tourism services suppliers, local or central authorities, different categories of public), in many cases the tourism resources are public properties, the local customs are various etc, is difficult to take decisions that concerns the new product development.

## 3. Aspects considering the novelty of a tourism product

The novelty can be perceived under two ways: as new technology or as the complexity of products’ modifications or improvements.

The marketing specialists consider that analyzing the products’ characteristics, the tourists’ needs and the particularities of target market, the novelty of a tourism product can be judged going by three aspects:

- New product for a tourism firm, for example a tour-operator which creates a new product going for new tourism attractions and with the support of different tourism services suppliers
- New-product for a certain market, for example, when a hotel chain inaugurates a new hotel in a new geographic area where this chain was not presented until this event
- Absolute new product, for example the first „Disney Land”

## 4. The New Product Development Process

The process of new product development involves the several stages, that can be grouped as the following [6], [7], [8]:

- 1) Strategic planning for new products
- 2) Generating, screening and evaluating ideas, based on technical, economical and marketing criteria
- 3) Developing and testing the concept, business analyze
- 4) Commercialization
- 5) Test launch

1) American Professor Philip Kotler considers that new products’ strategy has four important goals [2]:

- Concentrate the efforts on team level
- Integrates the functional efforts
- Delegates team members’ competences
- Fundaments initiative and not reactive management

Managers must coordinate the initiatives concerning the innovation opportunities

(product, market, technology), realistic goals and appropriate tactics referring to product's nature and innovation.

2) Generating, screening and evaluating ideas, based on technical, economical and marketing criteria.

In the opinion of Philip Kotler, the new ideas can proceed from internal sources (almost 50%), from customers (~28%), from competitors (~30%), from distributors, suppliers etc.

In tourism activity, the new ideas can be inspired by tour-operators, services suppliers, travel agencies, competitors, tourists etc

3) Developing and testing the concept

In marketing approach, new product development process must consider the situation where demand for existing products requires to be evaluated against new opportunities and competitive threats, taking account also of suppliers and their forward plans.

In this stage, the idea turned into a recognizable product concept, with attributes and market position identified.

The information needed for the stage concern explicit assessment of customer needs to appraise market potential and explicit assessment of technical requirements [9].

Generally, the creation process in marketing may concerns other important elements, such as: package (that has a modest position in tourism marketing), name, brand, services assembly, price that must be correlate with product's characteristics and other similar products [5], [6], [7].

The technical and economical specification must correspond to customers' needs.

So, in this stage are identified the key attributes that need to be incorporated in the product, major technical costs, target markets and potential markets.

In tourism marketing, the product can be tested by virtual tests, for example projecting different versions of one hotel or the images of different tourism attractions etc.

The business analyzes demands information about detailed market analysis, technical feasibility and costs, production implication and corporate objectives.

In this stage, companies that initiate new product's development must take major go/not go decision.

Generally, greater the degree of newness, it's

greater the risk. Production facilities, because of the huge investment they require, and marketing activities, because of their importance to user's organizations and consumer' satisfaction, are two important keys to analyze in terms of risk.

The test can be realized:

- in a complete manner (global)
- through parts of product (different elements that compose the product)

Generally, the market test of goods can be realized such in following manners [2]:

- testing the way of product's utilization, by a small group of potential buyers organizations, which agreed to use the product among a certain time period. The technical personnel from seller organization oversee the way of product use, gets information and can train the clients' personnel
- on marketing events, like fairs and exhibitions
- through standard and controlled tests, that allow the measurement of new products potential

The organization has a limited offer presented by sales force on different geographic areas, and, in the same time, unfold a strong promotional campaign.

This way of testing allows testing the product and the marketing programs in real market environment. In tourism activity, fairs have a great importance in testing process.

4) Launching and commercialization of the new product

After the market test is finished, and the new product has been successfully tested, the product is ready for commercialization or full-scale production and distribution to the target-market.

This process is realized on several stages, such as:

- determining the period when the new product is introduced on the market, going from product's nature and the specific of its consumption. Generally, it must be considered a certain time period as to be sufficient for a good promotion and distribution of the tourism product (before the beginning of tourism season). In tourism marketing, the new products are usually launched on trade fairs or

- special events
- selecting the place or the geographic area, considering the distribution strategy, on local, national or international zones. The tour-operators or the services suppliers must take in to consideration the tourists' characteristics and the level of product's adoption by the markets. Generally, powerful organizations launch the new product on national or international market, and the small firms choose an attractive significant town
  - selecting the distribution channels, which means to choose between a direct and an indirect distribution. Marketing specialist recommend to orientate the product distribution to the best categories of potential clients, knew even from the studying and market testing stages. The product must be direct to the opinion leaders, or to frequent users, because they have a great influence over the other buyers
  - informing the market, by marketing promotion and communication. The goal of this stage is to inform the consumers. In tourism marketing, a great importance have the meeting between specialists, advertising, public relations or selling promotions
  - selecting the appropriate modalities of tourism product commercialization and training the sale forces
  - selecting and preparing the personnel that is involved in this process.

5) Controlling the launch process of the new product.

In this stage organization must gets quantitative and qualitative information about the level of acceptance of the new product and its success (or failure) on the market.

In marketing are used certain statistics concerning different important aspects, such as:

- the number and type of effective clients (until the moment of research), and the dimension of orders
- the potential clients and the evaluation of the level of market penetration on key-sectors
- the length of sales cycle, beginning with first client who launched the order until the moment of evaluation
- the efficiency of sales activity, expressed through several ways

## 5. Conclusions

The process of new product development is very complex. The vitality of the product development function is directly related to the vitality of the whole company.

The important goal of this process is to assure clients' satisfaction when the product is used, and based on that, is important to assure a good business relationship between seller and buyer organization.

In the same time, the product strategy must be assembled with the marketing policy, and correlated with the general strategy of the tourism firm, in such a way as to realize the principal goals: increasing tourists' satisfaction, and increasing profit level, market share, sales level or other qualitative marketing goals, such as realizing a good image of tourism firm or its products.

In tourism marketing literature, specialists recommend to formulate the product strategy going from the seasonality of tourism demand.

In this approach, is necessary to differentiate the product strategy going from tourism seasons.

In the tourism product assembly, the elements of tourism attractions must be correlated with tourism services, considering the every period of tourism season.

In the same time, the strategy of tourism product must be correlated with the other elements of marketing-mix: price, distribution or promotional policy.

## 6. References

- [1] V., Balaure, et al, Marketing turistic, Ed. Uranus, Bucuresti, p. 268-270 (2005)
- [2] Ph., Kotler et al, Principiile marketingului, Ed. Teora, București, p. 653, (1998)
- [3] A., Hiam., Ch.D., Schewe, Portable MBA in Marketing, John Wiley & Sons, Inc, p. 238, (1992)
- [4] T., Gherasim, D., Gherasim, Marketing turistic, Ed. Economica, Bucuresti, p. 36 (1999)
- [5] M.J., Baker, Marketing. Theory and Practice, Third Edition, p. 173, (1995)

[6] Ph., Kotler, Managementul marketingului, Ed. Teora, București, (1997)

[7] C., Florescu, Marketing, CoEd. Marketer-Expert, București, (1992)

[8] V., Balaure et al, Marketing, Ed. Uranus, București, (2000)

[9] Booz, Allen and Hamilton, New Products Management for the 1980s, New York, Booz, Allen and Hamilton, (1982)

## Conflicts in the Distribution Circuits

Silvia MUHCINA

*Department of Economics, Ovidius University of Constanța, Constanța, 8700, Romania*

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

Adrian SERBAN COMANESCU

*Department of Economics, Ovidius University of Constanța, Constanța, 8700, Romania*

[adrys\\_serban@yahoo.com](mailto:adrys_serban@yahoo.com)

### Abstract

The objectives of the trade partners in distribution field are not always the same. Some – manufacturers, wholesalers or retailers – aim primarily at profit, others seek to increase their market share or to develop sales, others wish for success, while others want to reduce their economic risks. Even if two economic agents pursue the same objective, there may be a tension between them.

**Key words:** conflict, distribution, price, profit.

**JEL classification:** M31

### 1. Introduction

According to professor Philip Kotler, conflict in the distribution channel would be: 'Disagreement between marketing channel members about their roles, objectives and what to do each and receive the rewards. "

Under the same author conflicts fall into two categories:

- Horizontal conflict that takes place between firms at the same level
- Vertical conflict that occurs between different levels

of the same channel, very common situation.

More conflicts in the distribution channel is a characteristic of healthy competition. Without this competition, the channel is passive and lifeless and innovation. In some cases, channel conflict can be harmful and does not happen to this conflict must be managed very well since the beginning of each channel member's role should be clearly specified. [1]

According to American Marketing Association, the distribution represents, the movement and

handling of goods at the place at which products are consumed or used "[2]

„Distribution channel is a combination of utilities and functions provided by the companies that constitute route trips (distribution channels) of goods from production to consumption”[3]

„Nowadays, manufacturers lose more and more from their prerogatives in terms of their product features, being forced to take account of the distributors' will, who own a significant share of their products sale.

The rivalry between manufacturers and distributors occurs especially in the brand and price policies. Major retailers have created their own distribution brands and so they sell more than half of marketed products. For a retailer, the distribution brand strengthens the company's image, because adds itself to the store logo as a mean of identification by consumers. Furthermore, it is a factor of differentiation for the assortments of goods. Such a monopol element allows the distributor to closely control the prices and the margins. Therefore, the big retailer no more depends so much on his suppliers, because he strengthens his sovereignty by his own brand. This trend of the distributor entails strong denials from the manufacturers to abandon their own brand, since they can no longer benefit from the profitable exploitation of trademarks.”

There are situations in which the conflict source between manufacturers and distributors is in distributor's price policy. This tries to sell the products at very low retail prices in order to enlarge his market and at the same time they put pressure on manufacturers when they negotiate the sales prices” [4]

Schematically, the succeeding of the conflict in a distribution circuit after Rosenberg's model (L.A. Rosenberg, A new Approach to Distribution Conflict Management, Business

Horizons, octobre, 1974, p. 64-74) is presented in Fig. 1.

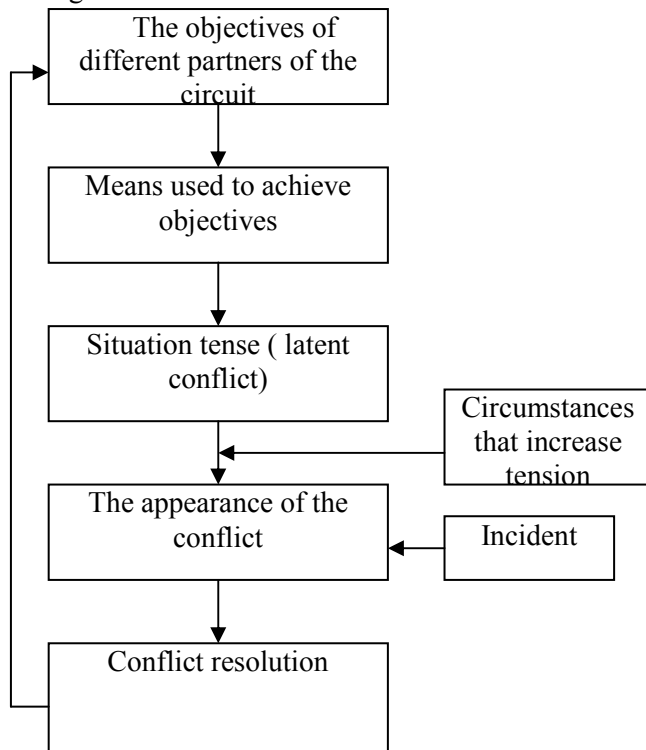


Fig. 1. The succeeding of the conflict in a distribution circuit.

According to the above mentioned author, there is a hidden antagonism inside every distribution circuit. The conflict erupts when the external circumstances (sharpening competition, consumers' pressure, legal regulations, technological changes) or internal ones (installation of a new leadership in one of the firms, the results of a market research) make the tension increase at an unbearable level for one or another company.

Depending on the attitude of the conflicting parties and on the importance of the stake, the conflict will lead either to severance of trade relations or to further transactions. [5]

„The antagonists can adopt several attitudes: ignorance, accomodation, dominance, compromise and cooperation.

If the stake is minimum or, on the contrary, too expensive for one or another, in case of separation, the two parties simply adopt the attitude of ignoring the conflict.

When the cause of rivalry ist minor and with negligible consequences for one of the

companies, its leader can adopt a concession stand.

The attitude of domination is adopted by a strong company, capable of solving the conflict with weaker firms, imposing its demands.

If each party accepts to diminish its demands up to a mutually acceptable level, we say that an attitude of compromise was adopted.

The attitude of cooperation expresses itself by a common search of a solution, satisfactory for each party. Because it goes animosity and often encourages progress, this can be considered the best attitude.

The outcome may consist either of a sudden break of the relations between the partners of the circuit, when their interests become too different, or of an ongoing business relationship in a climate of distrust and suspicion, this being the most common case.

Sometimes, the way out of the conflict can be eased by the appearance of some legal regulations, which allievate the tensions between partners.

Until recently, manufacturers were limited to production tasks and let the brokers and retailers the main distribution functions: transportation, fractionation, range, storage, information. Nowadays, more often, the leaders of big production companies want to guide and control the distribution of the goods they produce, especially of the own branded goods. Besides this, for the manufacturer, the distribution channel is a kind of screen which is interposed between him and the final consumer.”[4] Philip Kotler regarded as an object of physical distribution,, and bringing the products at the right time, with the lowest cost”. [6]

It is clearly understood the will of manufacturer to alleviate the opacity of this obstacle, isolating or even supressing it.

Anyway, conflicts burst when different participants' objectives (manufacturers, wholesalers and retailers) become less compatible with each other.

To avoid or alleviate the adverse consequences of this situation, the manufacturer can take over part of the distribution, when possible. He organizes a nett of active sale, creates warehouses, he must be fitted to ensure delivery and even participates at retail operations (sales promotion, merchandising etc).

„Restrictions that limit the possibilities of choosing solutions by the manufacturers can be financial, legal, related to customer or to the nature of the products.

Moreover, it is prohibited the practice of discriminatory conditions imposed on sales and prices depending on customer. Finally, for some goods, by law, certain circuits are required (pharmaceuticals, meat and meat products , chemicals etc).

Restrictions related to customer occur when buyers are widely dispersed and working with wholesalers becomes inevitable. On the contrary, when there are few customers, the sellers of the manufacturer can negotiate directly with retailers, without intermediaries.

Restrictions related to the nature of the products influence the choice of distribution as it follows:

- Perishable products require the selection of those channels through which the movement of goods is done as quick as possible;
- High-tech goods are sold preferably direct, because there are few competent intermediaries in this field and most of them prove themselves unable to provide the services expected by customers;
- The product or brand image, when it's decisive, conditions the choice of a circuit adapted to the followed image;
- If the manufacturer wants to follow his product to the consumer, he must accomplish a certain number of functions, each containing a group of specific activities (conditioning, storage, delivery). So the problem for the manufacturers is the cost calculation for the distribution operations that he will do.

Schematically, one can present the different phases of the logical approach, resulting a first choice of the distribution channel.

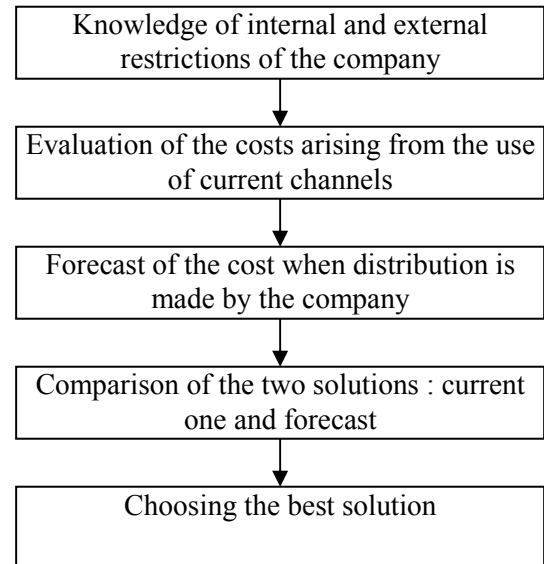


Fig. 2. Selection by manufacturer of a distribution channel

The selection of a distribution channel by the manufacturer is caused by several circumstances, such as: launching a new product, creation of a subsidiary, monitoring a competitor, willingness to reduce costs, sales saturation in a traditional channel, a new stage of life cycle of the product, new forms of trade etc'' [4]

## 2. Conclusions

Until recently, manufacturers were limited to production tasks and let the brokers and retailers the main distribution functions: transportation, fractionation, range, storage, information. Nowadays, more often, the leaders of big production companies want to guide and control the distribution of the goods they produce, especially of the own branded goods. Besides this, for the manufacturer, the distribution channel is a kind of screen which is interposed between him and the final consumer.[4]



### 3. References

- [1] Ph., Kotler, Principiile Marketingului, Ed. Teora, București, p 572, (2003)
- [2] Committee on Definitions of the American Marketing Association, Marketing Definitions, American Marketing Association, Chicago, 1960.
- [3] Cornel Grigoriu, Adrian Serban Comanescu, Elemente de Marketing, Editura Bren, Bucuresti, 2007, p 199, work cit
- [4] Meghisan Gh, Nistorescu T, Adrian Serban Comanescu  
Marketing- Teorie si practica, p 201-206, work cit.
- [5] L.A. Rosenberg, A new Approach to Distribution Conflict Management, Business Horizons, octobree, 1974, p. 64-74, quoted source Meghisan Gh, Nistorescu T, Adrian Serban Comanescu, Marketing- Teorie si practica, p 201-206
- [6] Ph., Kotler, Managementul marketingului, Ed. Teora, București, (1997)

## Image of the Public Institutions – Historic, Evolution, Trends

Lecturer Ph.D. Marilena-Oana Nedelea  
Associate Professor Ph.D. Alexandru Nedelea  
*Stefan cel Mare University of Suceava*  
E-mail: oanad@seap.usv.ro

### Abstract

The aim of this paper is to underline that there is a preoccupation of the institutions to apply strategies aiming the creation of a positive climate, marked by credibility and trust, the creation of a distinctive image in the relevant social environment and in the interest areas, the determination and motivation of the opinion leaders regarding the main issues and the role of the public institution, the attraction of the citizens' attention, good will and trust.

**Keywords:** strategy, environment, public institution, image.

**JEL classification:** P37

### 1. Introduction

Last years have been and still are under the sign of globalization, but also of the economic crises which, corroborated, lead to unbalance, tensions and threats in the social and political life.

We are looking for solutions in order to overcome the economic obstacles but also ways to prevent such consequences with negative effect at global level.

The citizen's trust in the state's politics, the positive image of the public institutions, the promotion of the efficient public services contribute to the ease application of strategies oriented to find solution to the problems caused by the negative economic elements.

The promotion of the public services has as objective the real and operative information of citizens – potential clients and also the creation and maintenance of long term relationships with these ones. The specificity of the public services leaves its hall-mark upon the promotion politics, both concerning the content of the activities and also the ways used for promotion. The content of

the performed activities refers to the „substance” of communications, the way of realizing them, the relation with the consumers' segment.[5]

The image of the public institutions plays the role of mediator between people and organizations, between citizens and institutions, between organizations and institutions. The force of images resides in the fact that they impose themselves within the communication process, orienting the people's opinions, attitudes, convictions, faiths, conduct and actions within the social and unsocial environment.[1]

Nevertheless we must mention that the premises of the above mentioned factors are also the aspects existing in the Romanian legislation starting the *inter-war period*.

In the content of the *Law for administrative unification no.95/ 13.06.1925* there is mentioned the fact that the notary – the agent of the central authority in the rural community – has among his attributions the publication of laws, regulations and instructions using posters and by „reading in public”.

*The law no. 167 from 1929 for organizing the local administration* mentions the fact that the village mayor has also the responsibility to publish the government's laws, regulations, orders and instructions in the village.

The image and transparency of the public institutions during the inter-war period can be studied through the perspective of the fact that in art.84 there is mentioned „The ascendants and descendants, brothers and the same degree affinities and also the third degree relatives cannot be members in the same council, at the same time”. On the same coordinates there must be mentioned that the public character is a condition for the progress of the communal council sessions.

A plus of image and trust in the public institutions' representatives was also given by

the fact that the mandate of a county councillor could not be reattributed – art.219.

Meanwhile there must be mentioned the role of the county secretary who was responsible with the display and communication in conformity with the law of the county council's decisions.

Among the provisions of the *Administrative law no.569 from 1936* there is the one saying that the mayor and the prefect represented the commune, respectively the county at the official ceremonies, having as distinctive sign a belt with the national colours.

Usually the mayor and the prefect were wearing a badge according to the model elaborated by the Ministry of Interior.

In order to ensure the quality of the public servants' training, the prefect is obliged to call in educative conferences all the servants belonging to the city hall and to the prefecture from the county's capital at least once a month. These conferences had as objective the enrichment of the professional knowledge of the administrative servants, the information regarding new laws and also the guidance for the way of exercising their attributions.

The prefect called all the council's members in conference at the residence of each small rural district at least once a year.

The praetor, mayors, notaries and other servants from that small rural district and also the bank and cooperative federals' presidents were invited at these conferences.

Different issues of local interest were discussed in these conferences, the principles concerning the laws, regulations and ordinances' application were debated and the purpose of that was to take measures in order to develop the administrative, economic, sanitary and cultural situation of that administrative-territorial unit.

The reputation of the public institution was improved by the fact that the mayor appointed in the communes declared balneal or climate resorts must have had an academic title.

We could also mention that from the actions to promote the image of the public institution there was an element related to the public relations field, namely the fact that attached to all the local administrations, as in the Ministry of Interior, there was a *special service for the reception of the inhabitants' claims*. This one had the role to send to the petitioner, at his residence, the solution of the respective authority

within at maximum 30 days since the registration of the request.

In the rural communes this service was carried on by the notary who was obliged not only to receive, but also to edit the villagers' claims.

*The administrative law from 14<sup>th</sup> of August 1938* regulated the education conditions for a series of representatives from the public institutions. Thus the legal resident had to be „a university graduate or a general officer” – art.57, the prefect was a carrier servant and he held a university diploma and a diploma issued by the Administrative professional technical training centre, the praetor should have been a bachelor of law and also graduate of the Administrative professional technical training centre.

The quality of the public services performed within these institutions had to be carried on only by administrative public servants having an administrative and professional technical training.

Meanwhile there are enumerated the incompatibilities of the legal resident with any other public position, thus promoting an administrative system based on the principles of decisions' transparency and efficiency. The legal resident was not entitled to be administrator, censor or officer in civil or trade companies, cooperatives or popular banks and he could not „exercise any freelance profession” – art.58. The prefect, the praetor and the notary were applied the same rules.

Analyzing the evolution of the Romanian public institutions there can be identified the preoccupations of the public authorities to improve their image among the citizens.

## 2. Promotion of the public services

The promotion is mainly realized through communications. The internal ones are oriented towards citizens on the scene and towards different categories of personnel (public servants) and the external ones towards those target-collectivities the administrative institution wants to inform and influence.

The promotion strategy in the public administration includes actions centred, at present, on the external communication theme. That corresponds to some recent evolutions, as for a long time the public sector considered this communication of administrative order. For

instance, we remind the case of the „Official journal” („Journal Officiel”) from France which represents both an advertising and information body. And, as every one must respect the law, the public institutions don't consider having the mission to develop communication.[4]

The internal and external communication cannot be rigidly isolated or separated one from another. From the occidental experience it results that the personnel is often more sensitive to the external communication than citizens.[11] It creates an affiliation feeling among the public servants, especially in situations when through external communication there are mentions regarding the personnel's qualities and role within the performance process and the success of the institution in satisfying the citizens' demands.

**Promotion of a positive image** (desirable) represents an essential element for the affirmation of the public administration institution, an important objective of the organization's marketing strategy.

In the case of public administration, it is normal that the public has knowledge about the actions carried on within the state institution, reason for which *the so-called promotion campaign must be a correct information action* for the large public related to:

- the public institutions' objective and responsibilities;
- their attributions conferred by law;
- the methods used in applying the law;
- the success and, eventually, the more special cases ended with the citizens' help;
- difficulties in carrying out the work.

The promotion / information activity must be performed on regular bases, respecting a certain schedule or periodically, within some distinctive emissions, appealing to the mass information means having the greatest audience.

Using the promotion actions the image of the public administration institution is configured, the transmitted messages having to include the most faithful image of reality. The authenticity of the messages issued by the public institutions is imposed in their relations with citizens, relations that are normally based on trust and mutual respect. The excessive use of *publicity techniques* and the orientation of the public promotion towards certain particular electoral interests would have as consequence the deformation of the presented reality with

negative effects upon the image of the institution and the efficiency of the taken actions.

The public promotion / communication oriented towards reality or truth will lose any authenticity, increasing the population's mistrust in administration.

In order to disclose the existence of the public services, to determine their use by citizens, the public institutions use different promotion techniques, paying special attention to the messages' content, the type of the used language, the way of carrying on the promotion actions, the chosen means to transmit the message. The efficiency of a promotion action supposes the determination of a clear, specific objective, according to the group of citizens aimed by the respective action.

It must not be ignored the fact that the promotion actions of the local public services have an important role in obtaining financing sources and in attracting economic investors, creators of workplaces and local taxes payers.

### 3. The image of the public institution

By image we understand the representation which forms as a sum of beliefs, requests, attitudes, opinions, mentalities, prejudices, experiences, suppositions (expectations) in a group of people or within the public opinion, upon a person (for instance the public servant) or an institution (for instance the city hall, the prefecture).

True or false, positive or negative, the images lead to the support, modification or rejection of an idea and they have a strong influence upon the human conduct.

It exists, as the above mentioned definition suggests, several categories of images: the image of the public administration institution, the image of the public services, the image of an official (mayor, prefect, president, minister, president of the county council etc.), the image of a service within the administrative institution etc.

Concerning the general image of the public services, this is in an endless and rapid change, more and more oriented towards citizens, the marketing ideas and techniques being especially useful to a public service manager.[7]

Marketing has as objective the creation and management of the public administration institution image. The image of the public

institution is determined by the representation it generates related to the other organizations from the public sector or with the institutional partners. Several factors compete for the creation of this image, having in view the assembly of the transmitted messages, the supplied information, the way of functioning and organizing the public institutions (central and local).

Several actions can contribute to the improvement of the image of the public administration institutions, such as: the renewal and fitting out of their locations in order to avoid queues (or to make them more bearable), there can be searched solutions so that the discussions between servants and citizens to be more convivial, personalized, meantime modifying the schedules of the public services according to the local particularities, putting at the citizens' disposal copy machines, vignette or stamp automatic machines, by opening offices, points, reception centres for orienting or solving the requests on the spot.[13]

The creation of images is not isolated, but a continuous activity. It is necessary for the representatives of the public administration institution to communicate at any moment and to take care of its image so that the public opinion to have a positive and trustful perception upon the public administration.

As „patrimony object”, the image is managed in the same manner as any other patrimony good of the public administration institution. A good image has a special influence upon its success and perception on the large public. On the other hand, a negative image sometimes affects, in an incredible manner, the institution success. In order to be efficient, the image must evoke something, it must say something, it must invite, in essence, to a possible and permanent dialogue. In an image as such there will be included several messages, having in view the basic principle saying that it is hard to keep the attention for a long time, and once you got it you must transmit the maximum of information.

The institutional image supposes the respect of certain requirements which lead to coherence and authenticity. The image must be *coherent*, meaning it must realize a global presentation of a certain public institution, of its tasks and attributions and of the way of organizing and functioning, so that the ones who apprehend it to be able to easily identify its role and specificity. In plus, the image must be *authentic*, meaning it

must confirm to the identity of the public institution, to correspond to the existing reality within it, to reflect in an objective manner the way that respective institution fulfils its specific objective. The disrespect of this requirement leads to the affirmation of an institutional image which does not correspond to reality, being concerned only by the creation of a simple appearance. When the institutional image does not correspond to the authenticity principle, even though it could have certain favourable short term consequences, while reality contradicts the created appearance, the obtained negative effect will consist in increasing the mistrust of the citizens in the institutional framework. [2]

The institutional image is mainly related to the citizen's trust in the public authorities. For instance, concerning the governmental administration, the trust in it is determined only in proportion of 15,5% by the satisfaction related to the government's performance concerning the standard of living, the public order, workplaces, privatization, agriculture, health, education, houses, industry, the corruption reduction. On the other hand it must be considered that fact that the attitudes towards government are greatly influenced by the political bias. In plus, some of the citizens are direct clients, others not, just some of them know the government's activity in different fields, which makes the appreciation unequal.[9]

We deduct from here that the way the public authorities promote their actions plays an important role in creating a positive institutional image. The mass-media role in reflecting the public administration activity is essential in this respect.

In order to illustrate the special importance of the image of the state's institutions among citizens, we remind the crisis situation created by the Katrina hurricane on the USA territory in September 2005. Even though the state authorities asked the population to evacuate the New Orleans area, a part of the citizens refused to leave it, some of them being motivated by the lack of trust in the state's institutions.

The reputation concept of an institution, organization, service is also used as an image substitute.

**Reputation** is the most important reference criterion of an institution in its relations with the public. Reputation represents in fact what the

others think about you; in other words, your public image.

The institutions, regardless their type or level they function on (local, regional, central), don't assert themselves only by their specific features, but also by their social image of viable and credible partners related to other organizations and institutions. In this situation, the image created in the collective mind, to the image characterized by continuity and steadiness is an essential role. The institutional components, their services must respond to the expectations of citizens and organizations it cooperates and relates to. That is why the public administration institution must carry on a dialogue and communicate with all its partners, as component parts of the institutional management, to make possible the preventive actions which should put back or decrease the danger for the public institutions to generate situations that could induce images impeding the fulfilment of its own interests or the co-operation with other institutions and organizations, or determining the mass-media reserved or hostile attitude.

The image of the public institutions with national vocation is very important for the functioning within the society. This thing is more required in the case of national safety and defence institutions whose social situation confers to their public image a high level of relevance.

For instance, the national safety and defence institutions cannot efficiently function in society unless enjoying a large social support mainly determined by the population's trust in these institutions, trust conditioned, at its turn, by the way the respective organizations are seen in society. In this situation, only two realistic alternatives can be identified: the organizations are seen as viable, trustful social partners who efficiently manage the society's resources and produce national safety and security or they are seen as unviable social partners who waste the society's resources, without substantial results for it.

It exists a preoccupation of the institutions to apply strategies aiming the creation of a positive climate, marked by credibility and trust, the creation of a distinctive image in the relevant social environment and in the interest areas, the determination and motivation of the opinion leaders regarding the main issues and the role of

the public institution, the attraction of the citizens' attention, good will and trust.

The formation of an image strategy must take into account strategic factors defining the general condition of the public institution, the favourable situations which can be used by these ones and the social elements against it. The most popular strategic factors with major implications upon the institution's image are its strong and weak points, its opportunities and threats. These are in fact the factors considered in a SWOT analysis of a public institution.

When presenting the promotion steps of the public institutions and services and the strictness they submit to, we referred especially to the concept of **image**. Besides it, in the theory and practice of the field there is also met the concept of **identity** (that we will develop below). Both need to be „clarified” and transmitted by all the possible / available information means.[10] We will not detail again these means or factors and the demands they operate on; instead we must underline that, generally, they contribute both to the crystallization of the image and of the administrative institutions' identity, to their consolidation. In fact, the **identity** refers to the modalities the public institution wants to identify itself and the **image** represents the way by which the large public perceive the respective organization. The institution creates its own identity in order to draft the image of the large public about itself, image that is determined by a series of factors for each citizen.

The identity and the image will be successful by the messages having distinctive personality and well defined recipient transmitted by the written and audio-visual means by also by the created events, ambiance, public space (architecture, design, climate), visit cards of the institution or its logo etc.

#### 4. Conclusions

The public administration wants to inform about the existence of public services the citizens have at their hand, to produce the adhesion of the social body to the interest actions generally carried on.

An image deficit or an unfavourable image generates question marks regarding the viability and credibility of the initial actions and activities performed by the public institution on local and global level.

A new image of the public administration institution can be created by an attentively conceived publicity, repeated and broadcasted by as much information mass-media as possible.

## 5. Bibliography

[1] Chiciudean, I., *Gestiunea imaginii în procesul comunicării*, Editura Licorna, București, 2000.

[2] Coman – Kund, F., *Politica de comunicare externă a colectivităților locale*, Ed. Economică, București, 2000.

[3] Guțan, M., *Istoria administrației publice locale în statul român modern*, Ed. ALL Beck, București, 2005.

[4] L. Hermel, „L'organisation de marketing dans le secteur public et son impact sur la formation de strategie”, *Revue française de marketing*, no. 155, 1995, p. 5.

[5] Munteanu, V.A., *Management public local*, Tipo Moldova, Iași, 2003.

[6] Panaitescu, I.D., V. Ionescu-Darzeu, A. Panaitescu, *Codul administrativ*, Institutul de Arte Grafice “Graiul Românesc”, București, 1927.

[7] Plumb, I., *Marketingul serviciilor publice*, Editura ASE, București, 2000.

[8] Rădulescu, A., *Unificarea administrativă*, Academia Română. *Memoriile Secțiunii Istorice*, Seria III, Tomul VII, Mem.12, Ed. Cultura Națională, București, 1925.

[9] S.D.Șandor, H. Raluca, H., „Satisfacția clienților administrației publice”, *Revista Transilvană de Științe Administrative*, 2004, p. 149.

[10] Teodorescu, B., *Marketing politic și electoral*, Editura SNSPA, București, 2001.

[11] Văraru, M., *Tratat de drept administrativ român*, Ed. Librăriei Socesc&Co, București, 1928.

[12] Vorzak, A., *Marketingul serviciilor*, Presa Universitară Clujeană, Cluj-Napoca, 2004.

[13] Zémor, P., *La Communication Publique*, Presses Universitaires de France, Paris, 1995.

# The Importance of the Online Business Models on the Internet Businesses Evolution, in Romania, in Economic Crisis Conditions

NEGOI Eugen-Remus

*PhD student at the Academy of Economic Studies Bucharest*

*remus.negoii@yahoo.com*

SION Beatrice

*PhD student at the Academy of Economic Studies Bucharest*

*beatrice\_sion@yahoo.com*

## Abstract

In managing a business online, it was given crucial importance to research business and increase the visibility of offered products or services, through online social media. Promotional expenses compared to the online business model to those of a traditional business model, decreased significantly. Visibility, as equal opportunity, given the size of a business and lift them in time. A contemporary Romanian online business success is based even so on visibility and social environments on the Internet: Facebook, Twitter, blogging, messaging, YouTube, forum sites. The research on several web sites that have well exceeded the maximum phase of economic depression, is particularly interesting to draw conclusions on how it can be treated a business model.

**Key words:** online business models, the visibility of the products and services, activity on the internet, contemporary romanian business, economic crisis, internet social media.

**JEL classification:** L86

## 1. Introduction

The internet and the World Wide Web are, in some measure, items that have both physical features and some items without spatial boundaries. Therefore, their definition in the classic way is difficult to understand, because they represent only a small proportion in tangible structures.

Although different structures, the internet and the www interact to form a perfect system; the www could not function without the Internet and would not make sense without it. With the advent and the explosion of Internet, appears the businesses so that have the Internet as the medium of life. The process was imperceptible at first, but grows exponentially as it moves.

The human being is made to communicate. Into the new society, the type of information society, the communication, the transfer and the exchange of information takes place through technical systems.

When we talk about information society and about the e-business it has to be, above all, an unlimited number of computers connected through telecommunications networks, for transmission of the huge information. Having unlimited access to information posted on the Internet, the consumer of products and services search, find, compare, make decisions more easily than in traditional trade.

Hence the conclusion that the new information society brings with it a series of the great opportunities: spatial and temporal constraints (borders and time) in communications have been greatly reduced, the information can be processed, stored and transferred rapidly, the prices of services, related to the information transfer, are steadily decreasing.

## 2. Characteristics of an online business model

General economic crisis which started timidly in 2005, but took a huge scale worldwide in 2007, has affected all sectors of the global economy. From here until the bankruptcy of many businesses both chain and, even, national economies, there was only one



step. A step that has revolutionized almost everything in a negative sense means business, precisely because of the interdependencies between regional and inter regional economy which is manifested in the world.

Due to lower degree of interdependence of the Romanian economy with the global economy (the degree of interdependence due to poor performance of the Romanian economy), the "Tsunami's" economic crisis in Romania reached about a year later, but the return will be much later than the performing economies. Whatever type of business, its size and complexity, degree of intermingling with other businesses, everything has been affected. Even if, through of the intrinsic nature, the online business seems somewhat immune from the economic cyclical (due to take extraordinary boom of the Internet environment and the penetration thereof), and decreases the medium took place so, sometimes dramatics, of the business itself.

Starting from a definition (Onete Bogdan, „Information Systems - design, aesthetics and promote websites, edition III-rd), saying that „the Internet is a large community that embraces the world, beyond the physical and political limits so. It is a collective society as a braided wire, the understanding between managers and users to a group of independent computers connected to servers.”, it can be stated as true, the conclusion of a seminar held in Russia under the auspices of the WTO (World Tourism Organization), which says that no other technology, except television, has had a so great impact on the passengers, as the Internet. And that statement can be extrapolated to all online business models.

### 3. Aspects of information used in electronic commerce

A research regarding the information, that are searchable online trade, which was conducted on a group of Danish visitors, it has surprised the following issues:

50.2% sought detailed information on the product

37.1% wanted price comparison

12.7% considered very important the details about the vendor

These data indicate a lower interest in actually buying the product - only 12.7% wanted detailed information about the vendor, attention is focused more on individual products and prices described. Winning the

trust depends of many factors, the researches, conducted by the Studio archetype / Sapien and Cheskin Research, leading to the recognition of six very important factors, namely:

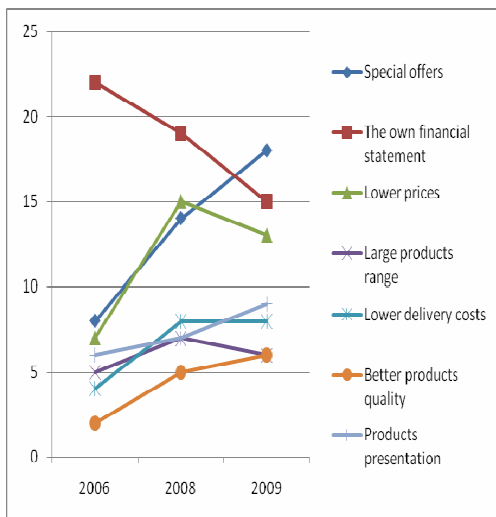
- logo of the confidence corporate sites that allow transactions on that website (eg., Visa Card)
- the brand
- the simply navigation
- the complete instructions regarding of how to conduct the transaction and the details information of the compensation of any dissatisfied customers
- the presentation or design that gives the company a professional image, and a high quality to the products
- the technology

Research shows that most products bought directly through e-commerce are books and CD ROMs, followed by electronic products and tourism services. However, the preferences for the products purchased online differ from region to region. For example, among the products ordered online by U.S. customers generally include clothes; other way, in countries like France and Italy, these products are sourced from conventional stores. The research on electronic commerce, conducted by Forrester Research ([www.forrester.com](http://www.forrester.com)), shows that in the U.S. in 2004, the number of those who bought online increased by 11 million the previous year, it estimated about 38 billion revenues from electronic distribution of the products and services. Also, the estimates made by Boston Consulting Group shows an increase in online shopping, but estimates are much higher - 61 billion U.S. dollars.

In Romania, an environmental research online business during economic crisis, revealed so 6 factors for the consumer confidence-building.

Thus, the first in Romania, for the information you are looking for to trade online, the price ranges of products or services, and in second place are situated the mark or brand of the product or service offered, and the third place - the ease with which the buyer takes possession of the product or service ordered and its quality.

„Figure 1. Incentives leading Romanian internet users to buy on the Internet”



The data illustrated in "Figure 1. Incentives leading Romanian internet users to buy on the Internet ", made by Gemius Research, shows that Romanians are primarily sensitive to price or rate a product / service ordered online, but also to an wider range of products which have a choice or to a quality of becoming their best.

Especially, the curve of decreasing their financial status is apparent that, with the advancement of economic crisis, Romanian buyers increasingly prefer more shopping online. Thus, regardless of income level that the buyers get, they are turning to e-commerce. At the first glance seems a financial unconscious, but a more careful analysis it is normal – to the same level of income (even decreasing), online shopping is preferred over traditional shopping because of lower prices.

This information can be easily used by online companies, adapting their prices policies to the changing online market. However, due to specifics of the online market itself, the prices are lower compared to the same type of product, than traditional business environment, as a reflection of lower costs in the online environment compared to the traditional business environment.

Moreover, almost 30% of online shoppers said they are willing to buy through social networking, and 27% said that the display of the comments relating to products for sale, would encourage them to buy, according to a Harris Interactive poll.

The poll show that the internet users are increasingly willing to resort to the social networks to seek recommendations on online purchases, and they are open to make purchases via the web sites that are usable and effective security systems.

The inclusion of the companies from the online business environment, on social networks (Facebook, Twitter, blogging, messenger, forum discussions, etc.). makes itself closer business by the preferences, ideals or desires buyers.

Extracting from the Harris Interactive study, result that 48% of online shoppers say that an e commerce website should be first user-friendly and attractive, 92% say that a brand is what draws them to a specific online shopping site. The innovative site design is another factor considered by internet users willing to buy online, 88% of them considering that the website layout endorses's credibility and may lead to purchase. 32% of Internet users say they would buy online if e-commerce web sites should be easier usable, and 24% - if the verification procedures would be simpler.

The differentiation offers for online and offline would make 50% of Internet users to purchase products via the Internet, according to the same study.

In addition to airworthiness ease, the consumers want that the purchases online will be integrated into communications platforms through which they have dialogues with colleagues and friends, making the preferences known in social networks and giving to retail officers the opportunity to develop a closer relationship with online bidders.

The report also shows that the recession was another step in electronic commerce, with sales rising in Europe, the United States and China, while traditional stores faced a decline in the number of consumers.

"The economic crisis has provided to the online trade a growth, after consumers have sought ways to reduce costs through buying items online", OECD announced, adding that the reductions can be substantial.

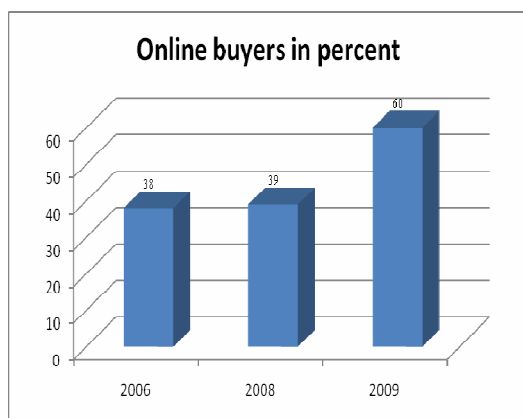
These costs reductions were transferred to lower prices, was based on the lower costs of online business then traditional business. The study shows that users in the UK, Germany and France can save up to 17% by purchasing electronics, DVD's and clothing from online platforms than traditional stores. OECD cites a study by research company Forrester, which expects that the western Europeans users will spend 123.1 billion euros for goods online until 2014, with an annual growth rate of 9.6%.

Also, the OECD warned that the future of electronic commerce is not entirely sure, since it depends largely on the trust consumers have in online stores.

In 2009, 33% of EU consumers bought goods online, but only 7% have purchased items from another country, the report said.

In Romania, in 2009, Internet penetration rate was 36% and about 50% of internet users used the Web site at least once to order online, more than 22% over 2006, according a study by specialised online research polish company, Gemius Research.

„Figure 2. Online shopping developments in Romania”



According to "Figure 2. Online shopping developments in Romania", is easily seen a good rate of growth in online shopping, in Romania, in the economic crisis.

Contrary to all hostile economic realities, even in 2009, the increase was significant, which further demonstrates the market potential for products or services online. According to that study, 96% of Romanian Internet users are aware of the possibility to buy online, and only 3% of them would not make Internet purchases.

#### 4. Conclusions

After various studies and research, several major conclusions may be drawn [1]. The economic crisis has affected the field of online sales, but not so great an extent as traditional business. Even under conditions of economic crisis, but respecting the trend of online media, online business trend to increase. As consumers look for cheaper products, but as an online store has the advantage of lower costs compared to a traditional store which is reflected in lower prices for the same type of product or service.

Reviewing all adverse effects of economic crisis in general, but looking much less adverse effects (even beneficial) to the online business sector, is apparent that this sector of online business was the least affected, conversely, the consolidation and growth even registered.

“Respecting” international trend of consumer behavior of goods or services online, romanian consumers can give, by their own behaviors, real momentum and beneficial e-business sector. But even if there are positive expectations from this segment of business, and even if the percentage of those who never buy on the Internet is less than 5%, positive evolution of e-business largely depends on the degree of trust and that you give business to consumer online.

Bypassing the negative effects of economic crisis for a business online, is made by associating consumers or potential consumers in social networks like Facebook, Twitter, blogging, forums.

To meet consumer demands, including social networks, should represent an end in itself, a goal of business online.

#### 5. Bibliography

- [1] Bernanke B.S., „Esays on the Great Depression”, Princeton University Press, 2004.
- [2] Bob C., „Trade information systems”, A.S.E. Publishing, Bucharest, 2008.
- [3] Funk T., „The Business Model”, Springer Publishing, 2009.
- [4] Lytras M., Damiani E., „Understanding the New Online Business Models”, Trends, and Technologies, Prager Publishing, 2008.
- [5] Onete B.C., Bob A.C., Brad S., „Information Systems in Business Administration”, Uranus Publishing, 2008.
- [6] Onete B., „Information Systems - design, aesthetics and promote web sites”, IIIrd Edition, A.S.E Publishing, Bucharest, 2007.
- [7] Porter M., „Competitive strategy”, Teora Publishing, Bucharest, 2001.
- [8] Rummmler S., Kwong N. G., „Colaborative technologies and applications for interactive information design”, IGI Global, New York, 2010.
- [9] Shuen A., „A Strategy Guide: Business thinking and strategies behind successful implementations”, O'Reilly Publishing, 2008.
- [10] Watson R.T., Berthon P., Pitt L.F., Zinkhan G.M., „Electronic Commerce: the strategic perspective”, Jacobs Foundation, 2008.

Note: This article is a part of doctoral research and is part of the PhD research project: Eugen-Remus NEGOI - Academy of Economic Studies Bucharest, Beatrice Sion - Academy of Economic Studies Bucharest

## Analysis of the Tourist's Circulation Manifested in the County of Mures During 2005 – 2009

Nenciu Daniela Simona

*Christian University „Dimitrie Cantemir”, Faculty of Tourism and Commercial Management,  
Constanta, nenciu75@yahoo.com.*

Secară Mirela

*Christian University „Dimitrie Cantemir”, Faculty of Tourism and Commercial Management,  
Constanta, mirela\_secara@yahoo.com.*

### Abstract

The tourist's circulation manifested in the county of Mures during 2005 – 2009 has registered light fluctuations from year to year. Thus, after an increase of 24,85 % in the number of tourists arrived in 2007 comparatively to 2005, this indicator has registered a decrease of 20,96% during 2007 – 2009. this decrease has been determined, mainly, by the low quality of the tourist's services, by the insufficient capitalization of the existent tourist's potential and the lack of investments in the modernization of the reception tourist's structures, with housing functions, existing in the tourist's resorts and balneal spas.

**Keywords:** tourist, investment, demand, indicators.

JEL L89

### 1. Introduction

The analysis of the tourist's circulation manifested in the county of Mures expresses the evolutions or involutions of the flows of tourists which have oriented towards this county, as a tourist's destination, during the specified period. The analysis of the specific indicators is especially important because it reflects the realities of the tourism in this area

The decrease, in the last two years, of the number of tourists who choose this county as a tourist's destination, has for causes the low quality of the tourist's services traded in the resorts in this county, the lack of investments in the modernization of the treatment units from the balneal spas, the weak capitalization of the

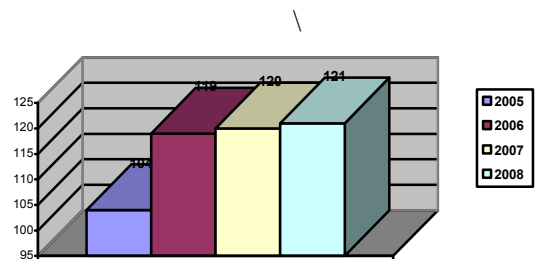
existent tourist's potential and the lack of training of the workers in the area.

### 2. Indicators of tourism demand

In 2008, comparatively to 2005, has been registered an increase of the number of the reception tourist's structures with housing functions of 16,34%.

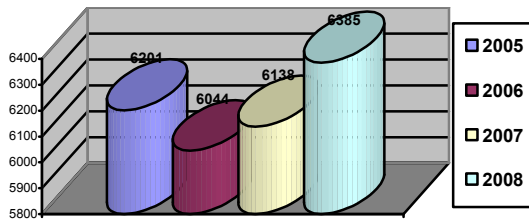
The largest percentage, in the total of the reception tourist's structures with housing functions is that of the rural and urban board and lodgings, followed by the tourist's vilas and hotels.

Fig. 1 The number of tourist's structures with housing functions in the county of Mures, during 2005-2008



**Source:** Processing after data taken from the Mures County Department of Statistics, *the 2008 Mureş County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

Fig. 2 Housing capacity (number of places) existent at the level of Mures County, during 2005 – 2008



**Source:** Processing after data taken from the Mures County Department of Statistics, *the 2008 Mureş County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

The indicator of the variation in time of the total housing capacity (I) = (no. of housing places during the year n / no. housing places year n-1) x 100

$I = (\text{no. of housing places during the year 2006} / \text{no. of housing places during the year 2005}) \times 100$

$I = 6044 / 6201 \times 100 = 97,47\%$

$97,47\% - 100\% = -2,53\%$

At the level of the year 2006 has been registered a decrease of the number of housing places with 2,35 % comparatively to the previous year.

$I = (\text{no. of housing places during the year 2007} / \text{no. of housing places during the year 2006}) \times 100$

$I = 6138 / 6044 \times 100 = 101,55\%$

$101,55\% - 100\% = 1,55\%$

At the level of the year 2007 has been registered an increase of the number of housing places with 1,55% comparatively to the previous year.

$I = (\text{no. of housing places during the year 2008} / \text{no. of housing places during the year 2007}) \times 100$

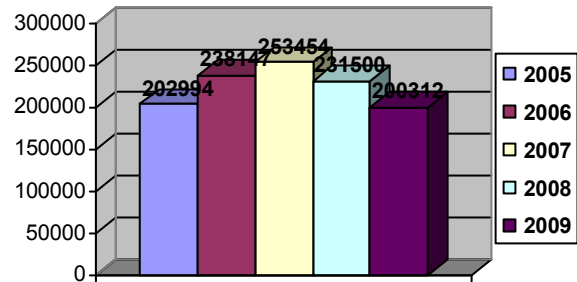
$I = 6385 / 6138 \times 100 = 104,02\%$

$104,02\% - 100\% = 4,02\%$

At the level of the year 2008 has been registered an increase of the number of housing places with 4,02 % comparatively to the previous year.

### 3. Indicators of tourist

Fig. 3 Number of tourists arriving in Mures County, between 2005 - 2009



**Source:** Processing after data taken from the Mures County Department of Statistics, *the 2008 Mureş County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

The indicator of the variation in time of the tourist's demand (Ivc) = (the number of the tourists arrived in the year n / the number of the tourists arrived in the year n-1) x 100

$Ivc\ 2006/2005 = (238.147\ \text{tourists} / 202.994$

$\text{tourists}) \times 100 = 117,31\%$

$117,31\% - 100\% = 17,31\%$

In the year 2006, the number of the tourists who oriented towards the county of Mures, as a tourist's destination, increased with 17,31% comparatively to 2005.

$Ivc\ 2007/2006 = (253.454\ \text{tourists} / 238.147$

$\text{tourists}) \times 100 = 106,42\%$

$106,42\% - 100\% = 6,42\%$

In the year 2007, the number of the tourists who oriented towards the county of Mures, as a tourist's destination, increased with 6,42% comparatively to 2006.

$Ivc\ 2008/2007 = (231.500\ \text{tourists} / 253.454$

$\text{tourists}) \times 100 = 91,33\%$

$91,33\% - 100\% = -8,66\%$

In the year 2008, the number of the tourists who oriented towards the county of Mures, as a tourist's destination, decreased with 8,66% comparatively to 2007.

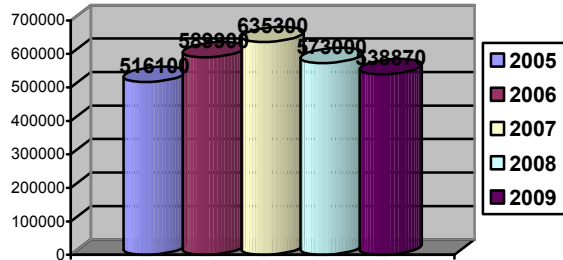
$Ivc\ 2009/2008 = (200.312\ \text{tourists} / 231.500$

$\text{tourists}) \times 100 = 86,52\%$

$86,52\% - 100\% = -13,47\%$

In the year 2009, the number of the tourists who oriented towards the county of Mures, as a tourist's destination, decreased with 13,47% comparatively to 2008.

Fig. 4 The number of overnight stays realised by the tourists arrived in the county of Mures during 2005 – 2009



**Source:** Processing after data taken from the Mures County Department of Statistics, *the 2008 Mures County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

During the analyzed period, the highest level of overnight stays realized by the arrived tourists has been registered at the level of 2007. After this year, this indicator registered slight decreases (with 9,80 % in 2008 comparatively to 2007 and 5,95% in 2009 comparatively to the previous year).

#### 4. Average stay

$S = \text{no. of overnight stays} / \text{no. of tourists}$

The average stay realized in 2005:

$S = 516.100 / 202.994 = 2,54 \text{ days /tourist};$

The average stay realized in 2006:

$S = 589.900 / 238.147 = 2,47 \text{ days /tourist};$

The average stay realized in 2007:

$S = 635.300 / 253.454 = 2,50 \text{ days /tourist};$

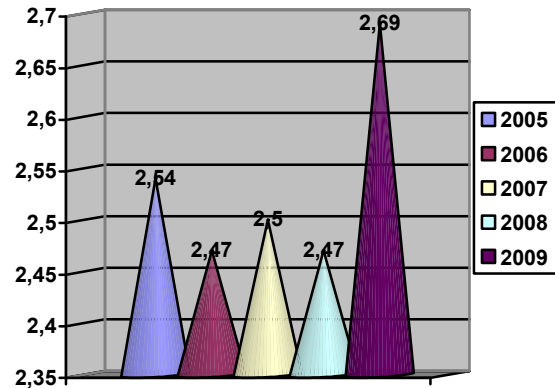
The average stay realized in 2008:

$S = 573.000 / 231.500 = 2,47 \text{ days /tourist};$

The average stay realized in 2009:

$S = 538.870 / 200.312 = 2,69 \text{ days /tourist};$

Fig. 5 The average stay realized by the tourists arrived in the county of Mures during 2005 – 2009

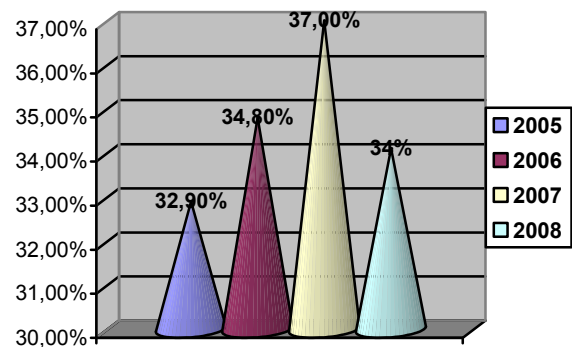


**Source:** Processing after data taken from the Mures County Department of Statistics, *the 2008 Mures County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

During 2005-2009, the highest average stay was registered at the level of 2009. The reduced value of the average stay registered in the analyzed period can also be a cause of practicing, in the recent years, of the week-end tourism in the detriment of the weekly and average stays.

In the analyzed period, the Romanian tourists have a percentage of over 70% of the total of tourists who choose this county, as a tourist's destination, the rest being foreign tourists.

Fig. 6 The indicator for usage of the working housing capacity during 2005 - 2008



**Source:** Processing after data taken from the Mures County Department of Statistics, *the 2008 Mures County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*



During 2005 – 2008, the highest occupation degree of the working housing capacity was registered at the level of 2007.

### 5. Density tourist

The tourist's density – population ratio = no. arrived tourists / the county's population

The tourist's density – surface ratio = no. arrived tourists / the county's surface

*The tourist's density of the county of Mures, in 2005*

The tourist's density – population ratio  
 $\Delta t = 202.994 \text{ tourists} / 580.851 \text{ inhabitants} = 0,35 \text{ tourists} / \text{inhabitant}$

The tourist's density – surface ratio  
 $\Delta t = 202.994 \text{ tourists} / 6696 \text{ km}^2 = 30,31 \text{ tourists} / \text{km}^2$

*The tourist's density of the county of Mures, in 2006*

$\Delta t = 238.147 \text{ tourists} / 579.000 = 0,41 \text{ tourists} / \text{inhabitant}$

$\Delta t = 238.147 \text{ tourists} / 6696 \text{ km}^2 = 35,56 \text{ tourists} / \text{km}^2$

*The tourist's density of the county of Mures, in 2007*

$\Delta t = 253.454 \text{ tourists} / 579.000 = 0,44 \text{ tourists} / \text{inhabitant}$

$\Delta t = 253.454 \text{ tourists} / 6696 \text{ km}^2 = 37,85 \text{ tourists} / \text{km}^2$

*The tourist's density of the county of Mures, in 2008*

$\Delta t = 231.500 \text{ tourists} / 579.000 = 0,40 \text{ tourists} / \text{inhabitant}$

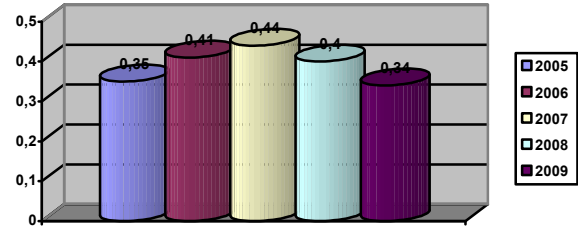
$\Delta t = 231.500 \text{ tourists} / 6696 \text{ km}^2 = 34,57 \text{ tourists} / \text{km}^2$

*The tourist's density of the county of Mures, in 2009*

The tourist's density – population ratio  
 $\Delta t = 200.312 \text{ tourists} / 579.000 = 0,34 \text{ tourists} / \text{inhabitant}$

The tourist's density – surface ratio  
 $\Delta t = 200.312 \text{ tourists} / 6696 \text{ km}^2 = 29,92 \text{ tourists} / \text{km}^2$

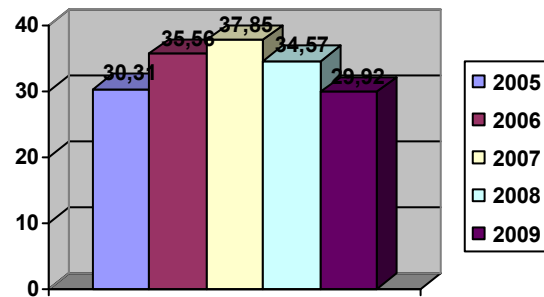
Fig.7 The tourist's density - population ratio during 2005 - 2009



Source: Processing after data taken from the Mures County Department of Statistics, *the 2008 Mureş County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

During 2005 – 2009 the highest value of the tourist's density – population ratio was registered at the level of 2007 (0,44 tourists / inhabitant).

Fig.8 Tourism in relation to surface density, between 2005 - 2009



Source: Processing after data taken from the Mures County Department of Statistics, *the 2008 Mureş County Statistic Yearbook, Monthly statistic bulletin, or.12/ 2009.*

During 2005 – 2009, the highest value of the tourist's density – surface ratio was registered at the level of 2007.

### 6. Conclusions

In order to stop this tendency of diminishing of the number of arrived tourists, manifested in this county in the last years and in order to revive the balneal spas in this area on the internal market, the tourism's entrepreneurs should permanently adapt the tourist's products and services offer at the exigencies manifested onto the tourist's market and to adopt an aggressive promotional marketing in order to promote their offer.

Some of the weak points this county's tourism are represented by the low quality of the tourist's services and the lack of training in this sector. As

a result of this, the passing of a strategy of increasing the quality of products and services, as well as strategies of attraction, motivation and loyalty for the workers in this area should be enforced.

## 7. Bibliography:

1.Nenciu D.S., “Marketing strategies for the development of the Romanian tourism”, Publishing House EX PONTO, Constanta, 2009.

\*\*\* Master Plan for the Development of the National Tourism 2006 –2026, taken from [http://www.mturism.ro/fileadmin/mturism/noutati/masterplan\\_abcd.pdf](http://www.mturism.ro/fileadmin/mturism/noutati/masterplan_abcd.pdf).

\*\*\* The 2008 Mures County statistic Yearbook, taken from [www.mures.insse.ro](http://www.mures.insse.ro), accessed March 5, 2010.

\*\*\* Monthly Statistic Bulletin 12/2009, taken from [www.mures.insse.ro](http://www.mures.insse.ro), accessed March 5, 2010.



## Conceptual operationally of Business Intelligence – an epistemological view

Claudia – Mihaela NICOLAU  
*Faculty of Economics and Business Administration*  
*Faculty of Law*  
*„Al. I. Cuza” University of Iași*  
*clau\_n2004@yahoo.com*

### Abstract

Business Intelligence although seems one of the newest discipline integrated in the big family of MANAGEMENT, actually has its roots in the antique military strategies. BI evolved a lot in the last years (mainly since 1994, when it received the first time its name in France), until it became a tool unlikely to be neglected by theorists as well as by practitioners. With all these, often it is mistaken for other new discipline, or they are used with interchangeable meanings. So the declared purpose of the present paper is to try to realize a conceptual frame of BI, and to try to connect it with other discipline/concepts used, such as – Knowledge Management, Benchmarkingul and Competitive Intelligence.

**Keywords:** business intelligence, information, knowledge management.

**JEL classification:** M19

### 1. Instead of introduction – choice’ motivation

The transition from the industrial society in which the immateriality becomes an important source of goods realization, puts nowadays the issue of nature, its importance and its role in the firm’s strategy. The decisional processes present nowadays treats today of 100 times more information than 30 years ago, and in the last 10 years the information managed in an organization, institution or firm, knows a growth rate of over 10% per year. Obviously, this growth rhythm of the managed information volume differs from a country to another, but has to be underlined the fact that in the countries with a consensus ruling, the information plays a role of source of competitiveness, as well as a source of social cohesion [2].

The present economic issues became too

complex that only a person can manage them in all its aspects. The time where a strategist within an enterprise had the capacity to inform and to understand the enterprise environment without being framed in a team passed. The enterprise has to organize its activity into a more global manner. It needs the observation capacity and of reflexion of its employees. On the other side, the business became worldly.

Business Intelligence and competitive intelligence represent an old practice, and its historical examples are many. M. Lehman, the Director of Research of Saint – Gobain, achieved to maintain its domination more than two centuries thanks to a remarkable intelligence system using networking (having a network of ambassadors from all Europe amongst other types of people) [7].

### 2. Business Intelligence – a new spirit status and a new work frame

The Business Intelligence’ experiments highlighted its multidimensional character. Business Intelligence fits in the newest manners of organization and the newest managing means of information’s distinguishing the necessity of changing the present way of thinking and of action. This new manner of thinking and of action will be the expression of *a new spirit status* and of *a new work frame*.

*Business Intelligence as a new spirit status* depends on a few fundamental considerations such as:

- *the information has value*, such as: the value that helps to make known what it can be spread in exterior; the value of the missing information to take a decision; the financial cost that it is paid for obtaining the information, etc.;

- *the information has to develop within a collective culture* through: sharing the means between the internal and the external

environment, etc.;

- *the information is a rough material*, which means that: the added value results only through its exploitation and can be measured only when a firm exists request; requests a continuous process of perfecting (refine) with each technological phase, etc.;

- *the information is an action mean* to: influence in the interior of the firm, especially, upon motivations; the improvement, in exterior, of factor's influence that condition the firm's functioning (the customers, the suppliers, the competitors, the administration and even the citizens), etc.;

- *the information enforces the usage of a analysis grating* with its help achieving : through using the game theory of the economic agents, it can be identify the threats and the opportunities caused by the different force rapport; it is analyzed comparative the cultures, each information is given to its context, etc.;

- *the change in any firm has to be assured through a management* that: polarize the people around the individual and collective information network; organizes functional structures of Business Intelligence to collecting, treating and spreading information's, etc.;

- *the change in any firm has to be started through conceiving and implementing an informatics system* based on individual modern means (work places) and on collective means, such as, informatics networks, assuring thus the gathering , the processing and the spreading of information's according to the users' requests (ergonomics, rapidity, security, capacity, etc.), etc. [1];

Regarding the new work frame, in this uncertain epoch, Business Intelligence became a necessity for more and more enterprises:

- for the strong enterprises (so called dinosaurs) because the environment changes so the firms have to adapt. A bad example happened a few years ago with IBM and Philips, that lead to loosing 100 thousands employees;

- for the „weak” enterprises (so called squirrel) which survives with niches and are frequently threat by competitors and predators. For example, a small firm who produces software always has to supervise its supplier (such as Microsoft) and also its customers (which can go to its competitors – that can be at the same time its supplier, induced by a reduced price);

- for the medium enterprises (bear cubs)

that have the ambition to become strong, and so it have to learn from the best [7].

### 3. Conceptual operationally of Business Intelligence

The concept Business Intelligence appeared in France in 1994, in the rapport of Martre Commission (the XI Plan): „Business Intelligence (in french is used the term intelligence économique that means actually economic intelligence) and enterprise's strategy”. Analogous to the americans „Business Intelligence”, the french intelligence économique is an extension of the strategic surveillance (the ensemble technologic and competitive surveillance) for an offensive usage of information.

In the Rapport Martre it is stated the following: „*Business Intelligence can be defined as the ensemble of the researching, collecting, treatment and spreading actions so that the economic agents exploit the useful information*”.

Business Intelligence is focused on an organization at a national level and not only on organization, such was the case many years ago concerning the old technological surveillance [4].

Different publications on Business Intelligence shows the variety of possible approaches, and also the methods and the tools to really implement it into practice. Another tendency of various publication on the subject, unfortunately, are driven by the present „fashion”, use the concept of BI and old technological surveillance as being synonyms; and other publications just refer at BI as being a simple transfer of documentation.

The concept „intelligence” was chosen because it has more passive connotations than the terms „surveillance” or „oversee”. The intelligence is only the intellectual aptitude and is defined as being the capacity of adapting at the existing environment. The intelligence, in the British literature is called the „Service Intelligence” (the service of British intelligence) and it means the aptitude of informing and of understanding its environment.

The above definition, where each word is often intense debated and evaluated, contains the major ideas of this issue:

- the concept of action forms an ensemble coherent, that produces information;
- the concept of the entire cycle of treating the information: gathering, treatment, spreading;
- the concept of useful information is pertinent.

The general Guyaux goes longer in defining the useful information, and does it like being the information that the person that is making the decision needs at the desired form and on the desired time. All these imply:

- it has to be identified the person that is taken the decision, and it's not a simple task especially in the diversified big groups;
- it has to be identified the needs (expressed and latent);
- it has to put the information into the right form (to know to communicate it);
- it has to be delivered into the right moment, this means that if the information is delivered to the right person, this one has to use it according to the enterprise' rhythm [7].

### 3.1. Business Intelligence and Knowledge Management

The specialists in knowledge management speak frequently about various concepts that are trying to define and to manage, such as: knowledge management, data mining, data warehouse, groupware, work-flow, knowledge base, know-how.

One of the first attempts of defining the concept of Knowledge Management it can be found into an article – The ABC's of KM in CIO Magazine in 2001, that states the following: „KM is the process through which organizations generate value from their intellectual and knowledge – based assets”. The authors Santosus M. and J. Surmacz continue in the article by seeing: ”Unfortunately, there's no universal definition of KM, just as there's no agreement as to what constitutes knowledge in the first place” [8].

Adding to the above definition for a better understanding of it, we specify the following:

- KM is not a concept based on the information's technologies, but *a process adapted to the enterprise commercial activities*;
- results that KM cannot be separated by the enterprise's strategic objectives;
- the decisions of KM has to be based on WHO (the actors), WHAT (the knowledge,

the abilities), and WHY (the enterprise's objectives), HOW (the used technologies).

The central point, the cornerstone of the entire BI'system is the network of experts and the person who will beneficiate on the knowledge management techniques, starting with the exploitation of internal information's, continuing with their correspondent's contacts, because the issues that may appear in an enterprise' activity can be related to the internal as well as external information's.

The groupware will be useful for the contacts existing between different correspondents and the leader of the experts group:

- the documentarists of the observers network, that are interested in the public information;
- the „other observers”, who are related to their group and they are interested on the nonformal information's, gathered from their customers, their providers, and from their competitors;
- the experts that are in their group that must be consulted for obtaining the information's validation and the preparation of the periodical groups reunions;
- the other experts of the enterprise, such as other responsible of the expert's and of the specialist's groups can be asked for advices;
- the directors (the person who takes the decision) who are directed the BI's information's issues [3].

### 3.2. Business Intelligence and Benchmarking-ul

Benchmarkingul is a standarized competition method in the economic competition and it is a known consideration for the BI' specialists to consider essential to own the basis elements [3].

Well understood the benchmarkingul can be applied in various functions and actions, such as:

- R&D;
- production;
- finances;
- logistics;
- administration of stocks [4].

The „bench-marks”, the term derived from

the american litterature, are the guiding points used by inspectors for efectuating, the mentioned, topographic indications.

Through extension we call benchmarking the method of localization, of standardization of competitor societies. Nowdayw, the concept benchmarking is also used by informaticiens: to them the concept „bench testing” and „mark” means a level of references and at the same time a comparison basis and a target [1].

In the french litterature benchmarkingul as „competitional standardization” or perhaps „comparative standardization” has the sense of: a process of performance evaluation of products, of services, of functions, of methods and of practices of the rapport of the best worldly societies.

In conclusion, we can state that the benchmarkingul and BI are mutual necessary to each other baccuse, in BI, if each enterprise needs a specific system, while it is elaborated and implamented, it is recomended to use:

- to study the recommendations and the prescriptions of the specialized organisms;
- to be inspire by the experiences realized by the best enterprises [3].

### 3.3. Business Intelligence and Competitive Intelligence

In „Competitor Intelligence: How to get it – How tu use it” (1985), Fuld L. Introduced and vedeloped the concept „Competitor Intelligence” that rapidly converted in Competitive Intelligence [5]. In 1985, as well as in 1988, in „Monitoring the Competition”, Fuld. L., who became one of the known americans specialists, didn’t menntioned anymore the concept „competitive intelligence” that suddenly largely propagated with the apparition of Society of Competitive Intelligence Professionnals (SCIP) [6]. Other american specialist – Stanat R., used for the first time the concept competitive intellgence in „The Intelligent Corporation” (1990), where she stated:”This is the impetus for competitive intelligence and the systematic monitoring of the competition”, and also a phrase that nowadays is more actual then evere:”There are various forms of competitive information or intelligence that are valuable in today’s environment” [9].

The american litterature, as well as the british one used in the same manner the concept BI. For both, the concept competitive intelligence is

practical synonymous with the concept business intelligence, in the present acception of the term, without having any connection with espionage.

Making a brief history to show that the french concept „intelligence economique” was oficialized in 1994, is subsequent to the apparition of the american concept „competitive intelligence”. The american concept was used official after 24 june 1992, the date of the french Society of Competitive Intelligence Professionnals apparition. It is rather difficult to differentiate the concepts american and french, it is unanimous accepted that it has the same meaning. For supporting the above statement it is usefull to give the definition of competitive intelligence according ti the American Productivity and Quality Center (APQC) in 1999: „Competitive intelligence is a systematic program for gathering and analyzing information about your competitor’s activities and general business trends to further your own company’s goal” [3]

### 4. Conclusions

Although the present paper can’t be considered an exhaustive approach to the conceptual operationally of Business Intelligence, does treat three concept related with BI, such as: knowledge management, benchmarking and competitive intelligence.

The Knowledge Management, as well as Business Intelligence are considered as one of the latest disciplines welcomed in the general discipline, generic called – MANAGEMENT. KM and BI are different meanings and diferent approaches, but is important to remember that certaines present techniques of KM present interest for BI, for its implementation but also for its optimal usage. The BI have an ofensive usage of informations, whereas the KM represents the optimum knowledge administration. The specialists in BI are conscious that they have to keep in mind the exterior information (to know what the other are doing) and they have to incite at the offensive usage of this kind of information for obtaining a strategic objective. But they are in the same measure conscious that the expertise of the enterprise’s specialists is indispensable for:

- to transform the raw collected information into an elaborates one, represents an helping tool for making decisions;

- to know the resources specific of the enterprise, its forces, its own competences.

As we already mentioned, BI resulted from an external evolution of the old surveillance (or as we find it in the frenc litterature „veille concurrentielle”) who integrated the national interest, so the benchmarkingul is the logique sequel, internally, of the old surveillance of a given entreprise.Thus, determing its competitors to observe a certain quality, a superiority . All these made legitimate to expand BI in grafting the competitionnal benchmarking as the generic benchmarking.

The last concept debated – the Competitive Intelligence, we saw that between it and Business Intelligence is a diference of form, and not a significant one – of substance.

## 5. References

- [1] Apud. Camp R.C., Le Benchmarking, Éditions d'Organisation, Paris, 1992
- [2] Dijmărescu I., Managementul Inteligenței Economice, Editura Lumina Lex, București, 1998
- [3] Jakobiak, F., L'intelligence économique. La comprendre, l'implanter, l' utiliser, Éditions d'Organisations, Paris, 2004
- [4] Jakobiak F., L'intelligence économique en pratique. Comment bâtir son propre système d'intelligence économique, Éditions d'Organisations, Paris, 2001
- [5] Apud. Fuld L., Competitive Inteligence: How to get it – How tu use it, Mac Graw Hill, U.K., 1985
- [6] Apud. Fuld L., Monitoring the competition, Mac Graw Hill, U.K., 1988
- [7] Martinet B. and Marti Y. – M., L'intelligence économique: comment donne de la valeur concurrentielle à l'information, Éditions d'Organization, Paris, 2001
- [8] Apud. Santosus M. and Surmacz J., „The ABC's of Knowledge Management”, CIO Magazine, Knowledge Management Research Center, USA, may 2001, p. 1
- [9] Apud. Stanat R., The Intelligent Corporation, American Management Corporation, New York, 1990

## Methods and techniques of organizational development

Dr. Nicolae Tudorel  
MAI - ISOP, Bucharest  
E-mail: [ntudorel\\_ntcsp@yahoo.com](mailto:ntudorel_ntcsp@yahoo.com)

Conf. Univ. Dr. Dorin Coita,  
University of Oradea, Faculty of Economic Sciences  
E-mail: [dcoita@uoradea.ro](mailto:dcoita@uoradea.ro)

Drd Nicolae Sabin-Mihai.  
Academy of Economic Studies, Faculty of Marketing  
E-mail: [sabin.nicolae@gmail.com](mailto:sabin.nicolae@gmail.com)

### Abstract

This article analyses the main methods and techniques of organizational development, from the point of view of changes that these produce, at the level of the organization as a whole. The organizational changing process is analysed in the way that presumes the gearing of a whole system of organizational forces, in the direction of the expression of the whole potential of the organization. There are taken into consideration the training laboratories for sensibilisation, the team building or the built of the teams, the investigations for the obtain of feedback and quality circles.

**Key words:** methods, techniques, organizational development, process

**JEL classification:** M21

### 1. Introduction

The organizational development (O.D. - *organizational development*) represents „a long time effort to enhance the organizational vision, to grow the organization's force, to develop learning processes and to solve problems, through managerial support (including top management), to ameliorate the organizational culture, with the help and collaboration with a facilitator consultant and the theory and the behaviour science technology including the research of participative actions” (French, Bell, 1995).

As the name indicates, O.D. means change, and even more: it presumes change plus positive growth/ development, o conjugation of

numerous efforts, different, through normative, reeducational strategies, for the modification of the „philosophy” of the organization, of the values, systems, behaviours.

We will next stop over some of the most often met *methods and techniques* in this process.

### 2. The training laboratories for the sensibilisation (T-group training)

The training laboratories for the sensibilisation (*sensitivity training laboratories - STL*) represent one of the traditional techniques of organization development, that remains in the present one of those who have results both in the area of personal development, as in the level of work group and in global organizational level. The STL process, according to K.Benne, L. Bradford, R. Lippit, can accomplish the following objectives:

1. The increase at the participants of the awareness and sensibilisation towards their own emotional reactions and those of the ones around them.

2. The development of the participant's ability to perceive and learn from the consequences of their own actions, giving attention to their own feelings and those of the others.

3. The stimulation of the clarification and self value improvement and of the consonant purposes with the scientific approaches of the problems regarding the decisions and personal and social actions.

4. The development of some concepts

and theoretical insights that will serve as instruments for the relationship of the values, purposes and intentions for actions, consistent with the interiorisation of the individual, and with the requirements of the situation;

5. The reunion of the behaviour efficiency accomplishments with the life environment of the participants" (*apud* Luthans, 1985, p. 629).

Therefore, through the achievement of the reminded purposes it can get to a larger sensibilisation of the employees towards the group life; this can be accomplished without the overlook of the individual advantages that appear at the intercommunication and helping level, with effects over the individual positive tonus.

The STL practice pursuits therefore, in the first place, the elimination of a „common cause of frictions that appear in the organization, involving the absence of a correct perception." (Baron, 1983, p. 541).

STL takes place under the form of some group meetings with approximately 12-15 members and a discussion intermediary. Luthans talks about the laboratories with strangers, with „relatives" or family" (1985, p. 631). These are metaphorical expressions, for the work groups, of participants from different organisations, from different departments, or the same department.

Of course, the fastest, most direct and profound effects are those from the last category. R. Baron (1983, p.543), arguing for the use of this method starts from 3 central ideas:

- a) in normal conditions, the individuals aren't very opened and honest with each other.
- b) the opening lack blocks the important *insights* about themselves of the others.
- c) these *insights* can be encouraged if the individuals are placed in a communicational environment that has a rule the opening, the direct communication.

STL is a technique meant to develop in an open manner the member's interaction, starting from simple to complex, from unstructured to structured, from the lack of empathy to empathy. Even if initially it exists „the lack of a working agenda, focused on „here and now"" (Altman, Valenzi, Hodgetts, 1985, p. 651),

*A first step of the STL* should be an initial diagnostic of the situation, to identify the main problems and their area of action.

*The second step* follows the effective technique and includes the indirect work laboratories, without a structure everyday order.

The meetings can be led by a trainer, but can also be made by the effective members of the group, they choosing in the first phase their leader.

*The third step*, according to Luthans (1985, p. 631), presumes from the trainer „opening, non-defensive attitude, the empathy manifestation and the expression of their own feelings in a non-evaluation manner".

Here is an extra argument for the STL to work with an expert/consultant and not with a group leader person from the coworkers or managers from those in the group, that could perceive evaluations even in the situation in which they don't exist (not to be omitted the fact that there may be the situation in which the manager will act evaluatively)

The *fourth step* proposed takes into consideration the effective development of the inter-personal relations. There are opened the bases for collaborative type behaviours and the stimulation of the team spirit. It is the step that has to be on the most meetings for this type of behaviour not only has to be aware but also accustomed.

In the end, quoting George Odiorne, Luthans (1985, p. 631) we consider that we must find the „exploitation of the relevance of experience in the terms of the situations and problems from the workplace".

A special attention must be given to the role that the trainer has in the activity of this type. The *trainer* can be, as we said before, a person specialised in STL or can be chosen from the persons in the group.

At least in the first phase, the role of this person is to encourage the free talk, regardless of the theme chosen. It is essential that this „doesn't act as a leader and neither as therapist" (Baron, 1983, p. 543).

His role must be that of intermediary of the talk, between all the members of the group. Problems can come from two directions:

- a) the vulnerability of the persons that will reveal
- b) the lack of a correspondent feedback given in the first situation

A few words now about the positive and negative effects of the STL. The positive effects of the method appear especially in „the consciousness of the group norms, the

experience of a belonging feeling, the accomplishment of a role flexibility” (Altman, Valenzi, Hodgetts, 1985, p. 652).

It seems a bigger chance is given to the „structured STL ( structure that allows the specific learning of of all that can be transfered into work situations)” (Luthans, 1985, p. 632).

On the other hand, there can appear negative results from the „confrontation and the disclosure of feelings and personal values” (Altman, Valenzi, Hodgetts, 1985, p. 652), things that tend to reflect negatively, without a direction and a close control from the facilitator. For this reason, the technique isn’t always recommended by the profesionist. Either way, if it is applied adequately, the success in the clarification of the feelings and in the improvement of the social relations has positive effects over the entire organisational life.

STL can have immediate effects over the integration of the new employee thanks to the flexible and open manner of practiced discussion, through this, there can be gathered many informations about coworkers and the working environment in general. Finding out about the values that appreciated by the work group individuals, about the desired behaviours or just because they are expressed, a quick and important step into the society is made.

### 3. Team building-ul or building teams

The built of teams represents a deziderate of the efficient activitiy. Besides, the contruction methods of the teams have started from this conclusion: of the employee is intergrated in the work collective and finds its „place” in the mechanism that this represents, many advantages appear, implicitly: the productivity is growing, the motivation is at high shares, it decreases the probability of the leave of the organisation etc.

Since this method has been largely treated in the chapter about the motivation, we will limit now to notice that in the whole of this concept, multiple variations and options can be found; therefore, besides some relative evolution stages and for some criteria and analysis indicators, the way to build the team are very variable.

That is why we will talk here about the efficiency of a methodological structures, and not a simple method. For example, a necessary „ingredient” for a *team-building* programme is represented by the (*ice-breaking*) exercises

whose role is to make easier the interaction area of the behaviours and to extend these borders in the interior of the working collectives.

Here is how *team-building* starts to be seen, more and more often as a developed philosophy in the interior or the human resources management and a methodological, dinamical and flexible whole, at the basis remaining the bond between the cohesion of the group and the assurance of performance. As for this connection, the specialty literature consents the corelations between the two criterias without being able to establish a direct determination relation; more precisely, there isn’t just one answer to the question „*What comes first: cohesion or performance?*”.

In this way, for example, te increase of the cohesion can be the cause for which the team members will work more, as a result an increase of the performance, but non concomitent, and the obtain of performance can be because of the increase of the inter-relational level between the team members, so that the „cohesion influences the performance, and the accumulation of performance influences therefore the cohesion” (Forsyth, 1983, p. 450). From these considerations, *team-building* remains a pretious instrument for the organisational development.

### 4. Investigations for obtaining feedback

Represents a tecnique that can produce, at its turn ameliorative effects at the level of interrelations between the employees of an organisation through the realy valuable information that we can gather after it is applied.

Most of the times, *survey feedback* presumes two distinct steps. The first step, according to a series of authors (Baron; Altman, Valenzi and Hodgetts; Luthans) is designed to gather information about the state of the organisation/department; for this purpose, a questionnaire is applied.

Sometimes it is used a standard questionnaire, otherwise it is used a questionnaire especially created for the gathering of those informations. In the case of the standard questionnaire, Luthans (1985,



p. 635), quoting C. Taylor and D. Bowers proposed the next areas of research:

**Table 1.** Investigation areas of the organisation reality

Categorii	Elemente investigate
Leadership	<ul style="list-style-type: none"> <li>- managerial support</li> <li>- the direction towards the means and their accentuation by the managers</li> <li>- the facilitation of the work by managers</li> <li>- the facilitation of the management interaction</li> <li>- the support of the „equals”</li> <li>- the direction towards the means and their accentuation by the equals</li> <li>- the facilitation of the work by equals</li> <li>- the facilitation of the equals interaction</li> </ul>
Organizational Climat	<ul style="list-style-type: none"> <li>- communication with the company</li> <li>- motivation</li> <li>- decision making</li> <li>- control inside the company</li> <li>- coordination between departments</li> <li>- management at a general level</li> </ul>
Satisfactions	<ul style="list-style-type: none"> <li>- satisfaction of belonging to the company</li> <li>- work satisfaction thanks to the supervisor</li> <li>- satisfaction in the work done</li> <li>- pay satisfaction</li> <li>- satisfaction about the activity in the department in which it’s included</li> </ul>

In the second case, this first step is preceded by the information gathering about the problem situation, finding out through mini- questionnaires, interviews or focus groups, that is the problematic area, at a general level.

The method has the advantage that more information can be gathered; in the step of the application of the questionnaire is very important to assure the data confidentiality, so there can be gathered real data, correct, that can be used in a manner that would draw the amelioration of the identified negative aspects.

The correct interpretation of the data is also important. In the situations in which the data is insufficient (for example, in the small departments, where there are few respondents and can't be made a valid generalisation) is important that the interpretation to be based on other data gathered through other methods.

The utilisation degree of the data is another element that raises problems, being necessary that the management to want to use the data in the direction of the improvement of different seized aspects.

The second part presumes the delivery of the taken and interpreted data. In order for the dates to be valued and for the effects to be positive, this second step must accomplish with professionalism, „making the summary and the interpretation in a clear manner, that would extract also the reactions of the employees at the gathered information” (Baron, 1983, p. 548).

The same author draws attention over the presentation of the results „in a constructive manner and not threatening” (ibidem). It must be explained to the employees that the method is being used exclusively in ameliorating purposes at the level of the organisational life.

In the view of the successful utilisation of the investigations in order to obtain feedback in the organisations, Floyd Mann recommends:

1. „the top manager” to actively participate at the preliminary planning;
2. the dates to be collected from all the organisation members.
3. the dates to be communicated from the beginning to the *top-management* and after that down the hierarchy;

4. each manager to have meetings with his subordinates to interpret together the information, planning constructive changes and the introduction of information at the lower levels;

5. the feedback meetings should include a consultant that would prepare the manager for the meeting and to play the „resource-person” part (*apud* Altman, Valenzi, Hodgetts, 1985, pp. 661-662).

The studies made show that the positive impact method over the employees, with a significant score of enhancing the productivity (but with less significant effects over the abstention or demission from the organisation). Anyway, the use with success on a large scale of the method in organisations is proven by valid statistical studies, quoted by Altman, Valenzi, Hodgetts (1985, p. 663), who attributed the success of this method, a series of three factors: virtually, all members have been included in the research; the technique has stimulated the „defrost” of the wanted components; the employees perceived the data recollection process with a direct relevance over the problems they have.

A different way to apply the feedback in the O.D. is through the use of key-questionnaires este the 360° feedback. To the 360° feedback technique we have given a *supra* special interest, in the analysis of the performance evaluation in an organisation, We wish to remark that such an investigation completes the information board that we will use in the construction of an organisational development programme.

## 5. The quality circles

Method of Japanese origin, it is proudly used to enhance the organisation's efficiency, drawing implicitly a development of that another aspect that is worth mentioned is that through the development manner, *the quality circles* have positive effects on the climate.

The method used to enhance the working style or the amelioration of the solving way of some problems, gathering through volunteer work in the team some persons that act in the area of the problem. There are obtained both strictly professional objectives-quality results- and results at the level of the

interaction through team-work, the learning of a way of positive interaction, the increase of self-confidence and team confidence as well.

The discussions from the „quality circles” are made periodically (weekly, in one hour meetings), in a flexible, open manner. There can be integrated in the groups persons that don't belong to the problem area and that can offer objective solutions.

The discussions have as a main purpose aspects about the decrease of consumes, the minimization of the error number, the amelioration of the productive flow, the resource identification underused or not used at all etc.

In order to maximise the contributions of the method to the organisational life, support is needed that is why it's recommended that before of the use of quality circles, a series of „facilitation methods” to be applied:

- the making of an analysis questionnaire of the current state;

- discussions with the *top-management* over the results;

- the realisation of special programmes for the top management and the middle one;

- instruction with the „professionists” of the problem;

- awareness programme for the method with all the organisation's employees;

- the registration of those who participate in the programme and their coordination;

- the formation of quality circles and the instruction of the members.

R. Baron (1983, p. 558) develops the following succession of phases about the method use:

- in the discussion groups there are identified the key-problems, that interfere with the efficiency or quality;

- there is accomplished a close analysis of those and it is tried the identification of specific solutions;

- the recommendations are sent to a managerial team in order for them to analyse.

- if accepted, the solutions are implemented, if not, there are sent to the group the objections according to what the solutions can't be implemented.

- in the case of the solution implementation, the success of the implemented solutions is analysed.

The problems can be subdivided into the

next categories:

-type 1 problems- that presume the minimum implication from the other departments.

-type 2 problems- the implication of the other departments is a necessity.

-type 3 problems- support, sanctions and involvement from the management are required to implement the solution”.

It is recommended the use of as many working methods for the reach of results: *brainstorming*, the collection of all necessary data, graphic analysis methods and result presentation, cause-effect diagrams etc. Also, it is important to be actioned so that the cohesion of the team is kept, to be involved all the discussion participants and to maintain the task focus.

According to Baron (1985, p.558), the method seems to „awake the feeling of pride towards their work at the employers and tends to increase the quality and efficiency on the total”. The organisational integrity is made easier through the method, thanks to open and flexible talks, thanks to the feeling of belonging to the group which is very possible to appear, given the favourable conditions.

As it can be noticed, all these methods and techniques can be used in a large sphere of processes from the human resources management. Their situation in correlation with the phenomenon of organisational development is based on the including that these can register.

We were characterising at the start of this section, the organisational development through the light of change; we were also reminding that the O.D. overcomes and embraces the change, giving it other significations and higher implications. Therefore, the organisational development is supported on the idea of *learning through change*.

The successful organisations are the organisations that learn (*learning organizations*), defined through the „ability to create, purchase and transfer knowledges or modify behaviours to reflect new knowledges” (apud Holden, Salskov, in Cooper, Cartwright, Earley, 2001).

Indeed, in the context of an accelerated progress and of a flexible and unpredictable concurrent market, *the learning*

*organisations* are the only ones who have chances to succeed on the long term. Some authors extend even more the O.D. analysis.

This is how Ramon Flecha and Lidia Puigvert (in Aspin, Chapman, Hatton, Sawano, 2001, p. 251) appreciate that the impact and organisational influence continue in the family and even more, in the community. For those, the authors extend the learning organisation to *learning communities*.

## 6. Conclusions

Even if, after the organisation development, it is foreseen the change of the system as a whole, the applied techniques are addressing, especially to the persons as individualities or groups – through these following the concretisation of an amelioration at the organisation level as a whole.

The training laboratories for the sensibilisation represent one of the traditional techniques of organisational development with results in the personal development area, as the level of the work-group and at a global-organisational level. Team building can be considered a methodological structure, and not a simple method. Investigations for feedback gathering produce ameliorative effects at the level of inter-relations between an organisation’s employees through the truly valuable information that can be gathered. The quality circles are predilectly used to enhance the organisation’s efficiency, drawing, implicitly a development of that.

## 7. References

- [1] Altman, S.; Valenzi, E.; Hodgetts, R., *Organizational Behavior - Theory and Practice*, Academic Press Inc., New York, 1985.
- [2] Baron, R.; Byrne, D., *Social Psychology – Understand Human Interaction*, Allyn and Bacon Inc., New York, 1987.
- [3] Cooper, C.; Cartwright, S.; Early, C., *Organizational Culture and Climate*, John Wiley & Sons Ltd., New York, 2001.
- [4] Davies, B.; Ellison, L., *School Leadership for the 21<sup>st</sup> Century*, Routledge, London, 1997.
- [5] Davis, K., *Human Behaviour at Work*, McGraw-Hill Inc, 1981.
- [6] De Visscher, P.; Neculau, A., *Dinamica grupurilor. Texte de bază*, Editura Polirom, Iași, 2001.

- [7] French, W.L.; Bell, C.H., *Organization Development*, Prentice Hall, New Jersey, 1995.
- [8] Guskey, T.R., *Evaluating Professional Development*, Cirwin Press, Inc., Thousand Oaks, 2000.
- [9] Jablin, F.; Putman, L., *The New Handbook of Organizational Communication. Advances in Theory, Research and Methods*, Sage Publications Inc., London, New Delhi, 2001.
- [10] Johns, G., *Comportamentul organizațional*, Editura Econo-mică, București, 1998.
- [11] Mullins, L., *Management and Organizational Behavior*, Pitman Publishing, 1993.
- [12] Roberts, K.; Hunt, D., *Organizational Behavior*, PWS-Kent Publishing Company, Boston, 1991.
- [13] Sonnentag, S., *Psychological Management or Individual Performance*, John Wiley & Sons Ltd., London, 2002.
- [14] Tichy, N.; Cohen, E., *Liderul sau arta de a conduce*, Editura Teora, București, 2000.
- [15] Torrington, D.; Hall, L., *Personnel Management*, Prentice Hall, 1991.
- [16] Pânișoară, Georgeta; Pânișoară I.O., *Managementul resur-selor umane. Ghid practic*, Editura Polirom, Iași, 2005.

# The Organizational Culture in the Romanian Multinational Companies

Rozalia Nistor

Costel Nistor

Mihaela-Carmen Muntean

*Universitatea "Dunarea de Jos" din Galati*

[rozalia.nistor@selir.com](mailto:rozalia.nistor@selir.com); [cos\\_nis@yahoo.com](mailto:cos_nis@yahoo.com); [mihaela\\_c\\_muntean@yahoo.com](mailto:mihaela_c_muntean@yahoo.com)

## Abstract

The Romanian organization has a particular reality in comparison to the western organization. This specific feature is determined by the fact that it neither succeeded in separating itself for good from the socialist "enterprise", nor to make many steps towards the western organizations. The Romanian organizational climate has great access to information, but manages only with great difficulty to adjust itself to this information, to the Romanian reality, and this adaptation, where it appears, means more of a folding of this information on the pre-existent reality than an adaptation to the possible organizational changes.

**Keywords:** organization culture, competition, values, strategy.

**JEL classification:** M14

## 1. Introduction

The results (good or bad), the success or failure of an individual, of an organization, are an expression of the level of Culture held because: any results and the result of the conduct, behavior, are a function of people's heads, their mentality, their culture and culture of the context in which they operate. Culture is the Software and the rest is hardware or, if you prefer, culture it is the soul and the rest is the body, no system could function well without appropriate software.

It is difficult for the organizational development specialists to process the information gained in their academic

environment and to actually apply it in accordance to the actual reality of the organizational climate. But through a conjugate effort of the working team, based on sincere collaboration, it is possible an understanding of the company and to find ways to improve the working conditions, the climate and the employees satisfaction also.

For Corporate culture means what that determines individual behavior, namely a set of identities, values, evidence, and expertise possessed, both generally and individually. The Culture of an Organization is expressed in how you will work, how decisions are made, are people managed, you are confronted with competition, you try to generate value.

The Culture of an Organization it is the result of three factors: the nature of its activities, the mentality, the personality, the culture of its leaders, especially those who have played a crucial historical continuity with a significant presence, the adopted system of government.

## 2. Winning culture and its possible content

At all levels, from individual to entire territories it is necessary to define those aspects of culture considered the winner facing the challenges of this era. These are issues that should arise a series of behaviors to achieve their best goals in the best possible way.

Culture is not something abstract, just philosophical. Nothing is the most important practically, to define the distinctive features of culture you want. Once defined, to be handled with extreme efficiency and effectiveness. Individuals, organizations, territories are really specific, as they have their specific goals and

their strategies. There is therefore, recipes for the aspects of a winning culture.

We should provide some idea of the cultural aspects that, in this era that we live, appear of particular significance and, therefore, of interest to the business world:

**a) The Result / merit (to the effort / elderly).** Into practice, we must never confuse efforts with results. Efforts may be laudable but the results are not going anywhere.

**b) The solution / proposal (versus problem / protest).** Are here with the solution or there are also part of the problem? It is appropriate, indeed essential, to explain the problems, as is legitimate in many circumstances, to do protest, if do not have problems and protests you should never differentiated by the suggestion of solutions and proposals.

**c) From client / function usage (versus service or product the middle).** It is important to know the function of use of the customer, that is why it requires a service or a product. The exclusive focus on service / product is equivalent to focus on "medium", forgetting the "end", the purpose. The purpose of the customer does not acquire products and services, but providing the optimum function of use. There is no specific guidance to the customer without attachment to its function of use.

**d) From Proactive / timing (versus reactive).** During acceleration era, or the gradual reduction in the time available, the player who has the ability to manage the timing right. Being early is, sometimes, equally problematic than being late. Not always the "big" beats the "small" always on "fast" beats the "slow".

**e) To competition (versus orientation to themselves).** Is not enough to confront their own goals, their budget, or their performance last year.

**f) The open system (versus closed system).** Protectionism and anarchy have always created backwardness and decay

**g) Of the international perspective (versus provincial).** With globalization, the opportunities are everywhere, but also there are threats. Even when working locally, you must

do so with the knowledge of what happen relevant in the world.

**h) Flexibility / change / innovation (versus exclusive defense of the past or just improving).** Today more than ever, flexibility means intelligence and intelligence means flexibility. The only objective limits of flexibility are the values we have chosen as a reference. Improving protect which it means that already exists, innovate it to make it obsolete. With the acceleration, everything and subject to its cycle of life, without innovation and doomed to decline. Innovation is a culture, not a directive or a manual.

**i) Of the long-term goals / vision and strategic management (versus only management / operational management, live for the day).** It is an overriding reason in an the age of discontinuity (the possibility that the future will replicate the past).

**j) Resolving (versus running).** If you need to prepare a room for a meeting is not enough to prepare only your pens. Who needs to drive a vehicle should know well to do it in advance, in order to study the best route and possible solutions to any problems may appear.

**k) The Auto responsibility/ update learning (versus guaranty / arrogance).** There is no field of activity, exposed to the dynamism, in which a generation of knowledge and skills longer than five years and this period is declining. Those who have responsibility for other people, namely the ruling class, have a dual responsibility: to be aware and make aware. Nobody but not some other secure their future. Explodes the individual auto-responsibility. At stake is no longer "lifetime employment" but "employability" for life, where the difference lies in the ability to systematically remove their knowledge and skills that appear to date and useful in practice.

**l) From Integration / cohesion / teamwork (versus individualism).** In the game of football you need a team to win the game. It is sufficient that one of the players to give an own goal for the game to be lost.. The purpose of teamwork can usefully be summarized as follows: to achieve the common goal in most effective and efficient way. There can be a team if its members do not know the organization's objectives and strategies.

**m) From ant/ institution (versus people).** The facts and results count far more than statements and rumors. It communicates to the organization not to individuals.

**n) From work as a profession (versus employment / punishment).** Work must not exist without professional dignity. If the work is conceived as a profession, the systematic updating and the relevant sales fall in people's heads concerned. Work is an important expression of self-fulfillment.

### **3. Actual cultural anomalies in the romanian multinational company**

Cultural anomalies, compared to the needs of this age are very numerous. We are studies a Romanian company with foreign majority capital in an attempt to adapt itself to the western experience with the study of the employees' organizational behavior. The above mentioned Romanian company, generically called "Alfa", is a middle sized company (approx. 250 employees), operating in various but interconnected fields of activity. The services provided to the UE clients are of an outsourcing type.

The link between culture and the values of an organization are very strong. Identify what is important for an organization in terms of values, determine the strategic guidelines of the organization with a direct impact on the objectives of each individual member of the organization. Below, some anomalies registered in the "Alfa" Company:

**a) Ambiguity respect to economic success.** On the one hand, all or almost all private property are enjoying the good life, yet there is a widespread mentality that the rich are guilty, even if they had accumulated his property in full compliance with the rules and demonstrating social awareness. There is a tendency to oppose solidarity and economic success, leaving unanswered the question: whether the employer had not happened and, anyway, if not accumulated sufficient wealth, where you find the resources for solidarity?

**b) Culture of belonging rather than of competence.**

**c) Poor concrete sense of the country.** All the other things that go beyond the self-interest

and of his family and often seen as something to be suspicious or to exploit.

**d) Poor ethical rigor.** Widespread privileges, clientele, complicity, opportunities and, sometimes, corruption.

**e) Imbalance between rights and duties.** Even in the public debate are much more frequent references to the rights, or any additional rights, much less duties.

**f) Emphasis on luck rather than on the merits.** In this age of self empowerment, great emphasis is given daily, even from public television, the lottery, horoscope etc.

**g) Culture of distrust instead of trust and good faith,** particularly in the relationship between state and citizen. This is being declared, for example, tax is not believed. Even those who pay taxes regularly and in full is requested to comply with the conditions of amnesty applicants "because otherwise ...". Alongside continuing unacceptable levels of evasion, sometimes finding relatively easy. Any company would fail quickly if operated on the basis of mistrust.

**h) Culture and chatter and intentions, rather than facts and results.** There are also many witness almost daily media.

**i) Contempt for some trades.** It is used habitually threaten to send their children to do the factory worker, if not ensure adequate performance of the study. As if to make the worker was a punishment. Then we wonder that we do not find workers.

**j) Rebound of responsibility rather than statements of responsibility.** Are common, even by major institutions, habit, denouncing what others should do or have done instead to account for their actions, of what and not been done and why, what we are committed to do, how and when, limiting references to others as instrumental responsibilities.

**k) Management culture rather than strategic.** Resulting in an age of globalization optical reductive and discontinuity.

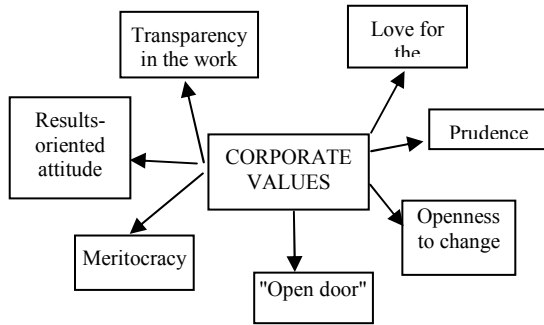
### **4. Principles and cultural values**

Consistent organizational culture in order to survive in the current context of strong economic and financial crisis and indispensable to any organization-wide financial and banking

will be promoted to a series of principles that guide the conduct of business to make it a success: principles and corporate values, individual values (energy).

The main principles and corporate values that must be promoted with vigor and energy are:

Figure n. 1 – Corporate Values



**a) "Love" for the customer.** The customer is the precondition for the existence of a company. Each activity should be oriented towards satisfying the needs and demands of the customer with care, attention and decision, in a word with "love". "Love" must be understood as love for others, sympathy, affection, pleasure of making a product and service, to do something with love, do it well.

**b) Transparency in the work.** Proper functioning of a company and related to knowledge of the real trend of the variables that govern it. A good human resources management, technical and financial transparency should be based on the results, well the economy is, on any mistakes made, the levels of service.

**c) Prudence.** Customer trust depends on the reputation, which is a consequence of the results obtained with a more consistent and conduct of particular prudence in risk management and investment.

**d) Openness to change.** The only thing permanent is change said Heraclitus 2000 years ago. Every successful company must correct its course when the business market, customers, times require it, anticipating the market and drawing from it a competitive advantage. Openness to change and innovation are a prerequisite for long-term maintenance and success.

**e) "Open door".** This principle means that everyone has the opportunity / duty to express their ideas, illustrating them in any hierarchical level and bring its contribution to the growth of the company besides their own.

**f) Meritocracy.** Responsibilities, recognition should be awarded to those who deserve it, to whom are capable. Evaluation of results should be made on the basis of objective, measurable and documented.

**g) Results-oriented attitude.** Commitment and results are not synonymous, our destiny is determined by results rather than just commitment. While these technologies is often a prerequisite for the result, which must always be recognized, the results are always rewarded. The aim of all must therefore always be to continue the results more objective and quantifiable.

## 5. Conclusion

Globalization, innovation, value creation, quality, teamwork, customer orientation, new powerful technologies, competitiveness, development, and excellent results are a possibility. Culture is the reality, often with deep roots. In this era of an increasing level of complexity and an equally growing need for expertise and professionalism is not difficult to infer that win and will win more and more organizations and territories with the best popular culture at the level of critical mass.

## 6. References

- [1] Burnus E. – Managementul schimbării organizaționale, Editura Economică, București, 2000;
- [2] D'Egidio Franco - Il global service management (GSM). Un approccio globale vincente nella nuova era dei servizi, Editura Francoangeli, Milano, 2000;
- [3] D'Egidio Franco - Il valore del brand per essere il n°1. L'eccellenza nel servizio, Editura Francoangeli, Milano, 2007;
- [4] Ionescu Gh. – Dimensiunile culturale ale managementului, Editura Economică, București, 1996;
- [5] Năstase M. - Cultura organizațională și managerială, Lito ASE, București, 2006;
- [6] Mereuță C. – Culturi organizaționale, FIMAN;



[7] Nistor R. – Winning organizational culture, Analele Universității “Dunărea de Jos” din Galați, Fascicola I, Economie și Informatică Aplicată, Galați, 2009, ISSN 1548-0409

[8] Schein D. – Organization, culture and leadership, Jessez Bass, 1995;

[9] Valerio de Molli – I riferimenti fondamentali della gestione strategica, Editura IPSOA, Milano, 2009;

## The Ethical Consumer in the Context of Globalisation

Oboroceanu (cas. Popa) Ioana Anda,  
Manea Ioana  
*Al. I. Cuza University,*  
*a\_oboroceanu@yahoo.com;*  
*ioanna02manea@yahoo.com*

### Abstract

This paper introduces the concept of shopping ethically. It includes a bit about the philosophy behind what we do and some background to the main issues that made it so important. It also gives us some guidance on getting started as an ethical consumer and explains the different ways that we can make a difference when we go shopping.

Expenditure on ethical goods and services has grown almost threefold in the past 10 years. Ethical Consumerism means adopting a different perspective on our disposable income. It's not just the links between the product and its impact that ethical consumers need to consider, but the activities of the company behind the brand. A less number of multinational companies own a large proportion of our favorite brands.

As consumers, we have a great deal of power in our pockets and we've already experienced change.

**Key words:** globalization, ethical goods, ethical consumption

**JEL classification:** F0, D10

### 1. What is ethical globalisation?

Today's globalization is one of stark contrasts. There are many connections - markets, people and ideas linked as never before. At the same time, there are more divisions - between North and South, between rich and poor, between the powerful and powerless.

These divides can be seen in statistics. At a time of unparalleled prosperity for some, 54 countries are poorer now than they were a decade ago.

In 14 countries, more children are dying before their fifth birthday. In 21 countries, more people are going hungry. In 34 countries, life expectancy has fallen.

Worldwide, the number of people living in absolute poverty and daily insecurity has not changed for more than ten years, with women and children suffering disproportionately.

No one will deny any longer that turmoil in one region can spread rapidly to others, through terrorism, armed conflict, environmental degradation or disease as demonstrated by the rapid spread of AIDS around the globe in a single generation.

While the connections are obvious, we seem further apart in finding ways to tackle global problems in a coordinated way where the burdens and responsibilities are shared.

Globalization has not only become one of the most fashionable words for politicians, businessmen, union leaders and economists alike, but the word also became the scapegoat for everything that goes wrong in the world. In the minds of many politicians and citizens from the developing countries, globalization is to blame for the financial crises and negative influence, because the capital invested in the savings potential is abruptly withdrew at the first sign of weakness or economic policy. For many unions and political parties in the developed world, globalization is blamed for job destruction and growing of income inequality as international competition brings with it social dumping from countries with low wages and unhuman working conditions. Many governments blame globalization for the rapid loss of national sovereignty, because they realize that states and governments have to diminish the power and authority in front of unchecked growth and influence of multinational corporations and financial markets.

First - globalization involves a greater economic efficiency and an increased productivity and also economic growth by coordinating with the latest wave of technological innovation. On the other hand - globalization causes a fragmentation in production processes, labor markets, political entities and even societies. It combines the benefits of innovation and dynamism with the negative impact of financial crisis or other kinds of economic shocks. Globalization is not an unlimited source of benefits for humanity, as some say, but it is not guilty of all evils which is held responsible. In the economy - nothing is absolutely and everything is relative.

It is a fact that globalization of markets and companies lead to a greater expansion than governments. This is a positive development after many decades in which opposite situation prevailed.

Both markets, and governments are needed and also tend to have failures when they lead, but markets are sure to correct them faster and better than governments.

This change of management generates contradictions which we have to struggle to. One of this is that market is developing through a complex process of individual decisions, while democracy is the product of collective decision, approved by majority. Another is that markets are better developed where there is less government intervention.

However, the society is looking for a greater economic security and a social stability. Globalization is based on rules that prevent social disintegration, and elect governments to ensure cohesion and social protection.

Ethical globalization requires greater recognition of the responsibility of the international community to help people who have been denied their fundamental rights. This requires taking human rights beyond their more traditional political and legal realms and applying them to other fields.

## 2. What is ethical and fair trade?

"Ethical consumer approach ethical issues with a mind-boggling thoroughness and integrity that makes everyone else look like a charlatan." [4].

There is not an universal definition of „ethical“, but broadly speaking when we talk about an ethical product, we mean something which has not harmed or exploited humans, animals or environment. Sometimes, we would go further and say that an ethical product or company is one that actively benefits humans, animals or the environment.

The origins of the most inspiring examples of ethical actions by consumers lie in 1970's, when the first fair trade initiatives started. Ethical banking made an appearance with the first social banks starting up in the USA and Europe. Early ethical investors stumped up money to put into worker co-operatives. And alternative technology was born.

These pioneers were engaged in a timeless struggle to run ahead of their own era, and to create new possibilities.

The simplicity of their idea – not that you can do everything through what you buy, but that you can do something – was educative. Even so, mainstream business was slow to adapt to the opportunities of ethical consumers and leadership came from the margins – the ethical minnows – the small firms and social enterprises connected to the consumers communities that sustained them.

Ten years later, the first products with “fair trade” labels began to appear on the shelves. The marks guaranteed that what you buy is produced by people in decent conditions, and that they get a fair share of what you pay.

From these beginnings, there are many markets in which ethical consumers have had a significant effect – from animals testing and lead in petrol through to organics and animal welfare in farming. Ethical consumerism has grown to be a force to reckon with.[27]

Whatmore [24] tried to define ethical trade as a “relational” based on the networked relations of consumers, producers, commodities, and productive nature. Goodman [10] has described this relational ethic as forging links of eco-social “right action” that is qualitatively different from the concerns of food safety that inhabit the meanings of organic and/or local foods.

As its structure and the use of the byline of “trade not aid” suggests, ethical trade is not just an emotional caring response on the part of consumers to the plight of poor coffee farmers. Indeed, embedded in these networks

is what Whatmore & Thorne [24] described as a sense of “enterprise”: the practicalities of commodity production, marketing, and expansion. Mediating each other then, are the business of development built on a particular expanding niche value-added market and a non-market morality populated by reflexive consumers “... different from that of the cost-minimizing, self-interested individual of neoclassical economic theory” [24]. It is here that K. Soper [23] statement rings true that “... many of the changes in the moral economy originate more in the sphere of cultural and personal politics than the formal economy”. Situated thus, the ethical “praxis” of fair trade is born out of the choice of the consumer who feels a committed responsibility to the producers growing fair trade commodities. Not surprisingly, this moral praxis is fraught with continual tension between the proclivity for both enterprise and ethics.

At the very least, ethic trade means not losing the politicized consumer-education component of fair trade behind the façade of the fetishized brand names that are quickly taking over many products and markets.

It’s not just the links between the product and its impact that ethical consumers need to consider, but the activities of the company behind the brand. A small number of multinational companies own a large proportion of our favorite brands. Many of

these companies are involved in a range of unethical activities.

These days, it seems that everyone has jumped on the bandwagon. This isn’t necessarily a bad thing. It’s encouraging that the big companies are making ethical products and investing in ethical brands.

Broadly, fair trade networks work through the recognition that the poorest farmers and cooperatives deserve more help than others. Philosophically, this type of moral economy conforms to an “ethics of partiality” that holds that some deserve more care than others.

### **3. Ethical consumption**

Ethical consumption represents a distinctive strategy for connecting the politics of consumption with the practices of being a discerning, choosey consumer.

Ethical consumption is also distinct from the related and growing area of ethical investment [5]. It seeks to embed altruistic, humanitarian, solidarity and environmental commitments into the rhythms and routines of everyday life – from drinking coffee, to buying clothes, to making the kids’ packed lunch.

Ethical consumption seems to fall under the description of what C. Pattie call “individualistic activism”[22], as distinct from both contact activism and collective activism. It involves relatively anonymous individual acts, as distinct from acts which aim to contact people in authority or those which involve participating alongside other people. But there is no need to see different modes of civic engagement as mutually exclusive. People who engage in individualistic activism such as ethical consumption “are no more or less likely to engage in collective activities or to contact the authorities than those who are not “individualistic activists”[22]. Ethical consumption actually combines elements of all three of these ideal-types of civic engagement. It might therefore be better characterized in terms of what Micheletti [18] calls “individualized collective action”: “citizen-prompted, citizen-created action involving people taking charge of matters that they themselves deem important in a variety of arenas”; which it distinguishes from various political engagements “involving taking part in structured behavior already in existence and oriented towards the political system per se” [18]. The emergence of individualized collective action is, however, dependent on the activities of various intermediary actors – non-governmental organizations, advocacy groups, social movement organizations. These facilitate innovative forms of civic and political participation which are appropriate to situations where “citizens must juggle their lives in situations of unintended consequences, incomplete knowledge, multiple choices and risk-taking” [18]. Considering these elements, we analyze ethical consumption as part of an emergent politics of choice distinct from a longer established politics of loyalty based on parties and elections. P. Norris [21] argues that this new style of politics is distinctive for

two reasons. Firstly, it is associated with particular repertoires used for political expression (e.g. buying or boycotting products, petitioning, demonstrating). Norris calls these “cause-oriented” repertoires. And secondly, this new politics of choice is associated with particular agencies that serve as the mediators of engagement and participation. These tend to be issue-based organizations, depend on relatively high levels of expertise, and focus on the production, exchange and distribution of knowledge and information. They are certainly distinct from political parties and are also more like advocacy groups than the activist-based organizations often taken to exemplify so-called “new social movements” [6] and [13].

Ethical consumption discourses also contain elements of deontological understandings of moral obligations. They often invoke highly universalized arguments about people’s responsibilities to care for others – whether this is other people, other creatures, the environment, or future generations.

The preceding discussion of the pitfalls of moralizing in discuss of ethical consumption suggests that it might be useful to distinguish between two senses in which ethics and consumption can be related. On the one hand, there is a set of debates concerning the “ethics of consumption” [27], where what is at stake is a judgment concerning the morality of a whole system of provisioning, that of capitalist commodity production [26]. Perhaps this is the dominant sense in discussions of environmental problems, debates about sustainable consumption, and in movements such as voluntary simplicity and the slow food movement. Here, it is “consumption” itself that is the object of moral evaluation. The aim of these projects is the reduction of levels of aggregate consumption.

On the other hand ethical consumption also refers to a set of debates and strategies in which consumption is not so much the object of moral evaluation, but more a medium for moral and political action. This is the dominant sense in the case of consumer boycotts, ethical audits, corporate social responsibility initiatives, and fair trade campaigns. Commodity consumption as a

mode of provisioning is taken as given – assumed to be open to some transformation certainly- but not taken as the object of moral evaluation as such.

These two senses of ethics and consumption [27] are not completely separate. Lots of ethical consumption campaigns are geared towards reducing overall levels of consumption. Others also play upon the standard desires and motivations of consumer behavior, deploying the strategies of advertising, marketing, branding and so on. But distinction is important to keep in mind for two reasons. First, it raises questions about how these two distinct concerns – consumption as the object and medium of moral action – are connected in different contexts. Second, it raises the question of just what are the moral and political issues most at stake in discussions of ethical consumption.

#### **4. Globalisation responsibility and empowerment**

In ethical consumption, globalization is presented as simultaneously providing people with opportunities for innovative engagements as consumers just as it also implicates them in an ever expanding range of consequential entanglements.

“Globalization means that people concerned about social or environmental issues can no longer, in many cases, just lobby their own government for regulatory solutions.[8] “Globalization has brought about a huge increase in product choice which has significantly increased the power of consumers in modern markets” [8].

And in turn, this is used to explain the growth of consumer-oriented campaigning across a diverse range of causes and issues:

“We are fast approaching the situation now where it is unusual to find a pressure group without some kind of “consumer awareness” campaign aimed at influencing corporate behavior” [8].

The metaphor which is most frequently used to describe this new form of consumer power is that of “voting”:

“We don't have to feel powerless about the world's problems. Our till receipts are like voting slips – they can easily be used constructively [...]. If you care at all, it's

really simple to do something about these difficult issues, just by making good choices while you're out shopping"[9].

It is just at this point, when the classically "political" function of voting seems to have transmuted into an essentially "economic" function of exercising consumer choice [7], that the wider articulations of this sort of consumer-oriented activism become visible.

The sorts of "global feeling" that are mobilized by ethical consumption campaigns aim to sustain collective participation in networks of national and local politics:

"Ethical buying is not a substitute for other forms of political action. Nor is it necessarily just concerned with individual consumers. Ethical purchasing is, for example, already being organized by societies, campaign groups, private companies, local authorities and national governments" [8].

There are two dimensions involved in this re-inscription of globalization. Firstly, it involves a claim that people are now implicated in much more extensive spatial networks of exchange, exploitation and advantage, so that this narrative ascribes to people a much broader range of responsibilities: to the environment, to workers in distant sweatshops and so on. But secondly, this ascription of responsibility by virtue of implication in the global market turns out also to provide the medium through which people are told that they are empowered to act on these new responsibilities: as consumer-activists, or perhaps shareholder activists. Understood as one vector of a distinctive strategy which provides "new ways for people to be" [11], the organizations involved in ethical consumption simultaneously make it possible for people to recognize themselves as consuming subjects and as responsible subjects.

Many authors characterize globalization by juxtaposing capital mobility and reactive governments:

"Large corporations have a significant advantage over governments. They are able to cross borders much more easily. The transnational corporations with their massive stocks of private capital are much more influential on the global stage than any government or even intergovernmental agency can be"[25]. In terms of the criteria

noted above, this type of rhetoric clearly reproduces rather than contests a well-established discourse of globalization as a clear-cut shift from state-regulation to market-regulation of economic affairs. In these examples, the empowerment of "the consumer" as an ethical actor is placed firmly within what one might call a "neoliberal" frame which takes for granted the natural operations of markets, price signaling and the aggregation of preferences. These sorts of accounts seem, then, to confirm the argument of J. Litter [15] argument concerning the lack of reflexivity in much of what she characterizes as the "anti-consumerism" movement.

Other organizations adopt a stance in which the individual and collective dimensions of "ethical" action are not seen as substitutes for one another but are aligned as part of a broad movement of mobilization in markets, public spheres and formal political arenas.

## 5. Conclusions

Ethical consumption seeks to connect the activities of everyday, domestic social reproduction – shopping, doing the laundry, preparing dinner – to a range of "big" public issues such as human rights abuses, labor rights, environmental sustainability or global trade justice. This blurring of the public/private distinction [19] is in turn of responsibilities addressed to the potential subjects of ethical consumption campaigns. The targets of claim making by ethical consumption campaigns are, however, not restricted to national governments. More often than not, they directly address business corporations or international regulatory institutions.

One key question for the critical analysis of ethical consumption is whether this mobilization of the figure of the empowered consumer is made in ways that connect with forms of collective, participatory engagement, or whether it wittingly or unwittingly reproduces a marketised discourse of privatized, anonymous choices. This is an important tension within the broad movement of consumerised activism of which ethical consumption is a part [16].

A great deal of ethical consumption campaigning takes the rhetoric of the “hollowing out” of the nation-state and turns it into an empowering address to consumers to realize their new-found influence. There is a two-step move which is involved here: first, it is asserted that all effective power is now concentrated in the hands of global economic actors, whether businesses or international regulatory institutions; on the other hand, the response to the implied crisis in accountability that follows from this redistribution is already at hand, generated by the very same forces that give rise to the initial problem – people are now empowered as consumers.

## 6. References

- [1] C. Barnett, P. Cloke, N. Clarke and A. Malpass, Consuming ethics: articulating the subjects and spaces of ethical consumption, *Antipode* (2005) (1), pp. 23–45.
- [2] D. Cohen *Nos Temps Modernes*, Flammarion, 2000, pp.20-21
- [3] H. Berry and M. McEachern, Informing ethical consumers. *The ethical consumer*, Sage, London (2005), pp. 69–87.
- [4] L. Siegle, The Observer. February 13, 2006.
- [5] Carter and M. Huby, Ecological citizenship and ethical investment, *Environmental Politics* (2005), pp. 255–272.
- [6] M. Diani and I. Bison, Organisations, coalitions, and movements, *Theory and Society* (2004), pp. 281–309.
- [7] R. Dickinson and M. Carsky, The consumer as economic voter. In: R. Harrison, T. Newholm and D. Shaw, Editors, *The ethical consumer*, Sage, London (2005), pp. 25–36.
- [8] ECRA. *An introduction to ethical consumer*. Manchester: ECRA Publishing Ltd. <http://www.ethicalconsumer.org>.
- [9] Ethical Marketing Group, The good shopping guide, Ethical Marketing Group, London (2002).
- [10] Goodman, Reading fair trade: political ecological imaginary and the moral economy of fair trade foods, *Political Geography* (2004)
- [11] Hacking, Making-up people, *Historical ontology*, Harvard University Press, Cambridge, MA (2002) pp. 99–114.
- [12] L. Hickman, A life stripped bare: Tiptoeing through the ethical minefield, Transworld Publishers, London (2005).
- [13] M. Keck and K. Sikkink, Activists beyond borders: Advocacy networks in international politics, Cornell University Press, Ithaca (1998).
- [14] N. Klein, *No logo*, Flamingo, London (2000).
- [15] J. Littler, Beyond the boycott: anti-consumerism, cultural change and the limits of reflexivity, *Cultural Studies* (2005) (2), pp. 227–252.
- [16] J. Littler, C. Barnett and K. Soper, Consumers: agents of change?, *Soundings* (2005), pp. 147–160.
- [17] Lockie, ‘The invisible mouth’: mobilising ‘the consumer’ in food production-consumption networks, *Sociologia Ruralis* (2002) (4), pp. 278–294.
- [18] M. Micheletti, Political virtue and shopping: Individuals, consumerism and collective action, Palgrave, London (2003).
- [19] M. Micheletti, A. Follesdal and D. Stolle, Editors, *Politics, products and markets: Exploring political consumerism*, Transaction Press, New Brunswick, NJ (2003).
- [20] R. Murray, The new political economy of public life, *Soundings* (2004), pp. 19–32.
- [21] P. Norris, Political activism: new challenges, new opportunities. In: C. Boix and S. Stokes, Editors, *The Oxford handbook of comparative politics*, Oxford University Press, Oxford (2007)
- [22] C. Pattie, P. Seyd and P. Whiteley, Citizenship and civic engagement: attitudes and behaviour in Britain, *Political Affairs* (2003), pp. 443–468.
- [23] K. Soper, Rethinking the “good life”: the consumer as citizen, *Capitalism, Nature, Socialism* (2004) (3), pp. 111–116.
- [24] S. Whatmore and L. Thorne, Nourishing networks: alternative geographies of food. In: D. Goodman and M. Watts, Editors, *Globalising food: Agrarian questions and global restructuring*, Routledge, London (1997), pp. 287–304.
- [25] W. Young and R. Welford, Ethical shopping: Where to shop, what to buy and what to do to make a difference, Fusion Press, London (2002).
- [26] D. Crocker and T. Linden Ethics of consumption: the good life, justice, and global stewardship, *Rowman & Littlefield Publishers Inc.*, 1998, pp.110-111
- [27] E. Mayo and H. Moore *Building the mutual state*, Mutuo, 2002

# Factors Influencing the Employability of the Graduates in a Knowledge-Driven Economy

Iuliana Pârvu

*Universitatea "Spiru Haret" Constanța*

*iulia.parvu@yahoo.com*

Dragoș Mihai Ipate

*Universitatea "Spiru Haret" Constanța*

*dragosmihaiipate@yahoo.com*

## Abstract

This study aims to highlight the factors which determine the employability of higher education graduates in the knowledge-based economy. We analyzing the employability issues from the perspective of higher education institutions, which are increasingly seen as the principal provider of the knowledge workers, as well as the main culprit for the eventually unemployment of their graduates. In our paper we do a review of the employability literature in order to reveal the whole range of factors which make some graduates more employable than others. Our goal is to sustain by evidences that providing qualified workforce is as important as creating conditions to manifest it in order to create a competitive economy, and this assume the implication of universities, individuals, employers, as well as the national level management for education.

**Key words:** higher education, knowledge-based economy, employability

**JEL classification:** M12

## 1. Introduction

Nowadays, higher education is producing a mass market of potential knowledge workers and they intersect with the shift towards a so-called knowledge-driven or post-industrial economy. Widening participation in higher education has become a global policy 'education-to-work' transition of new graduates and the extent to which they are readily 'employable'. Universities are subsequently under growing pressure to equip

objective, with considerable quantitative success. Student enrolment worldwide increased from 13 million in 1960 to 82 million in 1995 and to 132 million in 2004 (UNESCO, 1998, 2006), and this is a positive aspect as long as economic performance is increasingly associated with a skilled workforce.

But, in the same time, as more graduates enter the labor market the value of academic credentials as screening devices is reduced. While Smith et al. [6] found that a 'good' degree performance substantially reduces the probability of unemployment and inactivity, there is an increasing view that qualifications, despite signifying a general level of ability, do not necessarily equip individuals with skills necessary for particular occupations [5]. The 'scientific-technological revolution of our time' is transforming the nature of managerial and professional work, leading to mass proletarianisation and mass unemployment and only a small occupational elite is able to preserve their personal autonomy and fulfillment through their work. Graduates have to find new ways of gaining distinction in a world where educational qualifications are no longer sufficient in themselves to guarantee success. It seems that no one and nothing can guarantee employment in a competitive global environment. [4]

The expansion of higher education participation in many OECD countries in recent decades has led to increasing interest by researchers and policy-makers in the

ever greater proportions of the population with the higher-order skills which can be used productively and substantial resources have been invested in efforts to develop students'



employability skills while they are at university. [7]

Without denying the importance of the skills and aptitudes gained by graduates during university, we argued in the present paper that even when people are 'employable' they may fail to find suitable jobs because of different causes as: market congestion, social background or individual characteristics and perceptions of the work environment. Based on the literature viewing employability of university graduates we discussed about differentiating factors between equally well-qualified individuals on the labor market. We also considered the aspects regarding the graduates' skills as determinant factor for their employment. We also stated that, in this article the idea of a knowledge-driven economy is restricted to the labor market for those with graduate qualifications who represent an increasingly large proportion of labor market entrants. These are purported to be the 'knowledge workers' of the future and are expected to command high levels of general and specialist knowledge.

## 2. Employability skills as determining factor of the graduates' employment

The knowledge-driven economy requires individuals with the types of knowledge, skill and creative potential who can meet the challenges of a global economy characterized by rapid change. Employers want recruits who are going to be effective in a changing world. They want people who can deal with change and thrive on it. They want intelligent, flexible, adaptable employees who are quick to learn. In a world of uncertainty, employers want people who are able to work on a range of tasks simultaneously. They do not need people who are resistant to new approaches or slow to respond to cues

The importance of employability skills is well documented in an era which demands a value-added approach. The educational literature offers a large number of expectations in this matter, so the number can be as high as 80. However this could be reduced by categorizing them into: *personal qualities* (e.g. independent learning, willingness to learn); *core skills* (e.g. communication, numeracy, working with others, problem solving); *process skills*.

Another classification divides employability skills in *hard skills* (e.g. analysis of business problems; formulation of long term plans, interpretation of meaning from numerical data) and *soft skills* (e.g. motivation for life – long learning, communication, and effective time management). Van der Heidjen (2006) identifies four general categories of competences: (1) *anticipation and optimization* – refers to the skills that make a potential employee proactive by creating the future himself instead of merely performing fixed tasks, (2) *personal flexibility* – relates to the capacity of smooth transitions between jobs and between organizations, (3) *corporate sense* – means that employees have to participate more as members of an integrated team, identify with corporate goals and accept collective responsibility for the decision-making process and (4) *balance* – it is about compromising between opposing employers' interests as well as one's own opposing work, career and private interests and between employers' and employees' interests. [9]

Studying the literature one can also observe that there is a general need among employers for graduates to possess and demonstrate skills that are relevant and applicable to working in their organizations, but this need is not being met. There is a gap between the skills graduates present to their employers on career entry and the skills employers expect from these graduates.

To resolve these problems, higher education institutions are the most important in order to enhance the employability of their students. There are four broad areas of activity that higher education institutions are engaged in to help develop student employability:

a. Embedded attribute development in the program of study, often as the result of modifications to curricula to make attribute explicit or to accommodate employers' expectations;

b. Enhanced or revised central support for undergraduates or graduates in their search for work;

c. Innovative provision of work experience opportunities within, or external to, programs of study;

d. Enabled reflection on and recording of experience, attribute development and achievements alongside academic abilities, thorough development of "progress files" and "career management programs".

But even if that all these actions work perfectly and universities will provide just employable graduates (according with the employers' expectations) will still remain graduates that will not have a job according with their specialization. Various studies have suggested that recruitment and progression in employment continue to be dogged by bias and inequitable treatment. This means that there are some other factors that affect the employment, and they will be presented below. [2]

### **3. Labor market conditions as determining factor of the graduates' employment**

Brown et al. argue that employability is primarily determined by the labor market rather than the capabilities of individuals. They believe that it is a form of victim blaming of those people who are unable to secure employment. Considering the individuals are solely responsible for their situation on the labor market it is another example of personalizing, individualizing or socially decontextualising broader employment issues. Employability varies according to economic conditions.

An individual's employability will be influenced by how employers view and value the credentials, knowledge, skills, attitudes and attributes, as well as the skill demands of the labor market. Organizational culture and structured support also play a crucial part in making new employees effective. Employability cannot, therefore, be defined solely in terms of individual characteristics. This is because employability exists in two dimensions—the relative and the absolute. Virtually all policy statements on employability fail to grasp the *duality of employability*.

Policy debates have concentrated on the issue of whether students have the appropriate skills, knowledge, commitment or business acumen to do the job in question. This *absolute* dimension of employability is not inconsequential. It relates to what Gellner termed the production of 'viable human beings'. The increasing policy emphasis on graduate employability, in part, reflects the increasing importance of knowledge, skills and commitment of employees as a source of efficiency, innovation and productivity. The

personal is productive. However, employability is also a *relative* concept that depends on the laws of supply and demand within the market for jobs. [1]

### **4. Social background as determining factor of the graduates' employment**

The literature shows that many graduates are not utilizing their knowledge and skills from their higher education, that not all are able to 'cash in' on their investment in higher education, and that there are still 'positional' differences between graduates on the basis of social class, gender and ethnicity. The graduate premium or exchange rate of qualifications in the labor market differs according to the social identity of the graduate. More, Purcell et al. found that social background appears to be strongly correlated with employment outcomes, even among graduates. For those from disadvantaged backgrounds attempts of finding decent jobs are largely futile as the best jobs are often assigned to social elites with the appropriate cultural capital. Decades of research have shown that when one shares the same cultural literacy as teachers and employers, it does not guarantee one's success but it greatly increases the probability of achieving it. When employers reject candidates as unsuitable it could be argued that they are being rejected for lacking 'cultural' capital. There is absolutely no doubt that this happens when people are seen to have the wrong accent, dress inappropriately at an interview, or do not know the rules of the game when candidates are invited to a formal dinner to meet company employees.

Another factor which affects employability and is not necessarily connected with the skills of graduates is the reputation of the university graduate. The causal relationships between socio-economic background and employment are complex as social class tends also to be correlated with the type of university attended and course completed, rather than solely with recruitment practices. Brown and Scase's (1994) empirical study shows how employer perceptions about the 'quality' of graduates from certain universities and departments continue to influence transitions into employment. In the context in which higher education institutions have to face the

economic competition, we have to admit that is hard to believe there are institutions which do not, within certain limits, quit acting just to survive in a competitive market. So it's time to see the reputation of certain universities with more discernment. [10]

Social closure is another factor that affects the meritocratic selection of graduates. It is recognized so all over the world but we appreciate Romania is even a special case. Social closure theorists sustain that social elites were no longer able to rely on social ascription and 'proof of ancestry' (aristocratic breeding) as a way of directly transmitting social advantage to their children. Today, the process of obtaining a "good job" has to be based on a declaration of formal equality before the law, where entry into elite groups is ostensibly open to all through a competition for credentials, jobs and property. In practice this formal equality obscured the ability of elites to rig the competition for jobs by restricting access to the supply of credentials.[1]

### **5. Individual characteristics and perceptions of the work environment as determining factor of the graduates' employment**

Individual characteristics and perceptions of the work environment might affect employability orientation. Despite the popularity of the concepts of employability and organizational flexibility, employees' attitudes toward employability development have received little research attention.

Although a review of the literature suggested that individual characteristics and perceptions of the work situation are important antecedents of employees' attitudes toward career changes and development activities. Employability orientation may vary with certain individual characteristics as types of dispositions, attitudes and identities they develop around their future work and employability. Research has shown a relationship between personality traits and several career variables Two personality traits were considered important antecedents of employability orientation: openness and initiative.

Openness refers to being open to new ideas and changes. Meta-analyses have demonstrated that openness is a valid predictor of training success. Measures of this

personality dimension have also been found to correlate positively with beliefs about the importance of improving oneself, and negatively with the belief that a structured work environment is important.

Initiative refers to an autonomous posture and behavior that is self-started and proactive in contrast to being reactive and following orders. Research has revealed positive relationships between initiative and several career related variables, such as career planning, innovation, career initiative, employability, and entrepreneurial activities.

Unfortunately there is still a tendency to view students in 'universalistic' terms; that is, as rational investors in education who approach the labor market in uniformed and stereotypical ways (Rees *et al.*, 1997). Such assumptions typically negate the different orientations and work-related identities learners develop in relation to their future labor market activities.

The work of Holmes (2001) has been important in highlighting this issue and argues that employability should be conceptualized as a form of identity; it is relational, emergent and influenced largely by graduates' 'lived experience' of the labor market. Individuals' experiences of work are subjective, and this is likely to influence their actual labor market outcomes and further shape their propensity for employment. Employability in this sense may be seen to be value- and identity driven, relating to graduates' own dispositions and biographies. Work is not purely a technical matter which individuals undertake: it is a personal matter which involves the location of self and identity in an ongoing social process of engagement with the labor process within which they operate.

Theories of self and identity have taken an increasingly important role in sociological endeavor. The work of Giddens (1991) and Beck *et al.* (1994), in particular, have highlighted the important role identity has in the way individuals position themselves within the social and economic world. Giddens argues that identities have a reflexive and self-monitoring character: individuals are continually engaged in a reflexive process around issues of who they are and how they should go about managing their 'projects' of the self. Crucially, individuals draw upon various knowledge resources, both formally and informally

channeled, which they use to negotiate social and economic structures.

A qualitative study of 53 final-year undergraduates in a university in the UK, revealed students now no longer anticipate a clear link between their merit in education and its reward in the labor market. Many students, particularly those whose future aspirations are strongly geared around their future employment, now perceive the need to develop more proactive and aggressive labour market strategies. This goes far beyond what they achieve in the formal education setting. [8]

## 6. Conclusions

The evidence clearly demonstrates that many graduates are marginalized from high-paid, fast-track employment, and that existing patterns of inequality are likely to continue well into the future unless employers find appropriate ways of managing the large bulk of talent entering the labor market. Universities may in fact be limited in their capacity to enhance the employability of their students, even though policy-makers consistently argue that they have a pivotal role. Teaching and learning policies around graduate employability may only have a minimal impact in aiding the labor market trajectories of graduates. At best, they may merely be a compensation for effective and equitable employer strategies for organizing graduate talent.

However, the way students, graduates and employers make sense of and attempt to manage the problem of graduate employability, as well as their aspirations and expectations, presents some serious challenges for higher education in the new economy. We do not intend to deny the important role of the universities in making graduates employable, but we appreciate that the employment of graduates is a very sensitive performance indicator in quality audits of the higher education institutions. Harvey [2] for example, criticizes current methods for measuring employability outcomes based on the proportion of graduates who achieve a full-time job within a certain period of time for assessing employability as an institutional achievement rather than that of the individual. Other authors, including Knight [3], have argued that the relationship between employability

and employment is, in any case, heavily mediated by unequal access to employment opportunities and labor market preferences. Morley [4] supports this view: she argues that employability has become a performance indicator within higher education, which overlooks 'how social structures such as gender, race, social class and disability interact with labor market opportunities'.

This is intended to highlight the fact that graduate employability is primarily about the relative chances of finding and maintaining jobs as knowledge workers (lawyers, doctors, journalist, middle or senior management). It also erroneously assumes that the competition for education and jobs is based on a meritocratic contest that negates class, gender and racial inequalities.

## 7. References

1. Brown, P., Hesketh, A. & Williams, S. "Employability in a knowledge-driven economy", *Journal of Education and Work*, 16(2), 2003, pp. 107–126
2. Harvey, L., „Embedding and Integrating Employability”, *New Directions for Institutional Research*, No. 128/Winter 2005, pp. 13 – 24
3. Knight, P. T., "Employability and quality", *Quality in Higher Education*, 7(2), 2001, pp. 93–95
4. Morley, L., "The X factor: employability, elitism and equity in graduate recruitment", *21st Century Scoiaty*, vol. 2, no. 2, 2007, 191–206
5. Smetherham, C., "Firsts among equals? Evidence on the contemporary relationship between educational credentials and the occupational structure", *Journal of Education and Work*, 19(1), 2006, pp. 29–45
6. Smith, J., McKnight, A. & Naylor, R. "Graduate employability: policy and performance in higher education in the UK", *Economic Journal*, 110, 2000, pp. 383–411
7. Teichler, U., "Graduate employment and work in selected European countries", *European Journal of Education*, no. 2, 2000, pp. 141–55
8. Tomlinson, M., "Graduate employability and student attitudes and orientation to the labor market". *Journal of Education and Work*, vol. 20, no. 4, 2007, pp. 285 - 304
9. Van Der Heijde, C.M., Van Der Heijde, I.J.M., „A Competence-Based and Multidimensional Operationalization and Measurement of Employability", *Human Resource Management* , Vol. 45, No. 3, 2006, pp. 449 – 476
10. Van Dam, K., "Antecedents and consequences of employability orientation", *European Journal of Work and Organizational Psychology*, 13 (1), 2004, pp. 29 -51

# Kinetic Analysis of Quality, Utility and Price Changes of the Second-Hand Cars in Poland

Paweł Łuka

*Institute of Tourism, University of Rzeszow, Poland  
E-mail: pavelluka@gmail.com*

Krystyna Kwiatkowska-Sienkiewicz

*Department of Chemistry and Industrial Commodity Science,  
Gdynia Maritime University, Poland  
E-mail: krysie@am.gdynia.pl*

## Abstract

In this paper the kinetic analysis of quality and utility based on the average market prices of 10 selected used cars, produced in years 1997-2005, were conducted. Price changes of all examined cars were described as a convex downward-sloping curve over time. On the basis of the price change kinetic functions, the orders of processes, the velocity rates, the acceleration rates, the resistance rate, as well as the attractiveness rates have been calculated. The price change velocity denotes marginal changes of second-hand car price during the time. The price change acceleration denotes the consumer downward pressure on the used car price, whereas the resistance rate represents supplier's upward pressure on price. Attractiveness rate describe perceived quality and utility of a product. In that investigation the data attractiveness rate increase when dynamic indicator grew up. For each car model, the decrease in price caused increase in velocity rate and acceleration rate.

Acceleration rate and resistance rate were presented in this paper as a new dynamic approach of measuring the pressures on price in supply/demand analysis.

**Key words:** quality, utility, price changes, second-hand cars, kinetic analysis

**JEL classification:** C81;

## 1. Introduction

To get around easily in today's cities in Poland, especially in their sparsely populated suburbs, access to a private motor vehicle is not only very convenient but sometimes absolutely essential. The widespread use of automobiles in recent years by Polish residents instead of using public transit is a major factor that led to the rapid increase in demand for passenger cars, and especially for cheap second-hand passenger cars, brought from abroad, mainly from other European Union countries. For many years in the motor vehicle market in Poland it is observed the significant dynamic growth.

The large demand for used cars in Poland caused that in the market appeared new ideas to satisfy customers' needs. The global car makers in Poland began to participate actively also in the second-hand car market, seeing potential economic benefits for themselves. They invented and launched the innovative program of selling used cars of all brands and models in their outlets in the whole country.

Most of this increase in demand for passenger cars was attributed to serious social, economic and political changes in Poland, connected directly or indirectly with the accession of Poland to the European Union. Over the recent years the quantity of the second-hand cars imported is average three times greater than the quantity of new ones sold in the primary car market.

All the mentioned factors are product characteristics, which describe how much attractive a car is to a potential customer. A

product attractiveness level is a very important market variable, because it effects on the potential demand and generates revenues and profits for a company or a dealer.

In this article, we focus on the relationship between the second-hand passenger car price changes and the quality and utility of the cars. Changes of quality and utility of the cars during the definite period are presented by their market price changes. Prices of used cars depend mainly on their age in calendar year. Those prices bear a close relation to the expected discounted value of the flow of future utility that a car can provide to its owner during the remainder of the car's lifetime. As a car grows older, it's expected remaining lifetime decreases. Thus, older motor cars fetch lower prices on the used car market. At the same time, we are interested in identifying the characteristics of the market forces, that effect the attractiveness level of a product [5].

## 2. Methods

This article is based on the data collected by the 2006 Eurotax publications and other Internet-based second-hand car average market prices [1]. The base of investigation were average prices of 10 selected used cars models, produced in years 1997-2005 and sold in the Polish car market in 2006.

There are following passenger car brands under examination: Citroen (1 model), Ford (6 models), Lancia (2 models) and Nissan (1 model).

In this paper, the used car price changes were described by kinetic models rates. Using kinetic functions, the  $n$  orders, the velocity rates  $V(M)$ , the acceleration rates  $A(M)$ , the resistance rates  $R(M)$ , and the attractiveness rate  $F(M)$  of all the processes have been calculated. The price change velocity denotes marginal change of second-hand car price during the time. The price change acceleration denotes the consumer downward pressure on the used car price, whereas the resistance rate represents supplier's upward pressure on price. The attractiveness rate describes perceived value (quality and utility) of a product. In addition to those calculations, all the value changes indexes were estimated [2÷8].

## Symbols used in this paper:

$t$  – time  
 $M_0$  – initial price of a used car,  
 $M_K$  – final price of a used car,  
 $M_t$  – price of a used car during time  $t$ ,  
 $\hat{M}_t$  – price of a used car during time  $t$ , estimated theoretically,  
 $V(M)$  – price change velocity rate,  
 $\hat{V}(M)$  – price change velocity rate, estimated theoretically,  
 $A(M)$  – price change acceleration rate,  
 $\hat{A}(M)$  – price change acceleration rate, estimated theoretically,  
 $R(M)$  – price change resistance rate,  
 $\hat{R}(M)$  – price change acceleration rate, estimated theoretically  
 $F(M)$  – price change attractiveness rate,  
 $\hat{F}(M)$  – price change attractiveness rate, estimated theoretically,  
 $P_K$  – value change index,  
 $n$  – dynamics indicator,  $n$  order,  
 $w_n$  – velocity constant rate, velocity rate indicator,  
 $a_n$  – acceleration constant rate, acceleration rate indicator,  
 $as$  – downward-sloping convex model.

Price changes of all examined second-hand passenger cars were described as a convex downward-sloping curves over the age of a car. Hence, the curves show the relationship between the prices of used cars and the processing time. All the curves analyzed in the paper have a model form of  $as$ . Model  $as$  represent an inverse relationship between the second-hand car price and the age of the car and also are characterized by the decrease of prices with increasing velocity rate during time  $t$ . The curves can be described with high accuracy by downward-sloping convex models  $as$ , with special importance of the  $n$  order of the description of the process function. The  $n$  order is understood as an indicator of the mechanism, or of the process course, as well as the rate constant of the  $n^{\text{th}}$  order of  $w_n$  being an indicator of the change velocity rate. Hence the  $n$  order is an indicator of the process dynamics [4; 7].

The values for the price change velocity rates  $V(M)$  were found in accordance with the following formula [2 ÷7]:

$$V(M) = w_n \cdot M_t^{-n} = -\frac{dM_t}{dt}, w_n > 0, n \geq 0 \quad (1)$$

The price change velocity rate denotes marginal change of second-hand passenger car price during the processing time.

The values for the price change acceleration rate  $A(M)$  have been calculated using following equation [2]:

$$A(M) = a_n \cdot M_t^{-n-1} = -\frac{d^2M_t}{dt^2}, a_n > 0 \quad (2)$$

The price change acceleration function is the second derivative of the price function and denotes the level of consumer's pressure on used car price to fall.

The resistance function  $R(M)$ , refers to the level of suppliers upward pressure on a used car price. All the series have been calculated using following formula [2]; [4]:

$$R(M) = \frac{1}{A(M)} \quad (3)$$

The force of the product attractiveness  $F(M)$ , called the attractiveness rate, have been calculated using equation [5; 6]:

$$F(M) = M_t \cdot A(M) \quad (4)$$

The force of attractiveness describes the attractiveness level of the second-hand passenger car. The function of the attractiveness shows the power of the effects of the quality and utility of the used car on decision making of the consumers as well as the suppliers.

All the calculations in this work were done with the estimated (theoretical) values of  $M_t$  (price) –  $\hat{M}_t$  and further  $\hat{V}(M)$ ,  $\hat{A}(M)$ ,  $\hat{R}(M)$  and  $\hat{F}(M)$  values were applied. The average deviation accuracy of empirical values and estimated (theoretical) values –  $e_m$  [%] of curves description was also calculated.

In addition, the values of changes between initial values and final values  $P_K$ , were calculated. Index  $P_K$  denotes the percentage change of the final value of the measure in relation to the initial value of that measure,

expressed in the relative scale. The values of  $P_K$  indexes have been calculated using the following formula [2÷7]:

$$P_K = \frac{X_K \cdot 100}{X_P} \quad [\%] \quad (6)$$

where:

$X_P$  – initial value of a measure,

$X_K$  – final value of measure.

All the calculated  $P_K$  indexes in this paper were named: velocity index, acceleration index, resistance index and attractiveness index.

### 3. Results and discussion

In this paper only a part of the wider research on the second-hand passenger car market in Poland was presented [5; 6]. The kinetic analysis of quality and utility using the average market prices of 10 selected used passenger cars were conducted. All the examined car models were collected in Table 1. and arranged in order of the increasing dynamics, represented by dynamics indicator  $n$ .

**Table 1. Results of dynamics estimation of 10 examined second-hand car models**

Car model	$n$ (as)	$V(M)$ index [%]	$A(M)$ index [%]	$R(M)$ index [%]	$F(M)$ index [%]
Ford-Focus 1.6 Comfort	1,2	150,2	210,6	47,5	150,1
Nissan-Maxima QX 3.0 SE	1,42	169,1	244,8	40,8	169,1
Citroen-C3 1.1 SX	1,48	152,2	202,1	49,5	152,2
Ford-Focus 1.8 TDCi Ghia Kombi	1,52	167,3	234,8	42,6	167,3
Lancia-Lybra 2.0 Emblema Kombi	1,53	149,8	195,1	51,2	149,8
Ford-Focus 1.8 Comfort	1,65	175,1	246,1	40,6	175,1
Ford-Focus 1.6 Comfort Kombi	1,71	177,9	249,2	40,1	177,9
Lancia-Lybra 1.6 LS Kombi	2,2	156,8	192,4	52,0	156,8
Ford-Focus 2.0 Ghia	2,42	141,2	162,9	61,4	141,2
Ford-Focus 1.8 TDDi Ambiente	3,08	156,7	181,3	55,1	156,7



The price changes of all examined passenger car models were described as convex downward-sloping curves over time  $t$ , and called  $as$  models. All the cases have orders of processes  $n$  between  $1as$  and  $3,08as$ . Rising  $n$  value of an  $as$  model shows increasing change dynamics. Parameter  $n$  is the main dynamics indicator in this paper. The most dynamic price decreases were observed at Ford-Focus 1.8 TDDi Ambiente ( $n = 3,08as$ ) and the less dynamic falls at Ford-Focus 1.6 Comfort ( $n = 1,2as$ ), as presented in Table 1.

Each second-hand passenger car model is characterized with the rapid decrease of its market price. The changes of prices of used cars are shown by the increase of the velocity rates  $V(M)$ , average to 159,63% and more rapid increase of the acceleration rates  $A(M)$  of the processes, average to 215,93%. The resistance rates  $R(M)$  decreased significantly, average to 48,08%. The attractiveness rates of all examined car models went up, average to 159%. It is shown by the values of changes between initial and final values –  $P_K$  indexes in the Table 1, Figure 1, Figure 2 and Figure 3.

As the acceleration rate  $A(M)$  represents the market pressure on second-hand car price to fall, the increase of  $A(M)$  rate is attributable to relative high performance of perceived quality and utility. The acceleration rate  $A(M)$  in quantitative and dynamic way measures the downward pressure on price in supply/demand analysis. In the same way, the resistance rate measures the upward pressure on price in supply/demand analysis, whereas the attractiveness rate measures the quality and utility of a product.

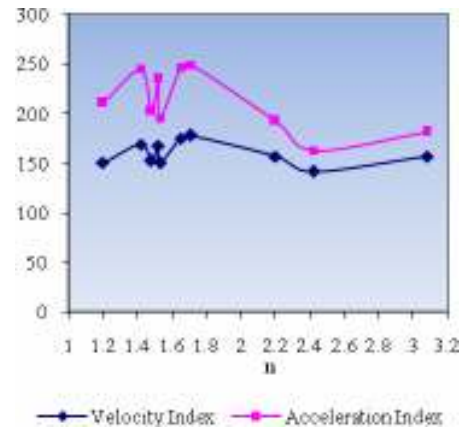
Very high accuracy of curves description as the average deviation of empirical values and estimated (theoretical) values was found (average  $e_m = 0,3\%$ ).

In spite of the fact that all changes in prices over time are described as the downward-sloping convex models, those changes are not always the same. It's shown by the price change velocity and acceleration indexes (Table 1, Figure 1).

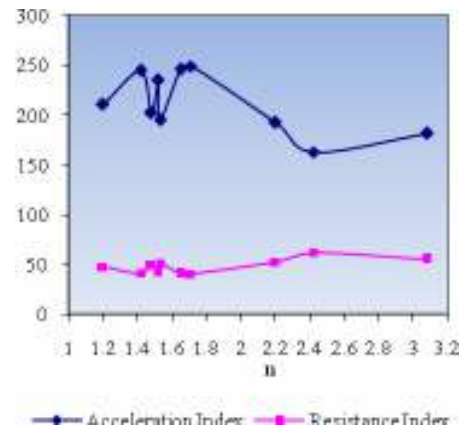
The price change velocity rate as the first derivative of the price function represents marginal changes of second-hand passenger car prices during time.

Price change acceleration rate is the second derivative of the price function.

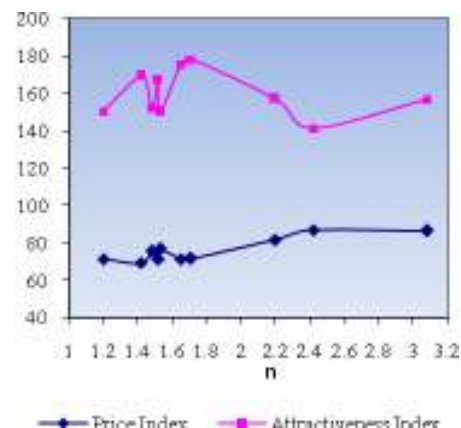
**Figure 1. Velocity and acceleration indexes of 10 examined second-hand car models**



**Figure 2. Acceleration and resistance indexes of 10 examined second-hand car models**



**Figure 3. Price and attractiveness indexes of 10 examined second-hand car models**





It describes the market downward pressure on used car price. Hence the consumer's pressure was relatively high in all cases, because acceleration index was greater than 100%, whereas the supplier's pressure was at relative low level, as shown by resistance index, which was less than 100% for each model (Table 1, Figure 1, Figure 2).

In this group of car models, the greater decrease of the car price (described by the price index), the higher level of the car attractiveness (described by the attractiveness index), as shown in Figure 3. The attractiveness rate  $F(M)$  and further the attractiveness index describe the attractiveness level of the second-hand car in the market. The most attractive car model in this group was Ford-Focus 1.6 Comfort Kombi with its attractiveness index of 177,9%, whereas the less attractive was Lancia-Lybra 2.0 Emblema Kombi (the attractiveness index equals 149,8%). The most interesting thing is that each car model is characterized with relative high level of the attractiveness index (greater than 100%). It denotes that in spite of a car price decline, its market attractiveness increases. A significant proportion of the increase in  $F(M)$  rate was attributed to the excess demand – quantity of cheap passenger cars demanded was greater than quantity supplied.

The relationship between the passenger car price change and its age is a key point in this paper, because the price as well as the age is very important determinants of a car attractiveness and utility. The market price is also a very important determinant of a commodity quality.

#### 4. Conclusion

Price changes of all examined second-hand passenger car models were described as convex downward-sloping curves over time.

For each car model, the decrease in price caused increase in velocity rate and acceleration rate.

Acceleration rate and resistance rate were presented in this paper as a new dynamic approach of measuring the pressures on price in supply/demand analysis.

The attractiveness rates of all examined car models increased, what denotes, that the perceived level of quality and utility of those products were relatively high.

#### 5. References

- [1] Data on average used car market prices, [www.autotrader.pl](http://www.autotrader.pl).
- [2] Kondratowicz-Pietruszka E., *Kinetic analysis of selected curves describing changes in quality of products*, Scientific Letters of CUE, Monographs, 125, Cracow, 1995.
- [3] Koorman P., Haan M. A., *Price Anomalies in the used car market*, De Economist 154, No.1, 2006, pp. 41-62.
- [4] Kwiatkowska-Sienkiewicz K., *The identification and influence of different additives on the quality of ground coffee*, Gdynia Maritime University, 2005.
- [5] Łuka P., *Ocena zmian jakości i użyteczność isamochodó używanych produkowanych w latach 1997-2005 i sprzedawanych na rynku polskim, praca dyplomowa*, Gdynia, Maritime University ( PL) 2009.
- [6] Łuka P., Kwiatkowska-Sienkiewicz K., *The kinetic approach to quality and utility estimation of used cars*, The 16<sup>th</sup> IGWT Symposium, Achieving Commodity and Service Excellence in the Age of Digital Convergence, The University of Suwon, Suwon, pp. 96-101, 2008.
- [7] Passenger Cars. Market guide-book, Eurotaxglass's Automotive business Intelligence, Warszawa, 8/2006.
- [8] Stokłosa K., *Krytyka współczesnych metod oceny dynamiki procesów w ekonomii i w zarządzaniu, praca zbiorowa pod redakcją naukową M. Trockiego i S. Gregorczyka*, SGH w Warszawie, Warszawa, 2006.

## Attractiveness Estimation of the Second-Hand Cars

Paweł Łuka

*Institute of Tourism, University of Rzeszow, Poland*  
*E-mail: pavelluka@gmail.com*

Krystyna Kwiatkowska-Sienkiewicz

*Department of Chemistry and Industrial Commodity Science,*  
*Gdynia Maritime University, Poland*  
*E-mail: krysie@am.gdynia.pl*

### Abstract

The paper concerns kinetic estimation of second-hand passenger cars attractiveness. The analysis is based on the average market prices of 10 selected used car models, produced in years 1997-2005. Price changes of all examined cars were described as a concave downward-sloping curves over time. On the basis of the price change kinetic functions, the orders of processes, the velocity rates, the acceleration rates, the resistance rates, as well as the attractiveness rates have been calculated. The price change velocity denotes marginal changes of second-hand car price during the time. The price change acceleration describes the consumer's downward pressure on the used car price, whereas the resistance rate represents suppliers upward pressure on price. And finally, attractiveness rate describe perceived value of a product.

**Key words:** estimation, second-hand cars, average market prices;

**JEL classification:** C81;

### 1. Introduction

In this article, we focus on the relationship between the second-hand passenger car price changes and the car attractiveness in the Polish automobile market. Changes of quality and utility of the cars during the definite period are presented by their market price changes. The level of the used car market price generally depends on their age in calendar year. Those prices bear a close relation to the expected discounted value of the flow of future utility that a car can provide to its owner during the remainder of the car's lifetime. As a car grows

older, its expected remaining lifetime decreases. Older passenger cars fetch lower prices on the second-hand car market. At the same time, we are interested in identifying the characteristics of the market forces, that effect the attractiveness level of a product [3].

One of the market variables, that effect the second-hand car attractiveness in Poland is still increasing demand for such products. Most of this increase in demand for passenger cars was attributed to serious social, economic and political changes in Poland, connected directly or indirectly with the accession of Poland to the European Union in 2004. Over the recent years the quantity of the second-hand cars imported is average three times greater than the quantity of new ones sold in the primary car market.

All socio-economic factors and product characteristics describe how much attractive the car is to a potential consumer. A product attractiveness level is a very important market variable, because it effects on the demand and generates benefits for second-hand cars suppliers.

### 2. Methods

This article is based on the data collected by the 2006 Eurotax publications and other Internet-based second-hand car average market prices [1; 7]. The base of investigation were average prices of 10 selected used cars models, produced in years 1997-2005 and sold in the Polish car market in 2006.

There are following passenger car brands under examination: Citroen (1 model), Ford (2 models), Hyundai (2 models), Lancia (1 model) and Nissan (1 model), Mitsubishi (1

model), Renault (1 model), Volkswagen (1 model).

All the car price changes were described by kinetic models. Using kinetic functions, the  $n$  orders, the velocity rates  $V(M)$ , the acceleration rates  $A(M)$ , the resistance rates  $R(M)$ , and the attractiveness rates  $F(M)$  of all the processes have been calculated. The price change velocity rate represents marginal changes of second-hand car price during the time and mathematically it is the first derivative of the car price change function. The price change acceleration rate is the second derivative of the price change function and denotes the consumers' downward pressure on the second-hand car price, whereas the resistance rate represents suppliers' upward pressure on price. They describe demand and supply in dynamic way. Finally, the attractiveness rate describes perceived value of a product. In addition to those calculations, all the value changes indexes were estimated.

**Symbols used in this paper:**

- $t$  – time
- $M_0$  – initial price of a used car,
- $M_K$  – final price of a used car,
- $M_t$  – price of a used car during time  $t$ ,
- $\hat{M}_t$  – price of a used car during time  $t$ , estimated theoretically,
- $V(M)$  – price change velocity rate,
- $\hat{V}(M)$  – price change velocity rate, estimated theoretically,
- $A(M)$  – price change acceleration rate,
- $\hat{A}(M)$  – price change acceleration rate, estimated theoretically,
- $R(M)$  – price change resistance rate,
- $\hat{R}(M)$  – price change acceleration rate, estimated theoretically
- $F(M)$  – price change attractiveness rate,
- $\hat{F}(M)$  – price change attractiveness rate, estimated theoretically,
- $P_K$  – value change index,
- $n$  – dynamics indicator,
- $w_n$  – velocity constant rate, velocity rate indicator,
- $a_n$  – acceleration constant rate, acceleration rate indicator,
- $ds$  – downward-sloping concave model.

Price changes of all examined second-hand passenger cars were described as a concave downward-sloping curves over the time. All

the curves analyzed in the paper have a model form called  $ds$ . Model  $ds$  represent an inverse relationship between the second-hand car price and the age of the car and also are characterized by the price decrease with decreasing velocity rate during time  $t$ . The curves were described with high accuracy with special importance of the  $n$  order of the process function description. The  $n$  order is understood as an indicator of the mechanism, or of the process course, as well as the rate constant of the  $n^{\text{th}}$  order of  $w_n$  being an indicator of the change velocity rate. Hence the  $n$  order is an indicator of the process dynamics [4; 7].

The values for the price change velocity rates  $V(M)$  were found in accordance with the following formula [2]; [4]:

$$V(M) = w_n \cdot M_t^n = -\frac{dM_t}{dt}, w_n > 0, n \geq 0(1)$$

The price change velocity rate denotes marginal change of second-hand passenger car price during the processing time.

The values for the price change acceleration rate  $A(M)$  have been calculated using following equation [2; 4; 5]:

$$A(M) = a_n \cdot M_t^{n-1} = -\frac{d^2M_t}{dt^2}, a_n > 0 \quad (2)$$

The price change acceleration function is the second derivative of the price function and denotes the level of consumers pressure on used car price to fall.

The resistance function  $R(M)$ , refers to the level of suppliers upward pressure on a used car price. All the series have been calculated using following formula [2÷8]:

$$R(M) = \frac{1}{A(M)} \quad (3)$$

The force of the product attractiveness  $F(M)$ , called the attractiveness rate, have been calculated using equation [5]:

$$F(M) = M_t \cdot A(M) \quad (4)$$

The force of attractiveness describes the attractiveness level of the second-hand passenger car. The function of the attractiveness shows the power of the effects of

the quality and utility of the used car on decision making of the consumers as well as the suppliers.

All the calculations in this work were done with the estimated (theoretical) values of  $M_t$  (price) –  $\hat{M}_t$  and further  $\hat{V}(M)$ ,  $\hat{A}(M)$ ,  $\hat{R}(M)$  and  $\hat{F}(M)$  values were applied. The average deviation accuracy of empirical values and estimated (theoretical) values –  $e_m$  [%] of curves description was also calculated [2; 4÷8].

In addition, the values of changes between initial values and final values  $P_K$ , were calculated. Index  $P_K$  denotes the percentage change of the final value of the measure in relation to the initial value of that measure, expressed in the relative scale.

The values of  $P_K$  indexes have been calculated using the following formula [2; 4÷8]:

$$P_K = \frac{X_K \cdot 100}{X_P} \text{ [%]} \quad (5)$$

where:

$X_P$  – initial value of a measure,

$X_K$  – final value of a measure.

All the calculated  $P_K$  indexes in this paper were named: price index, velocity index ( $V(M)$  index), acceleration index ( $A(M)$  index), resistance index ( $R(M)$  index) and attractiveness index ( $F(M)$  index).

### 3. Results and discussion

In this paper only a part of the wider research on the second-hand passenger car market in Poland was presented. The kinetic analysis of attractiveness level using the average market prices of 10 selected used passenger cars was conducted. All the examined car models were collected in Table 1. and arranged in order of the increasing dynamics, represented by dynamics indicator  $n$ .

The price changes of all examined passenger car models were described as concave

**Table 1. Results of dynamics estimation of 10 examined second-hand car models**

Car model	$n$ ( $ds$ )	$V(M)$ index [%]	$A(M)$ index [%]	$R(M)$ index [%]	$F(M)$ index [%]
Citroen-Xsara II 1.6i SX	3,05	17,8	31,3	319	17,8
Renault-Megane II 1.6 Pack Expression	3,14	20,5	34	294,1	20,5
Hyundai-XG 2.5	3,48	17,4	28,8	347	17,4
Lancia-Lybra 1.8 LX	3,94	21,8	32	311,9	21,8
Ford-Mondeo 2.0 TDDi Ambiente	4,03	51,4	60,6	165,1	51,4
Mitsubishi-Space Star 1.3 Family	4,74	46	54,2	184,5	46
Volkswagen-Golf IV 1.6 Comfortline	5,8	27,7	34,5	289,8	27,7
Hyundai-Accent 1.5 L (air)	6,86	7,9	11,5	871,4	7,9
Nissan-Micra 1.0 Comfort Plus	6,95	26,7	32,3	309,3	26,7
Ford-Galaxy 2.3 16V Ghia	7,15	7,6	10,9	921,7	7,6

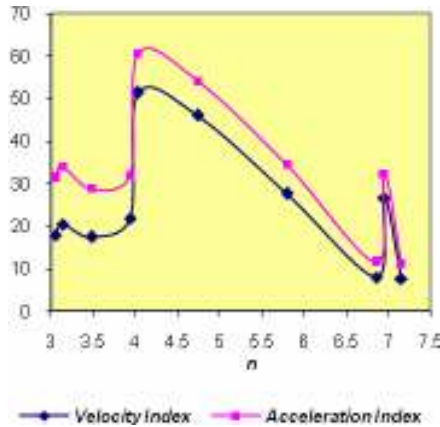
downward-sloping curves over time  $t$ , and called  $ds$  models.

All the cases have orders of processes  $n$  greater than  $3ds$ . Rising  $n$  value of the  $ds$  models shows decreasing change dynamics. Parameter  $n$  is the main dynamics indicator in this paper. The most dynamic price decreases were observed at Citroen-Xsara II 1.6i SX ( $n = 3,05ds$ ) and the less dynamic at Ford-Galaxy 2.3 16V Ghia ( $n = 7,15ds$ ), as presented in Table 1.

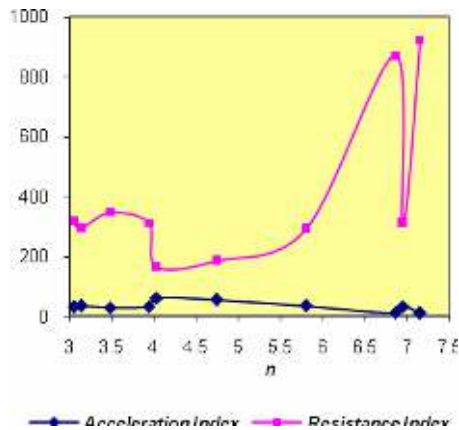
Each second-hand passenger car model is characterized with the rapid decrease of its market price. The changes of prices of used cars are shown by the rapid decrease of the velocity rates  $V(M)$ , average to 24,48% and decrease of the acceleration rates  $A(M)$  of the processes, average to 33,01%. The resistance rates  $R(M)$  increased significantly, average to 401,38%. The attractiveness rates of all examined car models went down, average to 24% (Table 1, Figure 1, Figure 2 and Figure 3).

Very high accuracy of curves description as the average deviation of empirical values and estimated (theoretical) values was found (average  $e_m = 0,79\%$ ). As the acceleration rate  $A(M)$  represents the market pressure on second-hand car price to fall, the decrease of  $A(M)$  rate is attributable to relative low performance of perceived product value.

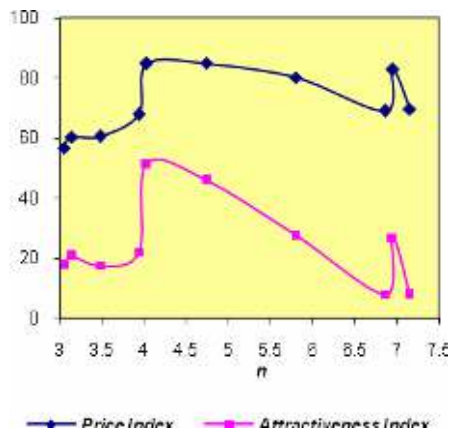
**Figure 1. Velocity and acceleration indexes of 10 examined second-hand car models**



**Figure 2. Acceleration and resistance indexes of 10 examined second-hand car models**



**Figure 3. Price and attractiveness indexes of 10 examined second-hand car models**



The acceleration rate  $A(M)$  in quantitative and dynamic way measures the downward pressure on price in supply/demand analysis. In the same way, the resistance rate measures the upward pressure on price in supply/demand analysis, whereas the attractiveness rate measures the quality and utility of a product.

In this group of car models, the greater decrease of the car price (described by the price index), the lower level of the car attractiveness (described by the attractiveness index), as shown in Figure 3. The attractiveness rate  $F(M)$  and further the attractiveness index describe the attractiveness level of the second-hand car in the market. The most attractive car models in this group were Ford-Mondeo 2.0 TDDi Ambiente with its attractiveness index of 51,4%, and Mitsubishi-Space Star 1.3 Family with its attractiveness index of 46%, whereas the less attractive were Ford-Galaxy 2.3 16V Ghia (the attractiveness index equals 7,6%) and Hyundai-Accent 1.5 L (the attractiveness index equals 7,9%). Each car model is characterized with relative low level of the attractiveness index (less than 100%). With a car price decline, its market attractiveness decreases. The decrease in  $F(M)$  rate was attributed to the excess demand – quantity of cheap passenger cars demanded was greater than quantity supplied.

The relationship between the second-hand car price change and its attractiveness is a key point in this paper, because the price as well as the age is very important determinants of a second-hand car marginal utility and attractiveness.

#### 4. Conclusion

Price changes of all examined second-hand car models were described as concave downward-sloping curves over time.

For each car model, the decrease in price caused decrease in velocity rate and acceleration rate.

Acceleration rate and resistance rate were presented in this paper as a dynamic approach of measuring the pressures on price in supply/demand analysis.

The attractiveness rates of all examined car models decreased, what denotes, that the perceived level of market value of those products were relatively low comparing to

other second-hand passenger cars in the Polish market.

## 5. References

- [1] Data on average used car market prices, [www.autotrader.pl](http://www.autotrader.pl).
- [2] Kondratowicz-Pietruszka E., *Kinetic analysis of selected curves describing changes in quality of products*, Scientific Letters of CUE, Monographs, 125, Cracow, 1995.
- [3] Koorman P., Haan M. A., *Price Anomalies in the used car market*, De Economist 154, No.1, 2006, pp. 41-62.
- [4] Kwiatkowska-Sienkiewicz K., *The identification and influence of different additives on the quality of ground coffee*, Gdynia Maritime University, 2005.
- [5] Łuk P., *Analiza wpływu zmian jakości i użyteczności samochodów używanych na ich ceny w roku 2006. (doctors disertation, in Polish)*, Gdynia, Maritime University, 2009.
- [6] Łuka P., Kwiatkowska-Sienkiewicz K., (2008), *The kinetic approach to quality and utility estimation of used cars*, The 16<sup>th</sup> IGWT Symposium, Achieving Commodity and Service Excellence in the Age of Digital Convergence, The University of Suwon, Suwon, pp. 96-101.
- [7] Passenger Cars. Market guide-book, Eurotaxglass's Automotive business Intelligence, Warszawa, 8/2006.
- [8] Stokłosa K., *Krytyka współczesnych metod oceny dynamiki procesów w ekonomii i w zarządzaniu, praca zbiorowa pod redakcją naukową M. Trockiego i S. Gregorczyka*, SGH w Warszawie, Warszawa, 2006.

# Studying the Factors Which Influence Consumer Behavior on the Insurance Market

Petrescu Eva-Cristina,  
Ionciã Diana,  
Petrescu Marian,  
*The Academy of Economic Studies – Bucharest*  
*eva\_petrescu@yahoo.com*

## Abstract

For understanding insurance services' consumer behavior, it is necessary to study the influence of different endogenous and exogenous factors on the insurance services' consumer behavior. The researchers must analyze the decision-making processes from those that precede the purchase of insurance to the final experience of using it and the various factors that influence the processes and the insurance services' consumer. The paper aims to present some methodological aspects related to the qualitative study of the influence of endogenous and exogenous factors on the insurance consumer behavior.

This work was supported by CNCSIS – UEFISCSU, project number 915 / 2009 PNII – IDEI 1773/2008

**Key words:** influence, insurance market, consumer behavior

**JEL classification:** M30

## 1. Introduction

In order to be successful an insurance company must understand the needs of consumers and to satisfy these needs better than the competition. The insurance services' consumer behavior is determined by the influence of a series of factors, which can be divided, function of their nature, in endogenous and exogenous factors.

The qualitative researches are designed to generate new ideas, to provide insights about the consumer behavior. The ideas resulted from qualitative studies must be tested using quantitative researches. The qualitative researches are making possible the understanding of consumer behavior and the

quantitative researches are making possible the prediction of the consumer behavior [1]. The main characteristics of the qualitative researches are presented in Table 1.

*Table 1 Particularities of the qualitative research*

	<b>Qualitative research</b>
<b>Study purpose</b>	Researches are designed to provide new ideas. The qualitative researches are often used in exploratory research to refine the objectives of quantitative studies.
<b>Methods of research</b>	<ul style="list-style-type: none"><li>- depth interview,</li><li>- semi-guided interviews,</li><li>- focus group,</li><li>- collage research</li><li>- projective techniques</li></ul>
<b>Sampling Methods</b>	Small, nonprobability samples
<b>Representative results</b>	The results are generally not representative of the universe under study and cannot be generalized to larger populations; the findings tend to be somewhat subjective.
<b>Types of questions</b>	Open ended, unstructured questions. The projective techniques include disguised questions.
<b>Data Analysis</b>	The analysis is subjective and reflects the judgment of the researchers.

Adapted from [2]

The main qualitative research methods are depth interview, semi-guided interviews, focus group, metaphor analysis, collage research and projective techniques.

The semi-guided interviews are the most frequently used methods of qualitative research [3].

Due to the nature of the insurance services' consumer behavior research we consider that for

the study of the influence of different endogenous and exogenous factors on the insurance services' consumer behavior the most appropriate is the use of semi-guided interviews. This qualitative research must be conducted by exploiting primary sources of information.

The organization and implementation of the qualitative marketing research using semi-guided interviews implies:

- designing marketing research,
- implementing marketing research
- the analysis and interpretation of information,
- drawing up conclusion and presenting the final rapport.

Designing marketing research is a difficult task from which depends the success of the entire research. In this stage the researchers must establish the objectives of the research, they must establish the population segment studied, the sampling method and they have to design the tools of the research: the recruitment (selection) questionnaire and the conversation guide.

In this case there are two main objectives of the research: (1) studying the influence of endogenous factors and (2) studying the influence of exogenous factors.

The studied population must be made up of Romanian owners of insurance contracts aged over 18, from urban and rural areas. The choice of the subjects interviewed must be made by using selection questionnaires

The number of semi-guided interviews to be taken is relatively limited and the sample cannot be considered as representative.

The sample of subjects interviewed must reflect the structure of the population studied, even if the sample cannot be considered as representative.

In the conversation guide the questions are open ended, unstructured. In the qualitative research the subjects are asked to freely respond to stimuli as words or pictures.

The implementation of qualitative marketing research supposes to select the participants based on the recruitment questionnaire, to interview each subject by using the conversation guide and to record the interviews.

In the case of the qualitative research usually the data collected are analyzed by researchers with experience in the behavioral sciences.

The results obtained from such a study cannot be generalized, and the conclusions following are not to be extended to the whole insured

population. Even if they are not necessarily valid for all the Romanian insurance services' consumers, the ideas resulted from the research can be valuable when used in an exploratory way.

## **2. The endogenous and exogenous factors influencing insurance services' consumer behavior**

The insurance services' consumer behavior covers the decision-making processes from those that precede the purchase of insurance to the final experience of using it and the various factors that influence the processes and the consumer. The researchers must analyze the consumer buying process and the various factors that influence the consumer and the buying decision. Insurance services' consumer behavior involves many different actors: insurance purchasers, insurance beneficiary, influencers, organizations or groups of insured.

The insurance services' consumer behavior is influenced by two categories of factors: one category acting from inside: the endogenous factors, and category acting from outside: the exogenous factors.

**The endogenous factors** are the inner workings, the processes taking place in the mind of the consumer which influences his behavior.

The main endogenous factors to be analyzed and studied when we want to understand insurance services' consumer behavior are: **perception, learning, attitude, motivation and personality.**

**Perception** is an extremely complex phenomenon, comprising the mental activity of observing, understanding and discerning between stimuli, achieved through the system of sensory receptors [4].

Consumers are extremely selective regarding the things to which they pay attention, reacting only to a small part of the stimuli they are exposed to. Thus, a process of perceptual selection takes place.

The way in which insurance services and insurance companies are perceived by consumers can be studied, by using tests and techniques specific to qualitative research:



- free word association (for instance: ‘Which is the first word that comes to mind when you hear of insurance services ...’),
- the sentence completion test (for example: ‘Please complete the following sentences: The most attractive insurance services on the Romanian market are:.....’, ‘During a crisis, insurance services are: .....’),
- the Chinese portrait technique (‘Please tell us what you think about the insurance company or companies with which you currently have insurance contracts. ...Which animal would you associate its image with? ...’).

**Learning** refers to a relatively permanent change in behavior which comes with experience and the experience does not have to affect the learner directly: we can learn by observing events that affect others [5]. For the researcher important questions related to the learning process are the following: “Is acquiring insurance a stressful or pleasant experience?”, “How does the insured learned about the insurance products and insurance companies existing on the market?”.

**Attitudes** are learned predispositions [6]. The attitudes relevant to insurance purchase behavior are formed as the result of insured direct experience or of information acquired from others (family, friends, colleagues, insurance agents etc.) or of exposure to mass-media, Internet, marketing activity. Attitudes and interests strongly affect the consumer behavior. Attitudes are relatively consistent with the behavior they reflect, but they are not permanent, they can change. For the researcher an important question is “How are consumers attitudes towards product formed and/or changed?”.

One of the main endogenous factors to be analyzed and studied when we want to understand insurance services’ consumer behavior is motivation.

**Motivation** is considered to be an inner state which drives an organism towards a goal [7].

In the case of insurance services, motivation comprises the totality of motives and reasons, conscious or not, which determine someone to purchase insurance. People contract insurance as cover against various risks, but also from the desire to save or invest.

Someone can be determined to purchase an insurance policy either for a series of reasons with positive connotations (for instance, I want

to make sure I have the money to pay for my child’s education, so I purchase an education insurance policy), or so as to avoid a negative situation.

So as to understand the motivations in insurance purchase, the subjects interviewed must be asked about the appearance of the need for insurance and the reasons which lead to closing the insurance contract, the motives for satisfaction / dissatisfaction towards insurance companies and their policies, the reasons conducive to customer loyalty, the incentives to buy new insurance policies.

So as to understand the barriers to insurance purchase, the subjects interviewed can be asked to answer open-ended questions (for example: ‘Which are, in your opinion, the main reasons not to purchase in the case of insurance?’, ‘Which are, in your opinion, the factors that would determine you to renounce at closing an insurance contract?’, etc.) and to complete sentences (for example: ‘When I think of insurance, I am most scared of .....’).

**Personality** is the distinctive and enduring patterns of thoughts, emotions and behaviors that characterize individual’s adaptation to the situations of his or her life [8].

Nowadays consumers are trying to build an identity through various consumption activities and consequently a consumer will choose the product / service / company brand that has an image in accordance with the ideas he holds about himself – the choice being indicative of the type of image the consumer desires [9]. The motivations to purchase a product or a service can be related to self-expression: expressing the consumer personality. So it is important for the researcher to know what type of personality insured have.

**The exogenous factors** can be directly observable factors (for example the marketing stimuli) or factors that have to be deduced by the researcher (for example the stimuli of a social nature).

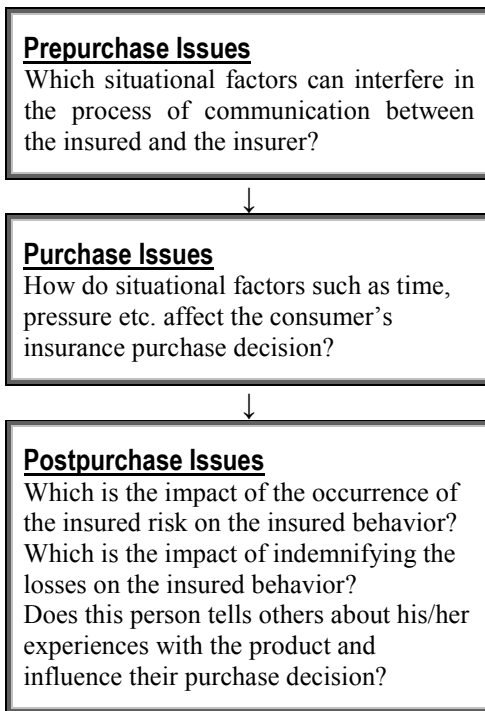
The principal categories of external stimuli are: marketing stimuli, situational factors, stimuli belonging to the macro-medium and stimuli of a social nature.

**The factors related to the marketing mix of insurance companies** are important stimuli for insurance services’ consumer behavior. The elements pertaining to the insurance company’s offer, the insurance premiums, the means of

distribution, the process of communication and the personnel of insurance companies can determine the acts of the consumer and the insurance company can modify those elements so as to obtain the best responses from the insurance services' consumer. So it is important to know consumer's expectation regarding the marketing mix of insurance companies

**Situational factors** are related to the moment before the sale of the insurance policy, the moment of purchase of the insurance policy, and the moment of use of insurance services – see Figure 2.

Figure 2. Questions concerning the situational factors related to the consumption process stages



**The factors from the external macro-medium** which can influence insurance services' consumer behavior are demographical, economic, political, technological, factors from the natural environment etc.

The role of the insurance is to protect the insured against different risks, but also to create benefic effects for the entire society. The marketing activity in insurance has important causes and effects in the social, ethical and legal environment.

The evolution of the insurance market is closely related to economic, social and political changes, and in the context of financial crisis the

insurance services' consumer behavior is clearly affected by those factors. The researchers must study the effects of the financial crisis on the insurance services' consumer behavior.

From a sociological perspective the study of consumer behavior suppose the investigation of the demographic characteristics of consumers, the large-scale social structures and their influence on consumer behavior, the small-scale social structures such as groups and their influence on consumer behavior, the role of relationship and their influence on consumer behavior, the social influence and the way in which communications modifies consumer behavior. So, in order to find the influence of **sociological factors** we have to study the role of family, belonging and reference groups, social class, subculture and culture in the decision making process in the Romanian insurance market.

It is important for any study of consumer behavior to know the **factors related to personal characteristics of the consumer**, such as age and the stage in the life cycle, occupation, economic situation, etc. In the case of insurance services' consumer behavior the age, the stage in the life cycle, the occupation, the economic situation are crucial elements that influence the decision of acquiring an insurance.

### 3. Conclusions

In conclusion, for understanding insurance services' consumer behavior, it is necessary to study in detail a great variety of endogenous and exogenous factors.

### 4. References

- [1] Petrescu, E.-C. Ionciă, M., Studying Consumer Behavior - Qualitative and Quantitative Perspectives, The QIEI 2008 International Conference on Quality – Innovation – European Integration, Sibiu, 2008
- [2] Schiffman, Leon G. Leslie Lazar Kanuk, Consumer Behaviour, 9th edition, Pearson/ Prentice Hall, Upper Saddle River, 2007
- [3] Pop, N. Al. Petrescu, E.-C., Marketing et gestion de la relation client, Editura Uranus, București, 2008
- [4] Cătoiu, I.; Teodorescu, N., Comportamentul consumatorului, ediția a 2 a, Ed. Uranus, București, 2004
- [5] Solomon, M., Bamossy, G., Askegaard, S., Hogg, M. K., Consumer Behaviour – A European Perspective, Enhanced Media Edition, Pearson Education, 3<sup>rd</sup> edition, 2006

[6] Schiffman L. G., Kanuk L. L., Consumer Behaviour, 9th edition, Pearson/ Prentice Hall, Upper Saddle River, New Jersey, 2007

[7] Balaure, V. (coordonator), Adăscăliței, V., Bălan, C., Boboc, Șt., Cătoi, I., Olteanu, V., Pop, N. Al., Teodorescu, N., *Marketing*, ediția a 2a, Ed. Uranus, București, 2002

[8] Arnould E., Price L., Zinkhan G., Consumers, second edition, McGraw-Hill/Irwin, Boston, 2004

[9] Solomon, M., Bamossy, G., Askegaard, S., Hogg, M. K., Consumer Behaviour – A European Perspective, Enhanced Media Edition, Pearson Education, 3<sup>rd</sup> edition, 2006

# Exogenous Factors Influencing Consumer Behavior on the Insurance Market

Petrescu Marian,  
Ionciță Diana Eugenia,  
Petrescu Eva-Cristina,

*The Academy of Economic Studies – Bucharest, 6 Romană Square, sector 1, Bucharest,  
eva\_petrescu@yahoo.com*

## Abstract

The insurance services' consumer behavior is influenced by a series of factors, which can be divided, function of their nature, in endogenous and exogenous factors. The potential insurance client's behavior is influenced by the following main categories of exogenous factors: situational factors – related to the moment before the sale of the insurance policy (connected, for instance, to the process of communication between the insured and the insurer), the moment of purchase of the insurance policy, and the moment of use of insurance services; the factors related to the marketing mix of insurance companies – elements pertaining to the personnel of insurance companies, their offer, the insurance premiums, the means of distribution and the process of communication; factors from the external macro-medium – demographical, economic, political, technological, factors from the natural environment etc.; factors related to the sociological particularities of the insurance services' consumer – among which we would like to mention culture, subculture, social class, reference group, family. In the current paper, we shall present the main factors which influence from the exterior the behavior of the insurance services' consumer.

This work was supported by CNCIS – UEFISCSU, project number 915 / 2009 PNII – IDEI 1773/2008

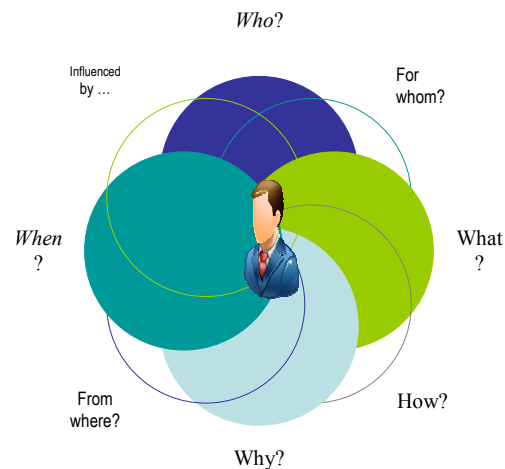
**Key words:** exogenous factors, consumer behavior, insurance market

**JEL classification:** M30

## 1. Introduction

So as to understand the insurance services' consumer behavior, it is necessary to find the answer to a multitude of questions: *Who is insured? Who purchases insurance? For whom is the policy purchased? How is the decision to close an insurance contract made? Why? What are the reasons which determine someone to purchase insurance? When do people get insurance? Where do they get it from? What are the preferred insurance types? What are the factors influencing the insurance services' consumer behavior? etc.*

„Figure 1. Correlated questions concerning consumer behaviour”



In order to have a clear image of the insurance services' consumer behavior, the answers to these questions must not be taken separately, but in correlation.

The analysis of the insurance services' consumer behavior implies a multidisciplinary approach. The way in which a person behaves from an economic point of view, besides reflecting the insured's needs, is also the result of accumulated experience [1].

The insurance services' consumer behavior is influenced by a series of factors, which can be divided, function of their nature, in **endogenous** and **exogenous factors**. A series of external stimuli influence the insurance client. These are both marketing stimuli (product, price, distribution, communication, personnel), stimuli belonging to the macro-medium (economic, demographical, economic, political, technological, natural factors, etc.), stimuli of a social nature, as well as other factors specific to the situation of the consumer.

The inner workings, the processes taking place in the mind of the potential insurance services consumer, are among endogenous factors. The main endogenous factors to be analyzed and studied when we want to understand consumer behavior are: perception, learning, attitude, motivation and personality.

The behavior of the potential insurance client is influenced by the following main categories of **exogenous factors**:

- A. situational factors** – related to the moment before the sale of the insurance policy (connected, for instance, to the process of communication between the insured and the insurer), the moment of purchase of the insurance policy, and the moment of use of insurance services.
- B. the factors related to the marketing mix of insurance companies** – elements pertaining to the personnel of insurance companies, their offer, the insurance premiums, the means of distribution and the process of communication.
- C. factors from the external macro-medium** – demographical, economic, political, technological, factors from the natural environment etc.
- D. factors related to the sociological particularities of the insurance services' consumer** – among which we would like to mention culture, subculture, social class, reference group, family.

## 2. Situational factors

Specialists consider that **situational influences** can be related to three distinct moments: the moment of the marketing communication, the moment of purchase and the moment of consumption [2]. In the case of insurance, we can distinguish three important

situations when determining factors for the purchase of an insurance policy may intervene:

- *the moment before the sale of the insurance policy* – at this moment, we can list among the most important factors those related to the process of communication between the insured and the insurer,

- *the moment of purchase of the insurance policy* – it is important to know whether the person purchases for himself/herself or so as to insure another person (for instance, in the case of policies parents purchase for their children – for studies, etc.). Moreover, at the moment of purchase, factors related to the state the consumer is in may count, the factors connected to the atmosphere in which the transaction is closed, factors related to the urgency of the acquisition, factors linked to the occurrence of unexpected events at the moment of purchase, such as changes in contractual terms, or in the insurance premium, factors related to the presence of 'influencers', prescriptors, the presence of other persons who may influence or even determine the purchase decision.

- *the moment of use of insurance services* – at this moment, among the most important factors, we can mention those related to the occurrence of the insured risk and the covering of losses through indemnity. The way in which insurance companies act at this moment has a determining role in influencing the subsequent behavior of the insured.

## 3. Factors related to the marketing mix of insurance companies

**The marketing stimuli** are factors which can be controlled – to a great extent – by the insurance company. The latter can control its product, price, distribution, communication and personnel policy.

**The product policy** is reflected in the supply of the insurance company. By means of its offer, the company should try to attract and keep customers. So as to be purchased, insurance products should firstly be known, and their necessity must be accepted by the target consumers. The services offered by the insurance company must meet the needs of the target market. Among the *factors* influencing the relation insured-insurer we can list: *the atmosphere* (the organizational conditions in which the contact with the client is made), *the*

*material elements of the performance* (the means by which the results of the performance are communicated, etc.), and, not lastly, *the quality of the insurance services provided*. The services offered by the insurance company are intangible, so it is quite difficult for consumers to evaluate *their quality*. *This is when other elements come into place – such as the level of trust held by the brand*.

A person will choose a brand (of a product, service or company) which has an image in accordance with the ideas the person holds about himself/herself. In the case of insurance, the brand of the insurance company counts more than the product brand. Moreover, the choice is made function of the brand notoriety and of the reputation of the insurance company.

**The price** paid for insurance, the insurance premium, is an extremely important criterion for the choice made by the insurance consumer.

In the case of the mandatory motor insurance, RCA, the premium is the decisive factor in the insured's choice. An important element which must be studied is the perception of insurance services consumers on the relation 'price paid/utility'. It is important to study the degree of price sensitivity for various insurance types. A significant element to analyze is the correlation between the prices accepted by the insured and their incomes, thus identifying the target 'segments' for the various types of insurance.

The longer the period of time in which the purchase of insurance has consequences on a person's budget (for instance, in the case of life insurance), the more difficult the process of choosing an insurance company for a certain insurance type.

**Distribution** is a key element, ensuring the clients' access to the services supplied. A proper distribution network can influence favorably consumers' attitude towards the insurance company. So as to study the influence of the distribution method, one must know and analyze purchase behavior for each insurance type, and identify the points of sale preferred by consumers; furthermore, one should see if there is a preference for traditional or for modern acquisition methods, like the internet, and how this is manifested (for instance, at the current moment, an important development related to RCA policies on the Romanian market is their electronic issue), the frequency of purchase, the criteria related to distribution which influence

choice (where the point of sale is located, proximity, etc.)

**The communications** of the insurance company are another factor which can influence the insurance services' consumer behavior. Communications have as main objectives: to draw the attention of potential consumers towards the insurance company and its services; to inform potential clients about the offer of the insurance company and convince them of the necessity to purchase its services; to persuade them to become loyal to the insurance company; to determine a certain behavior on the part of the insured.

A fundamental premise of consumer behavior is that people purchase products and services not only for what they do, but also for what they represent. Subjective factors, such as the symbolism used in the brand name, can influence the choice of the product of an insurance company, instead of that of another. The wrong promotional policy may have a major impact not only on the activity of an insurance company, but on the entire market.

In relation to the promotional policy of insurance companies, one must study the degree of impact of different commercials, the way in which the message transmitted is understood by the insured, the way in which the promotional activity is perceived by consumers.

The personnel has an extremely important role, given the fact that the closing of an insurance contract often depends on the abilities of the insurance agent.

#### **4. Factors from the external macro-medium**

Factors from the external macro-medium are stimuli which cannot be controlled by the insurance company. This category includes demographical, economic, political, technological stimuli, factors from the natural environment, factors of a socio-cultural nature, etc. For instance, when we are in a crisis period (like the current one), it is important to study consumer priorities, as well as the necessity of insurance as perceived by consumers, and the insurance company must adapt its offer to the conditions specific to the crisis. Furthermore, the messages of the insurance company must not ignore the situation, since it is essential for the consumer to be informed and receive proper

explanations on the implications the phenomenon might have on his/her situation.

## 5. Sociological factors

The decision to close an insurance contract might be influenced by a series of socio-cultural factors, such as: culture, socio-cultural affiliation, belonging to a social class.

**Culture.** It is made up of everything a human being acquires – behavior, knowledge, techniques, traditions – as a social entity [3]. Cultural differences should be respected and taken into consideration, since culture is a factor which determines the way people manifest themselves, hence their insurance related behavior.

Due to cultural differences, the way risk is perceived differs from country to country, thus influencing the attitude for or against insurance. Moreover, purchasing behavior varies function of the common values specific to each culture. As members of the same society, people have a common system of values, and strong shared convictions. The common values determine the existence of common fears. For instance, if in the US unknown risks quickly become a matter of national importance, in Norway they are considered insignificant and negligible. [4]

In Romania – except for mandatory policies – the interest in insurance purchase is relatively low, probably because of a cultural deficiency in this domain shared by the majority of population.

**Sub-cultures** are smaller groups within a culture, such as ethnic groups, persons from different regions of the country, etc. The members of *subcultures* share specific values. In a society, there are cultural groups which can be divided in 4 categories: *races* (white, black, oriental, etc.), *regional groups* (in Romania there are several regional groups: inhabitants of Oltenia, Moldavia, Transylvania, etc.), *national groups* (Romanian, Hungarian, Turkish etc.), *religious groups* (orthodox, catholic, protestant, etc.). Each subculture in the various categories has its own system of values, therefore a specific way of manifesting buying behavior.

Multicultural marketing grew out of careful marketing research, which revealed that different ethnic niches did not always respond favorably to mass-market actions. Companies have capitalized on multicultural marketing strategies

to recent years. For instance, many banks and life insurance are focusing on Hispanic Americans because although their income level is rising, the 40 million Hispanic Americans living in the United States have not yet become big consumers of financial services. [5]

Insurance companies must study carefully the features of sub-groups, since the perception of risk is different from one group to another and therefore there is a specific way of manifesting for each group.

**Social class.** Human society is based on a social stratification system. A social class is an ensemble of persons grouped by economic, historical and sociological criteria. Social classes are relatively permanent and homogenous groups, whose members have the same system of values, a similar way of life, similar interests and a behavior with common characteristics. Persons belonging to the same social class are approximately equal in terms of income and social status, share the same ideas and values and tend to have similar preferences.

The decision to purchase insurance is also influenced by interpersonal relations. Consequently, one should study how the insured is influenced by the relations to the people around him/her, the relations to reference groups and to the family.

Primary **reference groups** are one's family, neighbors, friends, colleagues, while secondary groups are clubs, associations, etc. An individual can follow, or, on the contrary, dissociate himself/herself from the behavior of the group, function of his/her attitude towards the latter.

In theory, reference groups should offer an individual behavioral model. They influence the person's attitude towards insurance, as well as the image he/she forms about various insurance products. Reference groups exert pressure on the consumer, determining the direction in which his/her behavior evolves.

Insurance companies must notice the influences exercised by reference groups, and try to attract the group's opinion leaders. To this end, the personal characteristics of opinion leaders should be studied, as well as their habits, and promotional messages that would reach the respective leaders must be elaborated.

The convictions of opinion leaders are important in the case of insurance, as a significant part of product information, as well as recommendations to purchase insurance from

a certain company, are gathered from conversations with the people around, rather than from magazines or advertisements.

**Family** is the most important factor that should be studied, as in most cases a person's attitude towards insurance is influenced by his/her family. This is where an individual is formed, and where he/she shapes most of the opinions.

There are several types of family: nuclear family (formed by a husband, a wife and one or more children), extended family (the nuclear family together with at least one grandparent), and single - parent family (one parent and at least one child). The type of family that is most typical can vary considerably from culture to culture [6]. In an individualistic society the nuclear family is most common (for example in Canada), in a kinship culture predominant are extended families (with a head of household, married adult children and grandchildren).

In studying the influence of family on the insurance services' consumer behavior, the researcher should analyze: Who initiates the decisional process of insurance purchase? Who assesses alternatives? Who makes the decision regarding the premium to be paid for insurance? Who makes the final decision of purchase? Who purchases insurance? Who is the beneficiary?

Purchase decisions are influenced by an individual's stage in the family life cycle.

Function of his/her stage in the life cycle, the attitudes, and the individual's system of values change. Therefore, the individual's purchase behavior will change accordingly.

The offer of insurance companies must meet the needs, wishes and aspirations of each consumer segment.

The operation of the elements influencing the behavior of the insurance services consumer should be studied both for each factor taken separately, and in interdependence. The consumer responds to different stimuli through his/her behavior: choosing a type of insurance, a brand, a place where the insurance contract will be closed, a moment, and the sum paid for the chosen product. So as to determine as precisely as possible the way in which consumers will react, it is necessary to know and understand them, and to be able to foresee the effects of the various causative factors. For these reasons, it is crucial to study the exogenous factors influencing the insurance services' consumer behavior.

[1] Petrescu E. C., Marketing în asigurări, editura Uranus, București, 2005, p. 120

[2] Cătoiu I., Teodorescu N., Comportamentul consumatorului, ediția a doua, editura Uranus, București, 2004, p. 54

[3] Graf, A., Le Bihan, C. Lexic de filosofie, Ed. Institutul European, Iași, 2000, p. 25

[4] Kleinhesselink, R. R., Rosa, E. A., Cognitive Representation of Risk Perception. A Comparison of Japan and United States in Werner Ute, Aspects of Multicultural Marketing of Insurance Companies in The Geneva Papers on Risk and Insurance. Issues and Practice, no. 71, April 1994, p. 201

[5] Kotler Ph., Keller, K. L., Marketing Management, twelfth edition, Pearson Prentice Hall, Upper Saddle River, New Jersey, 2006, p. 174

[6] Schiffman L. G., Kanuk L. L., *Consumer Behaviour*, 9th edition, Pearson/ Prentice Hall, Upper Saddle River, New Jersey, 2007, p. 328



# The Corporations' Social Responsibility – A New Attitude on the Working Force Market

Pivodă Roxana Mihaela  
Spiru Haret University  
roxana\_pivoda@yahoo.com

## Abstract

At first, the responsibility of every company was the obtaining of a most substantial profit by its owners, without taking into account the fact that all the employees have contributed to this success, beginning with the manager and ending with the doorman; the clients, in their consumer quality of the goods and services produced by these companies and why not even the society itself, which facilitates the functioning of the company under different aspects.

**Key words:** corporate social responsibility, competitive market system, society, working force market

**JEL classification:** M14

## 1. Evolution of the concept

Today, the object of some companies, or better said, their responsibility as a competitive market system is not only the enterprising profit and the maintaining of a certain market position, but also the satisfaction of the consumers' social needs in better conditions, including not only the consuming needs, but also the need and maintaining of a job and some living ways, the need of living in an unpolluted environment or the need of some public vital services, as education, health, law etc.

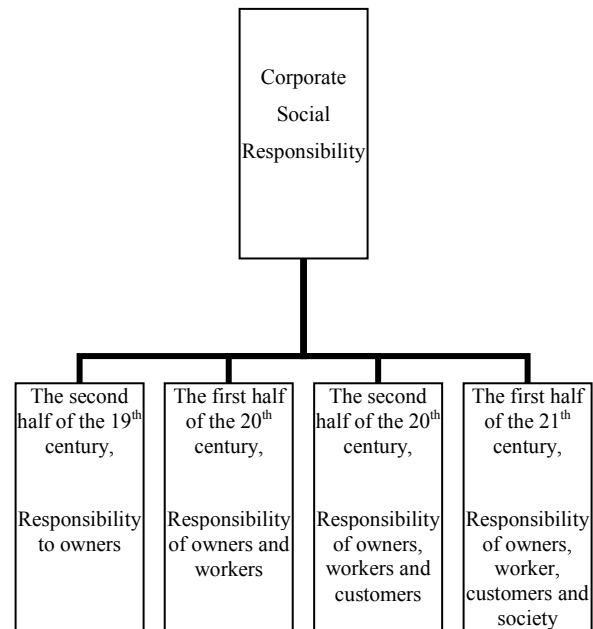
Also in Romania, we hear more and more talking about the notion of the corporations' social responsibility, even though this concept has appeared from the second half of the 19<sup>th</sup> century, being known under the acronym of C.S.R. in foreign literature, after the English denomination Corporate Social Responsibility.

At the moment, this notion refers to the obligations every company has in carrying on its actions regarding the economic activity towards

all the parts involved in this process, wishing in the same time as being a priority no matter the dimension and the type of the company's activity, connotation that has not had the same meaning at the beginning of its existence.

Overall, until now, developing the concept of corporate social responsibility different meanings experienced during the four stages of evolution, which are summarized in the chart no.

**Chart no. 1 - New meanings of the concept of corporate social responsibility**



With the emergence of this concept, in the second half of the nineteenth century, the only responsibility of a company was as substantial a profit by producing goods and services required by society through the market, work was considered a commodity that is sold and buy it like any other commodity market relations.

Later in the first half of the twentieth century, the company begins to show responsibility and

to employees. Their work is more than a commodity and no longer considered just one element of the capital, but also workers have certain rights in the company, which are supported by unions and recognized by employers.

Social responsibility of companies is expanding in the second half of the twentieth century, the quality of goods and services attention they produce to meet consumer demands.

Now the century XXI, a corporate social responsibility, acquire new values, meaning that in addition to the responsibilities mentioned, the company is responsible to society in general, protecting the environment by providing equal opportunities for all members of society, promoting social justice.

The need of promoting this concept derives from the fact that, through their actions, the companies give birth to some social problems and because of this they have also the social responsibility of resolving them. For example, through technological innovations and efficiency growth, the companies lead to some jobs' disappearance and to the unemployment growth, work force migration, depopulation of some areas affected by structural recession and the overpopulation of economic boom areas; some companies pollute the environment, others exploit the non-renewable resources etc. It is not morally correct that every time others take the consequences of these phenomena, from which the companies are always winners. Other example shows that a company, this time a multinational one, that has accumulated an enormous capital through the employees' work and creativity, having in the same time the support of the state for a long period of time, does not act correctly when, following to maximize its profits, delocalizes itself, moving its activities in the Third World countries, where the salaries are much smaller and the settlements of the environment protection are less severe, without carrying about the fact that the native employees lose their jobs.

Finally a company's actions, a social impact, either by products or services offered or the jobs they provide, or indirectly through the effects they generate to other companies. Therefore, companies can not avoid liability under such an

action creates, whether positive, negative or neutral.

The issue is particularly acute in the Romanian economy, since the transition to a functioning market economy and a competitive imperative advertisement economic efficiency and productivity, which condemn to extinction a number of sectors underperforming and outdated, and massive staff redundancies. On the other hand, conversion of redundant labor is with great deliberation, leaving no hope roads and a large number of employees. Most countries have fought the law in different ways, the phenomenon of unemployment. Although governments are responsible for solving this problem, they have increasingly less able to influence the proportions of vacant jobs as long as policy decisions regarding employment, relocation or dismissal of workers are taken by companies.

The globalization facilitates the relocation and offers the companies the possibility of attracting the governments into a real "trip to the abyss"; the companies have the tendency to relocate towards regions where the work force price is very low, the legislation regarding work conditions and environment protection is very permissive or applies in a discontinuous and discriminatory way, and the taxes are insignificant.

Given these issues, it is desirable to remove these negative effects caused by the actions of companies and promote their new attitude by changing attitudes regarding the responsibility that these companies have yet to a social environment.

Like any corporate social responsibility concept and wished to be explained in the context of such definitions:

Sims, wrote that in 1999 Watts and Holmes were defining the corporations' social responsibility as being "the business continuous commitment of behaving ethically and contributing to the economic development, improving work force life quality and the one of the community"[1].

Kotler and Lee, were considering that corporations' social responsibility is "a commitment that contributes to the well of the community through its own business ways and through the contribution of the company's resources"[2].

European Commission defines corporate social responsibility as “a concept whereby companies voluntarily give attention to social and environmental aspects of their actions and interactions with stakeholders. SMEs that have adopted the concept of CSR behave ethically and contribute to economic development, improving both quality of life of employees and their families and the local community and society in general”.

Therefore, the concept of corporate social responsibility concerns involving multifaceted responsibilities of companies not only to the owners but also to employees, suppliers, customers, local communities, environmental protection, because ultimately these companies are willing to become good citizens.

Having analyzed the concept, finally there is a question about the actual social responsibilities of a company regarding the relationships on the writing force market?

It is known that stimulation of employment has become an important concern for all companies, both nationally and locally. Private initiative allows people entering the labor market of the community, thereby contributing to its development and of the action resulting from the social responsibilities of companies towards society and community in which he operates. Developing local employment policies and private initiatives were important tools to reduce unemployment, intractiunii beneficial effects of the local community and private initiatives are well known environment.

Corporate social responsibility on the labor market is likely to contribute at the same time as promoting the creation of new jobs, improve working conditions for employees, equal opportunities at work, health and safety, insurance programs training and retraining of personnel, fair and responsible employee remuneration, providing more flexible labor market, social inclusion, and labor market integration of disadvantaged people, but also the promotion and business development.

Meanwhile, one must not overlook the fact that, where talking about the social responsibility of the employer, which already shows this responsibility in creating jobs for a certain number of people, jobs that are very important to employees guaranteed without any conditions. Employers can already be considered socially

responsible enough when they think about the needs of the society in its all and they try the best they can to efficiently assign the resources in order to come forward this needs with the most appropriate goods and services. In essence, the society does not exist for enterprisers to take advantage of it, but contrary, any activity must satisfy the social needs.

## 2. Examples in Romania

The social responsibility of companies in Romania is specific to such actions, through which companies showed their responsibility in a way or another depending on the field in which the companies worked or depending on the Romanian society.

Regarding employment, the responsibility of companies has resulted in actions to facilitate access to employment of certain categories of disadvantaged or marginalized youth with educational level or low skilled, long-term unemployed, women wishing to enter the labor market after an absence of long or short, young people in institutions at risk of social exclusion, but also the promotion and development of young people value.

For instance,

“Autoitalia, in partnership with Call Service Association started a project called “Intervention for recovering and professional education for children and young that are socially educated”. The Project aims, with the help of some classes of social orientation and professional education, to help 20 institutionalized young to get a job. Thus, they try to solve one of their biggest problems, social reintegration. Autoitalia supports this project with €10600.

Young people who will require training institutions in this project will work with an advisor to the Call Service Association. Together, they evaluate the potential of young professional and will prepare a career plan for it. They will also work on developing communication skills necessary for a discussion with a potential employer.

Necessary funds for training courses, wages and counseling materials used in the preparation from AutoItalia contribution.

Depending on the choices made by beneficiaries of the program, participants will be enrolled in training. At their graduation, they

will call service firms mediated collaborative relationship for employment.

The expected results at the end of this action are: 10 young men registered in different courses of professional education and 10 young hired in actual jobs” [3].

Another company,

“UniCredit Romania supports the “Call” Program for education and professional integration for young disadvantaged (especially women). The project is under way in Bucharest and Timisoara, in collaboration with the Parada Foundation/Call Service that also involved public institutions in this project.

Getting a job is a difficult issue for young people and especially women from foster care or institutions for protection. Despite the potential they have, many of these disadvantaged youth are denied the opportunity of training and professional integration.

Therefore, the Romanian society has felt the need to create an instrument of mediation between supply and demand of jobs for these youth.

UniCredit Romania, decided to support those seeking to reduce unemployment and social exclusion through education and training plans of young people in difficult situations.

Choosing the setting of this project was a difficult problem to help exactly those individuals that need help the most, it was considered that big cities offer the best condition, with the cases of social polarization. More, these centers needed an important influence on their economic development at a national level. Initially, the program only got underway in Bucharest and it extended in Timisoara with the help of UniCredit.

The objective of the program was the integration on the working force market of youth with ages between 15 and 29 who had a difficult social situation and who presented the danger of social marginalization.

The program got the support of some non-governmental organizations and also of the specialized, public institutions. Some of these partnerships provided useful data about the young with difficult situations.

Direct beneficiaries of the activities were: information about labor market dynamics (searchable jobs, vacancies, labor), professional advice to determine individual (potential

evaluation, training, job search - resume, cover letter, interview - improve communication skills, analyze the employee), financial support for attending training programs in trades and labor required at the option and ability of young, disadvantaged youth and facilitate networking between employers (accompanying the Job, monitoring of initial employment opportunities to practice in firms).

The budget provided for a term of two years was approx. 152,000 euros to support the 120 disadvantaged youth in Bucharest and Timisoara.

The “Call” program and the informing services helped 185 young people, 130 of which being advised, 28 took professional education courses for jobs such as cook, pastry, chef, decorator, florist, waiter, etc., and for 46 there have been offered mediation services on the working force market”[4].

Social responsibility shown to society in general, but with effects on the workings force market made it possible that

“In 2005, Allianz-Tiriac helped open a professional skills work shop within the Technical Food Industry College in Sibiu. 12 young people, with a disadvantaged social background were trained in this workshop. 11 of them graduated the bakery courses and were involved for a year in a session of professional integration. The youth selection was done with the help of the General Department for Social Assistance and Child Protection from Sibiu.

With the completion of training, there was a period of vocational integration, which included socio-professional integration activities, information about future jobs, advice on relationship with the employer, free time and income management, documentation activities, visits the units and bakery units trading bakers, social integration activities, participation in cultural events, excursions, meetings with other workers in the field bakery, etc.. Activities aimed at increasing confidence in young people's own forces, to counter the phenomenon of social exclusion, which, due to bad family situations, all the children were exposed.

From the 11 graduates of the courses, 6 were hired (3 of them in bakeries, 2 in some enterprises other than bakeries and one of them was hired as a janitor).

Social responsibility oriented towards promoting young people made it possible that

RBS Romania developed for 3 years the "European Values" program, meant to help preparing future specialists for the Romanian banking system. The program is under way with the help of the Bucharest Academy of Economical Studies.

This demand was identified by RBS Romania and solved in its own field of activity. The program enjoys the support of the Bucharest Academy of Economical Studies.

The company initiated the "European values" to support efforts by higher education institutions to prepare future professionals in the banking sector.

The program takes place over an academic semester, year 4 of study addresses and includes lectures, seminars and workshops. The courses were invited guest-speaker and bank representatives and other specialists in the field. The first 3 editions of the 'European values' have trained 165 students. The first edition was awarded 55 students, and the second 26. Currently, third edition takes place.

Initially thought as an optional course, the program became a full course, with credits, just like any other university courses. Some of the students who graduated the course were hired by RBS"[5].

But, inside the working force market, a company can be socially responsible towards its own employees also. This supposes the equal treatment and granting equal chances to all employees, based on the principle that the success of a company is due to the contribution of all employees, and the human resource is the most important asset of a company.

Responsibility of companies towards their employees is evident by providing a work environment based on health and safety at work, providing opportunities for professional development and personal achievement of a permanent dialogue to understanding the needs, expectations and satisfaction workers.

In this regard, for example:

"The Romanian research company SC Icemenerg SA assigns 5% of its business figure to some measures that must improve the working conditions of employees, such as: investments for a safe work, trainings, social events, creating a recreation center or a gym"[6].

And another company,

"To come forward for its own employees, it initiated in 2007 a program of donations called "1 ron for your co-worker. This program was generated by the help demands of the co-workers that found themselves in difficult situations, but also by the employer's desire to help them. Such a program allows an immediate reaction to someone's needs and it consists in the voluntary contribution of every employee, of a minimum amount of 1 ron, to a special fund for helping other co-workers which are experiencing extremely difficult moments. The sponsorship demands are analyzed by a representative comity of A&D Pharma, taking into consideration certain eligibility criteria, and the amount raised by the donations of the employees is doubled by the company"[7].

Responsibility towards own employees made it possible that

"Inside Tuborg Romania, training team-building programs, and professional education are a priority for the human resources. This, is proved by The Codecs award, received in 2005- "Best Investor in People". The amount invested every year in training programs is more than € 550 per employee, this amount not including the MBA programs and the organized team-buildings. Each employee, not matter what level he works on, takes advantage of a team-building and training every year"[8].

And the examples could go on.

### 3. Opinion

From the aspects above, that represent concrete facts of the responsibility that takes place in Romania by some companies, towards society in general but that are coming towards the working force market, we can notice the results and the positive aspects that these attitudes generate. Consequently, without any doubt, it can be said that the social responsibility of some companies, positively influences the relationships inside the working force market, at a larger or a smaller scale, depending on how big is the activity of these companies, reasons for which promoting these attitudes at a larger scale is desired.

#### 4. References

[1] R. Sims, "Ethics and corporate social responsibility: Why giants fall", Westport, CT: Praeger, 2003, pp. 43

[1] R. Kotler, N. Lee, "Corporate social responsibility", Hoboken, John Wiley & Sons, New Jersey, 2005, pp. 3  
[3], [4], [5], [7], [8], [www.responsabilitatesociala.ro](http://www.responsabilitatesociala.ro)  
[6] [www.csr-in-smes.eu](http://www.csr-in-smes.eu)

## Employment Strategies. Objectives and Achievements

Pivodă Roxana Mihaela  
*Spiru Haret University*  
*roxana\_pivoda@yahoo.com*

### Abstract

Work market, compared to other economy specific markets, has a pronounced national character which has to be matched to the community or global one. This implies the defining of a certain occupation existing model in a country within the European Union or the world.

In the present circumstances the occupation problem becomes stringent not only at international level, but also in Romania.

**Key words:** employment strategy, development, national policy

**JEL classification:** M12

### 1. Objectives

Increasing employment work is a matter of general interest to the European Union and for the development and implementation of this objective should encourage cooperation between Member States. Employment issues on the European labor market and reducing unemployment and has presented a careful concern because the European Union is a topic of major importance with important implications on macroeconomic and fiscal policy.

To meet an increased unemployment, which generates negative economic effects, correlated with a reduction in employment, European Union, introduced a series of regulations in the labor market, taking into account the concrete conditions of each Member State regulations that have evolved and developed over time.

Because of this, in November 1997, it was thrown off by the Luxemburg Work Force Occupation Council, the European Employment Strategy (EES), which represents the first important step towards work problems and human resources approach, and also of work and

functioning conditions of work markets from all the European Union state members. The charge of work force European Employment Strategy was the injection of a dynamism into the work markets, as well as the sustaining of the state members and social partners, and also guiding national policies of work force occupation in a coordinated manner, having the purpose of reducing the unemployment and stimulating work force occupation rate. The Luxemburg meeting was followed by a long series of reunions, where there have been settled other objectives of the European Employment Strategy.

Strategy launched in Luxembourg in March 2000 was marked by the Heads of State and Government meeting in Lisbon, which adopted the Lisbon Strategy, known as the Lisbon Agenda or Lisbon Process.

European Employment Strategy European Union wanted to become the most competitive and dynamic knowledge-based economy by 2010, able to deliver sustainable economic growth with more jobs and better and greater social cohesion.

This was to coordinate the objectives and priorities related to employment in Europe. The strategy was meant to find the most appropriate solutions that can support full employment as employment, new jobs, based on social dialogue, joint discussions, exchange of information between all EU countries.

The strategy was based on full employment of labor to reduce unemployment and low interdependence of downtime, achieved by increasing labor supply and demand, to achieve economic development and enhance social cohesion.

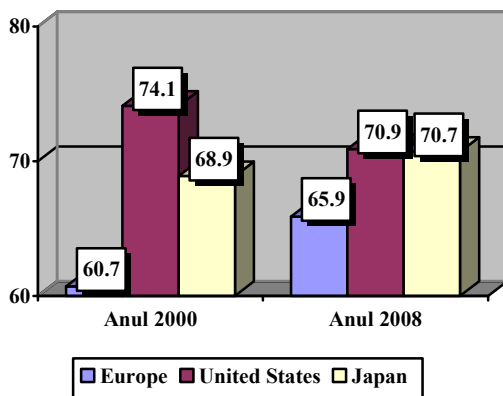
Regarding achievement objective of a fully occupation the strategy elaborated 10 years ago, took account of policies not only for the quantitative growth of the occupation level, but also for the quality growth. From a quantitative

point of view, it was established that at the European level, until 2010, the general occupation rate will be 70%; women occupation rate being 60%; and the occupation rate of the persons with ages between 55 and 64 being 50%, having as an intermediary object the achievement of a general occupation rate of 67% and a women occupation rate of 57% until 2005.

From a qualitative point of view the strategy aimed to the growth of the jobs' quality, health and security; promoting human capital investments; the assurance of work market flexibility; promoting equal opportunities and the elimination of any kind of discrimination forms.

Now, in 2010, the evaluation of the results, actions and taken policies has come, and all these regard the achievement of the suggested answers.

Chart no. 1 - E.E.S. Objectives and Achievements



If we strictly refer to the occupation level, as it can be noticed in the Chart no. 1, [1] the European Employment Strategy has not reached its proposed target ten years ago, that being the reaching of a 70% occupation rate, wishing that in 2010, Europe became the most competitive economy.

The strategy arose as a response to worsening relative competitiveness of the European Union against the U.S., Japan, in a time of rapid economic ascent of China and other Asian economies. When launching this strategy, the EU employment rate stood at a distance of -13.4 percent against the U.S., compared with -8.2 percent recorded employment in Japan and at a distance of 9.3 percent over the 70% proposed in

the strategy. Whether, given the financial and economic crisis or because the policies implemented, the EU failed to reach its target. Although no figures shown in the chart no. 1, is intragrate values at the end of 2008, is hard to believe that the difference of 4.1 percentage points was recovered during 2009, taking into account the existing social and economic situation.

Now, when the period for which the strategy has been proposed expired and after observing the results, when the entire European Union and not only is in a transformation process, as a consequence of the fact that the economic crisis effects have contributed to the involution of the economic and social progress, in March 2010 the 2020 Europe Strategy has been launched, which is actually replacing the 2000 Lisbon Strategy, that has not succeeded to transform the European Union into the most competitive economy.

Like the previous strategy, Europe in 2020, provides more objective, achieving a 75% occupancy level is one of them. Remains to be seen whether more than ten years, both the EU and each of them will manage to reach this target.

Therefore, employment policies employment plays a critical role in the European Union, demonstrating a high degree of importance for Europe to develop the entire region into Europe. Implementation of active employment policies employment, people are safeguards in matters relating to unemployment, poverty, labor dumping, social exclusion.

The final objective of the national and international occupation strategies, either connected or convergent, is finding an economy based on scientific knowledge, in which work resources occupation is full and efficient for the person and the social community.

## 2. Employment strategy results recorded in Romania

Even from 2001, there have been developed certain preoccupations regarding the adjustment of Romanian legislative system to the European acquis in the domain, putting into practice the European Employment Strategy objectives, Romania's work force occupation being considered one of the priority objectives, even though these objectives are not obligatory, and at

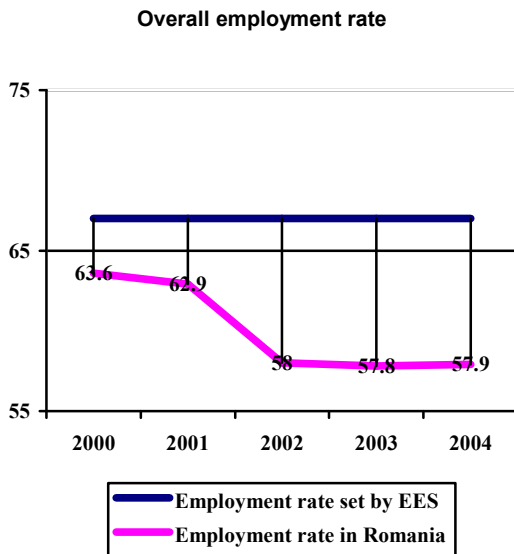


the time Romania was not part of the European Union.

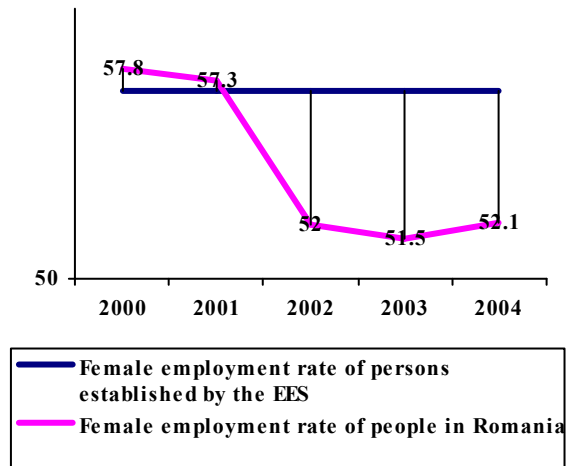
In this respect, they have taken steps to develop a new Labor Code and some modification and adaptation of legislation on labor protection requirements of the new strategy. Composition was changed to National Action Plans for Employment which are concerns of increased national employment level, in close accord with the objectives of the European Employment Strategy, efforts were undertaken to develop a new employment law work, which emphasized the role of stimulating active measures to reduce unemployment and increase employment level, thus elaborându Law 76/2002, whose presentation was made in the previous subsection.

Along this decade, the Romania's hopes and efforts for the realization of a most fully occupation and for the reaching of the third 2005 established targets, within the Lisbon Strategy have taken shape into the results presented in no. 2 [2] and 3 [3] chart.

Chart no. 2 – E.E.S. results, shown in Romania during 2000-2005



**Female employment rate of persons**



The undertaken measures regarding the implementation of the occupation policies till 2005, have not answered to the Lisbon Strategy established objectives. So, the general occupation rate which had the objective of realizing a 67% occupation level for 2005, didn't have the expected result; from a difference of -3,4 rate points in 2000, Romania had at the end of 2004 a difference of -9,1 rate points. The women occupation rate in 2005, established within the Lisbon Strategy, which had to achieve a 57% level, has also registered a descendent evolution, although, even from 2000, Romania records at this mark, a lead of 0,8 percentage points, level that not only does not maintain itself, but also drops after 2001, reaching at the end of 2004 a level of 4,9 percentage points.

Regarding the employment rate of the population with ages between 55 and 64, the Lisbon Strategy decrees a value of 50% that must be reached by 2010, level that Romania established even from the year 2000.

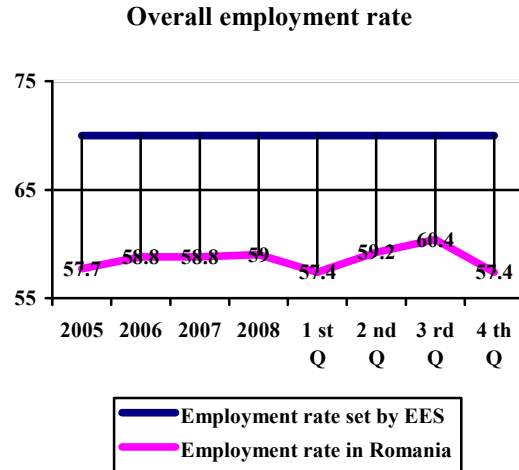
The rate of the employment for people aged between 55 and 64 follows a descendant pattern, as can be observed in chart no. 3, pattern that can be noticed more frequently after the year 2001 and until 2004, when the situation reestablishes itself. In 2009, at the end of the fourth trimester, Romania has a -8,7 percentage points compared to the level settled by the strategy, even though in the year 2000 it has a starting point that a positive margin of 0,1 percentage points.

Chart no.3 - The employment rate for people aged between 55 and 65 years, registered in Romania in comparison with EES objectives



success does not last for long, as the world economy crisis hits also the working force market causing a drop of the rate, during the fourth trimester of 2009, by 3%.

Chart no. 4 – EES results, shown in Romania during 2005-2010

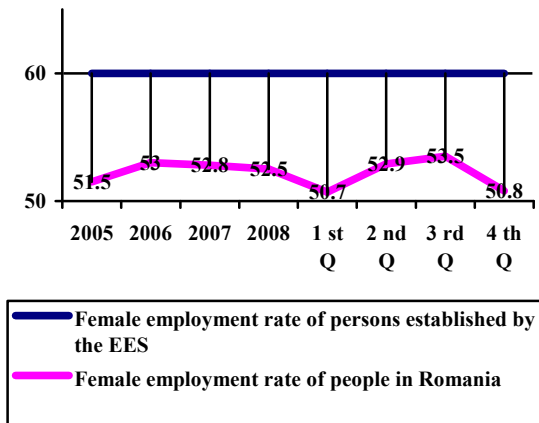


The fact that Romania failed to reach any of the targets of the Lisbon Strategy, in employment, proposed for the first half of this interval is an indication that the structural reform process and in particular, enterprise restructuring and achieving a competitive economic environment leading to job creation has not yet been finalized.

For the second half of the interval, the results Romania recorded concerning the employment of the working force, results that were based on the stipulations established by the Lisbon Strategy for the year 2010, are shown clearly in the chart no. 4 [4].

In the first interval of the period in discussion, the employment rate recorded a constant fall, fact that did not happen in the second interval also. Despite this, after 2005, the employment rate of the Romanian working force records a continuous rise until 2008, when reaches a value of 59 percentage points, during the first trimester of 2009 the numbers fall significantly by 1,6%. The next trimesters of 2009 are characterized by an important rise of the employment rate that manages to regain the lost percentage at the end of the third trimester of 2009, thus recording a rise of 1,4% compared to the highest values of the five years period. But

Female employment rate of persons



Overall occupancy rate range lost 0.3 percentage points, in 2005, occupancy is based on a difference of -12.3 percent against objectives in the Lisbon Strategy, as the end of 2009, rate occupancy to 57.4%, which means a difference of 12.6 percentage points.

The employment rate of the female population in this interval follows the same descending trend. The chart no. 4 shows 2 points of contraction of the employment rate of almost identical values, one recorded in the year 2006

and another in the third trimester of 2009, and also a point of boosting recorded in the first trimester of 2009. At the end of 2009, Romania recorded a difference of 9,2% compared to the 60% level imposed by the strategy.

Table no. 1 shows a summary of the values presented so far.

Table No. 1 - Realization by Romania, the targets set in the European Employment Strategy

	Indicator	Overall employment rate	Employment rate for women	The employment rate for people aged between 55 and 64 years
2000-2004	Proposed level of EES	67	57	50
	Level reached in Romania	57,9	52,1	36,9
	Level achieved difference to the level proposed	-9,1	-4,9	-13,1
2005-2009	Proposed level of EES	70	60	50
	Level reached in Romania	57,4	50,8	41,3
	Level achieved difference to the level proposed	-12,6	-9,2	-8,7

Source: table constructed using data from chart no. 2, 3, 4

Romania failed to reach all the recommendations of the European Union established by the European Employment Strategy; the overall employment rate recorded at the end of the evaluation period showed the most significant difference.

Towards the EU, the employment in Romania, was lower by 6.9 percent, although this indicator in 2000 was higher by 2.9%.

### 3. Opinion

Economic crisis which led to massive layoffs in all sectors, aggregate employment policies and reforms that had adapted to the new demands of the domestic labor market, due to the fact that there is a general formula valid for all states, but they should take into account the concrete realities that exist in the country have made in this period, the employment of Romania to decrease by 4.6 percent compared with the EU, which increased by 5.2 percent. In other news we have to consider that in comparison with other EU countries, with a long experience in market economy, Romania has much covered.

In order to reach a level of employment of 75%, established by the Europe Strategy 2020, Romania must recover during this decade a deficit of 17,6%, starting at January 1<sup>st</sup> 2010 from an employment rate of 57,4%. The goals established by the Lisbon Strategy, as well as those of the Europe Strategy 2020, never were, nor are mandatory, meaning that not reaching them will not have bad consequences on the evolution of the Romanian economy. Although ignoring these objectives could lead to an important risk factor in a medium or long term, regarding the proper evolution of Romania inside the European Union.

The final goal of both national and international strategies is to strengthen an economy based on scientific knowledge, in which the employment of the working force is both total and efficient not only for the individual, but also for the entire social community.

### 4. References

- [1] \*\*\* <http://epp.eurostat.eu>  
[2], [3], [4] \*\*\* <http://www.insse.ro>, AMG156C

## Market Strategies Regarding the Integration and Confrontation of Small and Medium Enterprises with the Exigency of the Competitive Market

Pîndiche Elena

Ioniță Roxana

*„Dimitrie Cantemir” Christian University-Faculty of  
Tourism and Commercial Management-Constanta, Romania  
pindichielena@yahoo.com  
ionita\_roxana2000@yahoo.com*

### Abstract

The elaboration of market strategies is a complex process, which needs to be performed by all enterprises, without consideration of size or field of activity. The elaboration of strategy under auspicious circumstances presupposes careful research of the environment within which the enterprise performs its activity, as well as of its resources.

**Key words:** market strategies, SME, influence factors

**JEL classification:** M31

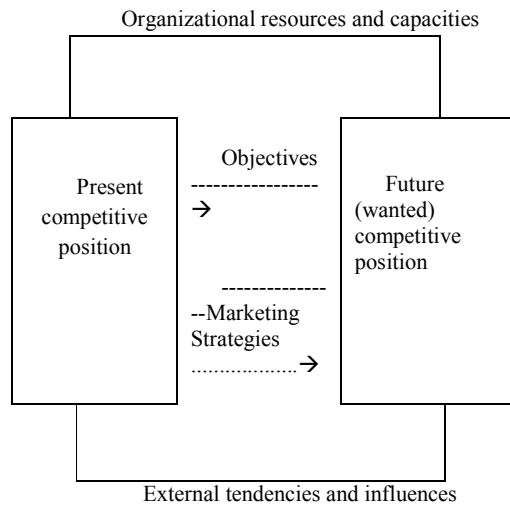
Most specialists consider that *“out of all the components of marketing policy, the market strategy represents the most important element, taking into account the fact that only by means of dynamic adaptation to the socio-economic environment is the correct substantiation of the other components possible”*[1]. A more complex definition of this concept is the following: *“market strategy is a component of marketing policy, within which is concentrated the whole ensemble of actions regarding enterprise management. Within marketing policy, strategy plays two roles: on the one hand, it ensures the general orientation of the enterprise activity, while on the other hand it establishes the basic tasks needed to achieve the objectives set for each stage and the possibilities to adapt enterprise activity to the dynamics of the market.”*

In principle, the formulation of these strategies constitutes an important part of the enterprise strategic management, which comprises three basic dimensions: defining the field of activity for the enterprise; setting the performance indicators; elaborating development strategies. Defining the field of activity consists of establishing the role and setting of the enterprise, its nature and finality. It must be noted that, starting from the 1960s, important authors in the field of management emphasized the fact that *“neglecting any of these elements probably represents the most important cause of economic failure.”* The second dimension consists of setting the goals of the enterprise, *“which express in operative terms the anticipated performances, mirror the degree of efficiency of the enterprise conversion process.”* Finally, the third dimension represents the course to be followed in order to achieve the set goals, and it is called strategy. A definition of an effective marketing strategy might be the following: *“an adequate market strategy is that according to which the enterprise performs a correct selection of the segments towards which to focus its marketing efforts, which it addresses with the adequate product, which it provides in the most adequate setting, for the adequate price and accompanied by appropriate promotion, so as to achieve the goals set for a certain period.”*

Malcolm McDonald [4] describes such a process as one of planning change, the development of the present enterprise competitive position towards a future position, by means of setting goals and elaborating strategies. However, the process

is also determined by the resources and managerial skills within the enterprise, as well as by the external tendencies and influences. Therefore, one can talk about “the process by which long-term goals and strategies are formulated for the entire company or for the strategic unit of activity, by connecting resources with the existent opportunities.”

Fig.1 Repositioning strategies

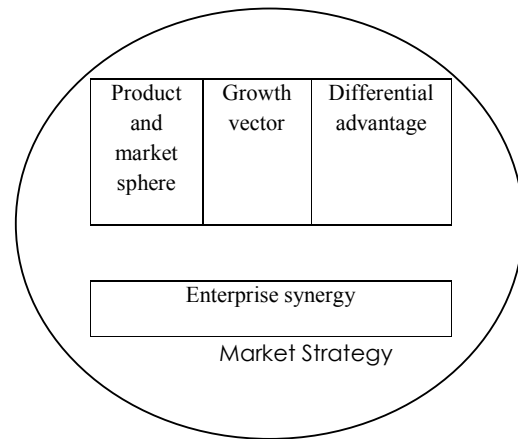


In Kotler's[3] opinion, positioning is crucial for the success of a product. He defines the concept as follows: “Positioning is the action of conceiving the offer and image of the company, so that it takes a distinct place in the mind of the target market audience.” At the same time, he mentions cynically, taking over from those who coined the term, that “Positioning starts with a product. A commodity, a service, an institution, even a person...But positioning does not refer to what you do with the product, but to what you do with the mind of the potential buyer. In other words, you position the product in the buyer's mind.”

This course from the present position to the future one is defined by an ensemble of elements comprising four strategic components: the product and market sphere, the growth vector, the differential (competitive) advantage and the enterprise synergy. The first three form the triptych by means of which one can characterize the course of the enterprise towards the environment in order to achieve the set goals. The fourth represents “the process of concerted action of more factors, process which generates a total effect greater than the sum of the

individual effects of each factor considered independently”[5].

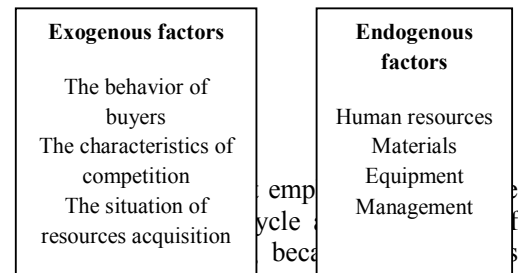
Fig. 2 Strategic components



We will come back to the differential advantage, whose correct detection is, according to Kotler, the key to the success of market strategy. Moreover, “Marketing is the field where, by excellence, the synergetic effects have special amplitude, where the effect of any controllable variable depends very much on the way in which it is integrated next to the other variables, by means of which the enterprise acts upon the environment.”

The elaboration of market strategies is a complex process, which needs to be performed by all enterprises, without consideration of size or field of activity. The elaboration of strategy under auspicious circumstances presupposes careful research of the environment within which the enterprise performs its activity, as well as of its resources. Therefore, these strategies are influenced by factors from outside the enterprise (exogenous) and from the inside (endogenous factors).

Fig. 3 Market strategy determination factors



that there are major differences in the marketing approach for a product at a launch stage, growth stage, maturing stage or decline. Besides the life cycle stage, the used strategies are also influenced by the prestige the enterprise enjoys within the market.

We conclude that the multitude of factors to influence the strategies adopted by enterprises inevitably lead to a multitude of strategies which can be chosen. Theoreticians show that there are five approaches which can differentiate market strategies.

First of all, starting from the fact that market strategy is nothing but a reaction of the enterprise towards the environment where it performs its activity, strategies can be distinguished into two categories which, in turn, can have different intensities and forms[2]. Strategic relations are different when the enterprise intends to modify its relations with the market (the launching of new products, for example) then when the reactions refer only to internal modifications, with indirect effects upon the market (technology modification).

Secondly, the stages of demand determine different types of market strategy. Starting in 1973, Kotler [3] has tried to synthesize the following types:

Fig. 4 Varieties of market strategies depending on the demand situation

Demand situation	Marketing role	Strategy title
Negative demand	Demand "demystification"	Conversion
Lack of demand	Creation of demand	Stimulation
Latent demand	Demand development	Development
Declining demand	Demand "revitalization"	Remarketing
Fluctuating demand	Regularization	Synchromarketing
Complete demand	Maintaining demand	Maintenance
Excessive demand	Curtailling demand	Demarketing
Undesirable demand	Demand "destruction"	Antimarketing

Depending on dynamic of the environment, market strategies may embrace passive behavior (they adapt their strategy to environment changes without influencing it), anticipating behavior (the strategy is corrected in time, based on the correct anticipation of environment change) or active

behavior (the enterprise imposes the environment change, based on opportunity detection and environment savvy).

Depending on the interaction between strategy and market segmentation, enterprises can choose an undifferentiated strategy, a differentiated one or a concentrated one. Finally, depending on its development alternatives, the enterprise can choose the market strategy most suitable for achieving its own goals. Starting from the main elements of the growth vector, the situation can be concentrated within a table:

Fig. 5 Versions of market strategies depending on the growth vector

	Present Markets	New Markets
Present Products	Market penetration	Market development
Improved products	Reformulation	Market extension
New assortments of a product	Replacement	Product differentiation and segmentation
New product lines	Production line extension	Concentric diversification
New products, by new technologies	Horizontal diversification	Lateral diversification

Marketing strategy is a component of marketing policy, within which is concentrated the whole ensemble of actions regarding enterprise marketing.

## References

- [1] Anghel, L.d: *Marketingul întreprinderilor mici si mijlocii*, Ed. Economica, Bucuresti 2006;
- [2] Balaure, V, s.a: *Marketing*, Ed. Uranus, Bucuresti 2002;
- [3] Kotler, P: *Managementul Marketingului*, Ed. Teora, Bucuresti 2003;
- [4] McDonald, M: *Marketing Strategic*, Ed. Codecs, București 1998;
- [5] Ansoff, I.: *Corporate Strategy*, McGraw Hill Book Co., New York, 1965

## Purchasing Decision Process in the Context of the Economic Crisis in Romania

Magdalena Platis

*University of Bucharest,*

*magdalena.iordache-platis@drept.unibuc.ro*

### Abstract

In the market place, the consumer behavior has always been an attractive area for the purpose of better defining the marketing strategies and alternative options for companies. In addition, the decision-making process has been a starting point for understanding the consumer behavior and identifying the positioning and segmentation variables for the company. In the context of the contemporary international economic crisis, many changes affect the consumers. We assist to new rules in the daily consumer behavior as well as raw tendencies in the purchasing decision process.

Therefore, the purpose of this paper is to reveal the features of the Romanian consumer and purchasing decision in the context of the contemporary international economic crisis. The main objectives of the paper are:

- To understand the consumer behavior and the factors that influence the purchasing decision for a typical consumer;
- To identify the new features of the purchasing decision before and after the international crisis for the Romanian consumer;
- To analyze the impact of the consumer decision on the market place.

**Key words:** consumer behavior, purchasing decision process, change, marketing strategy

**JEL classification:** M31

### 1. Introduction: The Typical Consumer Behavior and Purchasing Decision Process

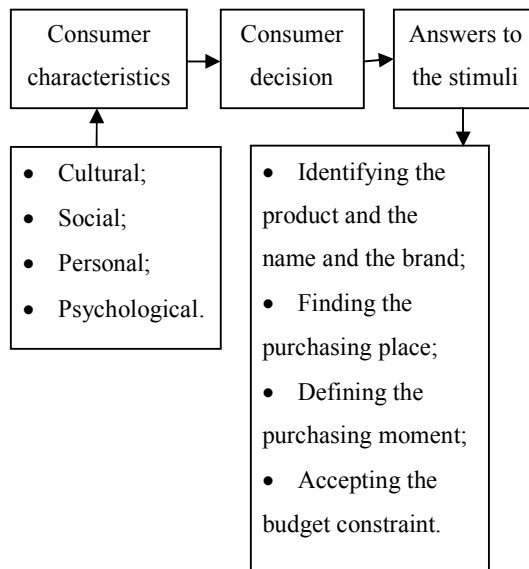
The consumer behavior is considered as the total decision actions made at an individual or group level that regard the buying process in order to satisfy the current and future needs by consuming or using foods and services.

In the context of globalization and knowledge society some new tendencies characterize the consumer behavior such as:

- Many of the consumer preferences become common or convergent, since so many identical products can be found indifferent countries through expert and franchising.
- A fundamental premise of the consumer behavior is the perception of buying goods or services not only for what they are used to, but mainly for what they represent; in other words, consumers create their own identity through the product, brand, name etc which is accepted.
- In different moments and locations different external stimuli influence the consumer behavior – marketing stimuli which include the features of the marketing-mix components and the external environment stimuli which refer to economic, technological, political, social, cultural, informational and legislative factors.

The consumer reacts to these stimuli and decides about the purchasing consumer (see figure no. 1).

Figure no. 1. Consumer Reaction to Stimuli



The classical decision process in the purchasing situation takes into consideration the following phases:

- Identifying the problem;
- Searching the information;
- Evaluation;
- Decision;
- Defining the purchasing behavior.

At the same time, the main factors that influence the purchasing behavior are included in different groups:

- Social-cultural factors: culture, subculture, social class;
- Social factors: reference group, family, social status;
- Personal factors: occupation, economic wealth, life style, personality;
- Psychological factors: perception, learning, believes, attitudes, motivations.

Therefore, the purchasing decision is made under the pressure of the external factors and the internal ones, the latter being individual factor such as: age, income, education, position, personality, status, authority etc.

## 2. Purchasing Decision Process in Romania

Romanian Consumer has always loved to buy, but the budget and price constrains modified the needs and the decisions with this respect.

In the process of purchasing goods and services, the evaluation of the alternatives take

an important role for the decision making. Therefore, some possible rules may be applied in order to identify the product that best corresponds to the consumer needs:

- Compensation rule → every alternative is evaluate and the less satisfied results according to certain criteria (attributes) are compensated by higher results of other features; example: the consumer may prefer a product even if it has a higher price if this disadvantage is compensated by a better feature such lowest energy consumption.
- Eliminating rule → the characteristics of a product are evaluated according to a minimum standard defined by the consumer, who therefore eliminate the product which does not correspond to this level; example: if the guaranty time is less than one year, the product is eliminated from the alternative test.
- Selection rule → the consumer identifies some minimum standards, but only for some criteria (features) considered dominant, the other being considered of less importance and ignored. Therefore, the consumer accepts the alternative which exceeds the minimum standards; example: a product bought from impulse.
- Hierarchic rule → the consumers set a hierarchy in the list of criteria according to their importance. The products are compared feature by feature, but the most important criteria are decisive; example: the purchasing of a product being the cheapest one.

The Romanian Consumer decides to purchase according to some specific rules:

- Imitation rule → the consumer admires the product already bought or used by somebody else and decide to buy it for him or herself;
- Exaggerating rule → the consumer wants to be considered who he/she is not and decide to buy things only to generate the wanted impression among colleagues, neighbors, relatives, and friends.
- Giving-up rule → the consumer create a real scenario to explain his/her purchasing decision for a low price product looking for different arguments in order to hide the low level of financial resources and that he or she cannot afford something else.

The Romanian Consumer and decision process have been different in periods which can be expressed:

- Before Revolution in 1989 and after,
- Before Integration in the European Union and after,



– Before economic crisis and after.

Consumer Behavior is a very complex set of attitudes and actions that are observed on the market through the interaction between the supply and demand.

Marketing view and orientations take into consideration the huge importance of the client and his/her behavior in defining the functions themselves:

1. Researching the consumer needs;
2. Dynamic connection of the organization to the economic environment;
3. Increasing the clients satisfactions;
4. Profit maximizing.

Nowadays, people in Romania behave totally different than before 1990, as consumers. Many things have changed in the market place and new market rules have developed.

#### **Before Revolution**

- in spite of a considerable agriculture potential, many product markets were characterized by scarcity and lack of supply; an unforgettable experience was in **1946** when because of a dryness, a profound crisis came out in alimentation;
- at the beginning of **60's** the Romanian agriculture (the economy was agriculture-based) started to be nationalized, exception being only the private properties in the high mountain areas;
- the communist agriculture units were called Agriculture Production Cooperative started to function late 60's so that the period 1965-1971 were even considered as a small liberal period of the Romanian Communism;
- **the 70's** were years of relative prosperity, an average salary being of 1200 Lei in 1971 while the official exchange rate consisted of 18 Lei/1\$, which meant an average salary of 66,66\$/month;
- an average family of three members used to spend around 800 Lei/month for food and the Romanians even had the possibility of consuming products of imports, especially from the socialist countries (Romania was a member of the CAER-Council for Mutual Economic Help) and from other countries, undeveloped countries which produced citric fruits or bananas;
- at the Romanian littoral, some foreign tourist started to come for vacation and some western drinks like Pepsi Cola started to be produced in Romania;
- **the 80's** are now considered as an alimentary tragedy, because too many credits had been concluded by the state at

the end of 70's for the communist industry to be technologically improved;

- in 1978 and 1979 the edible oil (oil for food) and the sugar were rationalized, beginning with the small cities, but later on, the rationalized consumption affected even the Capital: 1 liter of oil/person/month plus 1 kilo of sugar/person/month, 20 liter gasoline/month;
- many products became very scarce for the Romanians, like milk and meat and could be bought under unforeseen situations (without any rule) after waiting in line for hours, no matter what the season were;
- the private cars could be driven during weekends only once at two week-ends, which meant two times per month, depending on the number: even or odd numbers;
- Romanians developed a specific humor; for instance the pig legs sold as meat were called "addidas" shoes;
- the retired persons were going to the food stores very early in the morning with little pliable chairs in order to wait for something, no matter what it would be provided, either milk or meat or napkins;
- Romanians could buy a good book of a famous author only if they had known the seller from the bookstore and accepted to buy other 1-2 books which were not wanted;
- many times you could buy fresh vegetables under the condition of buying at the same time some of the expired vegetables;
- TV emissions could be seen only few hours a day and with the same socialist content;
- nobody died for hunger and Romanians started to behave like a huge family, sharing the same needs and unsatisfactions;
- many adults of today were children in the communist times, but they did not face too much of the scarcity due to their parents, the old people of today, because above everything Romanians were and are wonderful parents.

#### **After Revolution**

- obviously, prices started to increase year by year, under economic explanations like price liberalization or domestic price correlation to the external prices;
- too much variety on the market made the Romanians confused in making consumption decisions;
- too much flexibility in price changes made the access to products different from one person to another; Romanians had not accepted the situation according to which a

product were sold in a location at one price and to another location at a higher or a lower price, for many years;

- Romanian consumers are now looking for Romanian products, even the market is full of imported ones, due to the belief of a better quality for the Romanian products;
  - Romanians are now facing a reverse situation:
    - from a market of scarcity and lack of products => to a market of variety of products and prices;
    - from a status of dominated consumer => to a state of free consumer;
    - from a situation of contradiction between “having money and not having what to buy” => to a contradiction between “having what to buy but not having enough money”;
    - from a childhood of no regret because of not knowing some products (chocolate, fruits etc) => to one of much regret because parents do not afford to buy some of their children’s wanted products;
    - from a “hidden” unemployment when people used to pretend to work => to a visible unemployment;
    - from a one single job position => to multiple work places as if Romanians have become totally dependent of work;
    - from a relative equilibrium between working time and free time => to a completely disequilibrium toward working time;
  - Romanians have become protected as consumers by special agencies and they started to know and to feel better;
  - Romanians have started to consume for the sake of consuming with or without a need and therefore, to spend too much time and money for products, some products having low utility for them;
  - Romanians have divided into two parts: rich and poor, but being rational or less rational consumers:
    - rich and rational;
    - rich and irrational;
    - poor and rational;
    - poor and irrational;
  - Romanians are still loving to celebrate different went together with the family or friend and they cook a lot, invite a lot to restaurants, are well known for hospitality.
- The subject behaviors in the Romanian economy have changed during the transition process and in the UE integrating context. The

principal characteristics can be summarized as following:

Visible elements of the subjects behaviors	
Before EU integration	After EU integration
<ul style="list-style-type: none"> <li>• Individuals were tempted by international tourism and understood the abroad access as a special event, being proud of it;</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals have started to travel abroad more easily and even to look at this as being a natural thing;</li> </ul>
<ul style="list-style-type: none"> <li>• Consuming behavior were kept and respected;</li> </ul>	<ul style="list-style-type: none"> <li>• Consuming behavior have been expanded by borrowing from West;</li> </ul>
<ul style="list-style-type: none"> <li>• Individuals with deficitary social status had no access in developed countries;</li> </ul>	<ul style="list-style-type: none"> <li>• Free access of all subjects has generated the travelling abroad of some uncorrect and unrepresentative behaviors;</li> </ul>
<ul style="list-style-type: none"> <li>• Regulations on the market processes were not followed many times;</li> </ul>	<ul style="list-style-type: none"> <li>• Regulations on market mechanisms have expanded and become more firm;</li> </ul>

Of course, many of the current features of the individual and organizational behaviors can be explained through the European influences. Most of the times, there are noticed negative influences on consuming which have been expanded in the Romanian economy: drugs traffic and their consumption, trading artificial and even harmful products in spite of rules, less decent manifestations in the daily life for individuals and exaggerated and absolutely decisions in the business relations, even of long-lasting for organizations.

The same phenomenon is havening in a reverse sense: the visible behaviors of the Romanians out of country are the negative ones: steeling, violence, frauds etc.

Why these negative aspects tend to generalize to the entire nation and to be considered representative for the entire Romanian society? Why the Romanian achievements in science, technique are ignored? Why the Romanian Olympics on different areas of science and sport does not count anymore? Why also positive elements are not seen in a manner, which should consider the negative

aspects only as exceptions and isolated situations?

Perhaps the people through the institutions they represent of or where they work in are tempted to exaggerate and promote actions that are negative.

Therefore, an education in a positive sense must be done especially at individual level because institutions are represented and are active by the action of their people as individuals. Thus, the negative elements from the social life could be shown as a pointing start for change toward a positive behavior and positive elements otherwise many of them should become a permanent subject for information and not an exception.

In 2008, the Romanian Consumer was considered adaptable, curious, proud, sensitive, critical etc. In the current context of the international crisis, new behavioral rules influence the decision process:

- Low price rule → the consumer decides according to the lowest price, but if the product is visible very poor at other characteristics, the Romanian Consumer is still too proud to buy it; therefore, it would be preferred a product with a low price (not the lowest) but with better other attributes.
- Changing rule → the consumer accepts the changing situation in the decision process, therefore he or she postpone some investments, give up to some products or re-evaluate other options.
- Priority rule → the consumer learns to identify priority at priorities and to follow the direction to satisfy the needs according to the best priority; most of the time, the priority regards the children and their needs.

### 3. Conclusions

In Romania, there is no model for the consumer behavior. People act differently under different conditions and stimuli.

The economic principle of maximizing the consumer satisfaction according to the equilibrium between the rapport of marginal utility and price among different goods:  $Um(A)/P(A) = Um(B)/P(B) = \dots$  is correct.

People started to behave like a “king” in the market-place, in a consumption society.

Unfortunately some “bad” behaviors are easily borrowed (fast-food etc).

At present, it is a time for thinking of how to stop the trend:

from a consuming life that destroyed health	=> to =>	a spending toward health
---	----------	--------------------------

In other words, it is time for respiritualization and sustainable education toward health of the:

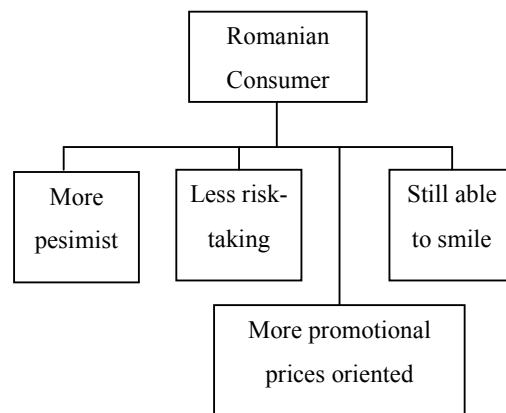
- individuals and families;
- organizations;
- societies.

The Romanian Consumer has definitely become more informed since the integration in the European Union. The Consumer has understood that:

- There are many rights for the individuals in the market place;
- People must understand the product: who created it, what components does it include etc.
- There must be correct information in the communication process.
- There are special agencies for the consumer protection.

The features of the Romanian Consumer in the context of the international crisis can be easily observed (see figure no. 2).

Figure no. 2. Romanian Consumer



To conclude, the Romanian Consumer has borrowed many international features but has remained with a strong propensity of buying. Understanding the consumer needs, companies find a potential way to profitability. Therefore, sometimes consumers are abused by so many questions and questionnaires. Some of them like to answer, but most of them refuse being already to stressed in the real life and at the working place.

Understanding the current situation and the consumer behavior, the most important aspect to be studied should regard the education

consumption, since education itself is considered a special product. What kind of education Romanians like? When do they buy such a product? How much do the Romanians want to sacrifice in order to get education? Many other questions and answers to them may be of real contribution to further understanding of the general consumer behavior in Romania.

#### 4. References

1. Cătoiu, Iacob, Teodorescu, Nicolae, "*Consumer Behavior*", Second Edition, Editura Uranus, Bucharest, 2004.
  2. Stanciulescu, Gabriela, Androniceanu, Armenia, "*European Systems of Public Administration*", Editura Uranus, Bucharest, 2006
  3. Zollondy, Hans-Dieter, "*Fundamentals of Marketing*", Pocket Business, 2007
  4. Eva-Cristina Petrescu, "*Marketing. Concepte de baza si aplicatii*", Editura Uranus, Bucharest, 2008
-

# The Role of Change in Higher Education an Empirical Research

Popescu Maria-Lavinia  
"Babeş-Bolyai" University, Cluj-Napoca  
lavinicamaria@yahoo.fr

## Abstract

The deep changes which happen in today society impose of educational institutions new exigencies for qualifications of the young generation. Taking her the former responsibilities of people, those see obliged all the time to adjust oneself by new curricular projects at quick economical and social change which influence decisive the conception what regarding the role of education system. They majors objectives are determinate by the necessity of development resources by the measure of increases complexity of life conditions and aspirations.

The study it is based by primary quantitative research method by conclusive-descriptive nature based by the divided plans or transversal research how this is know in specialty literature. The dates collect method has been "face to face" investigation and the research instrument the questionnaire. The quantitative dates processed using SPSS. This paper achieved on the basis of punctual investigation represents a photography for the time being of students at master opinions referring to the perceptions which they coached by the different aspects vis-à-vis by the education institutions where they are entered in.

**Key words:** educational consumer, educational institutions, marketing investigation

**JEL classification:** M31

## 1. Introduction

The education consumer has a certain behaviour defined as the totality of acts and decisions regarding to turn to account of opportunities with the view to obtain and to use the educative goods and services. For this has with view to following actions succession: stimulus perception, representing information's process of mind received by the surrounding, in

this case the consumers are aware to educational needs, the inform regarding the educational goods and services which are on market, their contents, the utility, the diversity, the accessibility, the axiological level etc. The attitude creation, mint bent for the consumers to "buy" these goods and services, the motivation, which represents the state of mind stress which lead the fellow at purchase, satisfying his needs and expectations.

The after consumption behaviour is considered through the estimation of satisfaction index. That is, the graduates of one school are in measure to make valuations if their expectations have been satisfied in the course of studies years and what doesn't correspond with these expectations.

Educational marketing policy must be drawled up through the motivations study and of symbolic representations of consumers, through the fundamentals options defined of groups and fellows.

The paper includes in section 2 the theoretical fundaments, in section 3 the dates analyze which shape the students opinions register within framework of FSEGA at masters for one year of study, regarding the changes while they would agree with for improvement of economic university quality education corresponding to that of big world universities (that which are included in all the important tops of universities), and the section 4 the conclusions remarks.

## 2. Theoretical fundaments

The plan of marketing research consist in mention the methods what will be used from collecting and analyzing the necessary dates with purpose to identify and to reaction in face of one problem or opportunity, so that the difference between the cost of obtain of different exacted levels and the expected

value of information associated with each exacted level to be maximum. The investigation represents the most acquaintance method of obtain primary dates necessities from the fundament of marketing decisions and not only. I resort to using a quantitative research realized in base investigation, what is a method of primaries dates collect through addressing questions included in a questioner at one representative pattern (100 students) by the mother population (students register in 2008-2009 of FSEGA-UBB, masters – one year , daily classes). Thus in study I use a structured investigation which supposes using one questioner with questions which was established to begin with and was arranged in a certain order which must respect. In same times the investigation was one not dissimulate, the fellow being informer about the purpose of research and he could identify him with rapidity in the base of questions of questioner. Much, I used the classic personal investigation which supposes a discussion face to face between the interview operator and fellow asked, which permit obtaining the necessities information's for research.

With the view to realize the research I extracted a pattern with 100 persons by population. Total population (investigate universe) have 1400 subjects. I used the proportionally stratification investigation in function with the students percent in mother population and in same times in rapport with repartitions of section.

### **3. Students opinions of FSEGA**

The education consumer has a certain behavior defined as the totality of acts and decisions regarding to turn to account of opportunities with the view to obtain and to use the educative goods and services. Creating attitude, mental bent of consumers for “purchase” those goods and services, the motivation which represents the mind state by tension which lead the fellow at purchase action, satisfying his needs and expectations are very important. Consumer preferences for different superior educational institutions would depend from to anticipate learned situations. Observes the fact that students within the framework of FSEGA consider that the selection realizes in base of entrance examination, how it acts in the big universities of world, would be more

efficient, 93% between the persons asked being in agreement with this affirmation.

Education posing in agrees with the new requirements and for the other part, with the dates offer by the new researches undertaken in psychology and in educational sciences, behaves tasks more pretentious than for past. The tendencies and the directions established by curricular reform by which was supposed the education in our country illustrate the efforts of renewing destined to assure a superior quality in people qualification. Through the new profile of former it gives a special role of competences and attitudes development. Education becomes, in this manner an authentic formative process, and his moderator impact it is appreciate though formed and developed skills and abilities.

The adaptation efforts at news situations thanks to changes of social environment, leaded at profound mutations in educational area. It was acted at a curricular diminution which to come in meeting of complexes economical-social changes. In this context, the diminution of educational process in all his spheres and joints is centered for accentuation formative aspect, therefore the education subjects being prepared to offer proof by functionally competences, adaptability, responsibility, initiative and creativity, essentials characteristics considered in the development they personality. The students asked are aware of fact that the system used in the biggest universities which involves the suggestion an one vast palette of optional disciplines between which the consumer of educational services can choose those which represents him better and to give a diploma corresponding to the profile obtained in base of disciplines basket studied is more efficient, 88% between they declaring this thing.

An attitude is a behavior propensity learnt which is consistent in a favorable or non favorable direction in connection with an object given.

The attitudes represent an expression of internal feelings which reflect if a person is favorable or not favorable with a bent at certain “objects”, as would be a service, a brand, a product. The materials delivery necessities with the view of carry on the course at begin is considered a good method by all the participants at study. The attitudes

are perceived by ones specialists that representing a general evaluation. This evaluation would go from positive extreme at negative extreme. Then, is very important to observe how the persons asked perceive the university preparation received, having in view the fact that the attitudes vary in intensity and favorability. Then, the students asked if would dispose by course support with less at week before begin this, the reason from which the most would going at course would be there for to obtain more information's with regard at studied subject (64%). A quarter between the population studied would use the course support for search before the information, in this manner can have active participation of course carry on. A percent quite reduced (11%) would profit by this event for do not going to course.

Figure 1. Dispose one week before by the material of course

Dispose with one week before by the material of cours

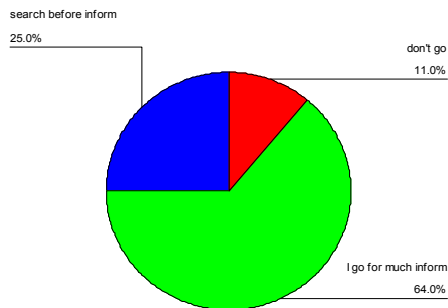


Table no. 1 Master section is: \* If you dispose with a week before by the material which will be the course support then:

Master section:	If you dispose with a week before by the material which will be the course support then:			Total
	would go for at course	would not go supplementary information	quest before information for active participation	
% of Total				
ACC		4	3	7

AGB			1	1
BPC		2		2
BFAIF		1	1	2
CE	1	1		2
ECF		1		1
ERN		1	1	2
ESA		1	1	2
EPDRR-M		1		1
FCA			1	1
FF-M			1	1
IESI		1		1
MDA	6	22	5	33
MDA-E		3	4	7
MGO-F		1		1
MI-G	1	1	2	4
MKP-M	1	1		2
MRU		20	4	24
SB	1			1
SPMK	1	3	1	5
Total %	11	64	25	100

6 between the answered students follow the MDA section (business development management) and said that if they dispose with a week before by the material which will be the future course support, then they go not at school, while as 22 students of same section would go with the view of obtaining the supplementary information and 5 between they would profit from inform before with the view of active participation. 100% between the students asked by FCA (corporative finance assurances-1 person, therefore 1% by population studied) would use the course to begin with received for inform them and for active participation. With the view of link identification which can come into sight between that two variables analyzed I resorted to coach the hypothesis:

$$H_0: \chi^2 = 0 \text{ (link not exist)}$$

$$H_1: \chi^2 \neq 0$$

Table no. 2 Chi-Square Tests

	Value	df	Asymp.Sig. (2-sided)
Pearson Chi-Square	46	38	0.17
Likelihood Ratio	45.4	38	0.19
Linear-by-Linear Association	2.34	1	0.13
N of Valid Cases	100		
a	56 cells (93.3%) have expected count less than 5. The minimum expected count is 11		

It can say with 95% probability that between this two variables link not exist, because Sig.=0.17, therefore is much more then 0.05.

Table no. 3 Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	0.56	0.17
N of Valid Cases		100	
a	Not assuming the null hypothesis.		
b	Using the asymptotic standard error assuming the null hypothesis.		

The value of contingency coefficient is equal with 0.56 being significant different by zero, therefore the link between variables is by big intensity.

#### 4. Conclusions

The idea of fellows preparation in agreement with the society requirements in which they live lead at initiation the instructive-educative ways capable to respond of formative exigencies for the moment, but in the same time and for perspective. The educational institution has moreover the responsibility to form ablest citizens to build all the time the new society, a task more difficult: that to reform/to restrict in such manners so that they majors objectives to realize more rapid as the changes of societal paradigm. Studying the population direct implicated in process of professionally formed within the framework of university center of Cluj-Napoca with economic profile emerge the following conclusions: Then the consumers are free to action that they want foretell that they actions will be consistent with the attitudes. Often, though the circumstances change.

Is necessary to consider too the influence of conjectural situation over the attitudes and behavior consumer. The marketing – through her traditionalises functions of consumer research and of increase of adaptability entity at environment in which this work – will play a determined role in the assurance of success on market. At his place, the marketing will constitute the subject of some important changes in the years which will come, changes which will intervene on all this landings: marketing research, communications with potentials clients and current clients, sales, services addressed of clients etc. Absence using marketing view within the framework of educational system it is similarly with the disagreement educational institutions access at the ensemble valuables tools which can eliminate the status quo problem present within the framework of this.

#### 5. References

- [1] Albulescu, I. – „Pragmatica predării. Activitatea profesorului între rutină și creativitate”, Presa Universitară Clujeană, Cluj-Napoca, 2004
- [2] Brătianu C., Lefter V., “Management strategic universitar”, Editura RAO, București, 2001
- [3] Brătianu C., – “Paradigmele managementului universitar”, Editura Economică, București, 2002
- [4] Jaba E., Grama A., - “Analiza statistică cu SPSS sub Windows”, Iași, 2003
- [5] Knight J.,- “Strategic Planing for School Managers”, Kogan Page Limited, London, 1997
- [6] Kotler Ph., Fox K.,- “Strategic Marketing for Educational Institutions”, Second Edition, Prentice-Hall, Inc., New Jersey, 1995
- [7] Pah I.- “Tehnici de analiză a datelor cu SPSS”, Ed.Presa Univ.Clujeană,Cluj-Napoca, 2004
- [8] Plăiaș I. (coord.), Buiga A., Comiati R., Mureșan A. C., Nistor C. V., Pop C. M., - „Cercetări de marketing” , Editura Risoprint, Cluj-Napoca, 2008
- [9] Plăiaș I., - “Comportamentul consumatorului”, Editura Risoprint, Cluj-Napoca, 2005
- [10] Pop M.D., Băcilă M.F., Moisescu O.I., Tîrcă A.M., 2008 - „Marketing educațional – sistemul informațional de marketing”, Editura Alma Mater, Cluj-Napoca, 2008
- [11] Pop, M D.,- “Cercetări de marketing”, Editura Alma Mater, Cluj-Napoca, 2006



## Ways to Improve Competitiveness and Crew Personnel Strategy

Norina Popovici

*“Ovidius” University, Constanta*  
*norinapopovici@yahoo.com*

Cristina Nistor

*Constanta Maritime University, Constanta*  
*nistor.cristina@gmail.com*

### Abstract:

In maritime transport, a well-structured crew personnel strategy impacts on every facet of the ship's operation and is an issue that must not be ignored. Competitiveness of seafarers can be acquired by appropriate training. Seafarers have to pass specific training programs when they study in university time and afterwards, when the graduate they have to enrol in different courses in order to improve their knowledge and capabilities and to promote in function. This paper presents the importance and the effects of training of seafarers on crew personnel and competitiveness.

**Key Words:** human resources, strategy, competitiveness.

**JEL classification:** M51

### 1. Introduction

When considering the overall picture of maritime business, personnel's training is considered by shipping companies a top priority on the list of matters that influence competitiveness in operating cargo and vessel.

Taking into account results of a study developed for a PhD research on maritime human resources management, we can establish a definition of competitiveness of seafarers from the behaviour point of view. The results of the study are based on interviews delivered to Romanian and foreign representatives of 3 national and international crewing companies with subsidiary in Constanta, on 45 questionnaires applied to Romanian seafarers

and ratings (seafarers without Certificate of competency) and on 55 questionnaires completed by undergraduate students in maritime domain.

### 2. Definition of competitiveness in maritime transport

Based on the results of the study mentioned before, competitiveness in maritime domain is a comparative concept of the ability and performance a seafarer who follows the legal norms of seafaring stated by the International Maritime Organisation and other international and national institutions, related to safety, efficiency and efficacy issues. A complete definition of competitiveness would integrate the pecuniary aspect like the lower level of wage that a competitive seafarer will demand and accept, compared with other seafarers, from the point of view of a shipping company's costs.

A feasible method of developing competitiveness is through training and long-life learning. Training is delivered for undergraduates (future seafarers) in maritime schools and universities and after graduation in maritime training centres and in the employing company. A particular attention must be given to transmission of adequate knowledge for gaining competences and abilities and not only theoretical insights.

There have been made increasing efforts to gain an awareness of human element issues. The traditional view that human error is the major cause of all accidents is being challenged by some who consider human error to be a symptom of deeper problems with the system. Nevertheless, human errors are a sign of lack of competitiveness and poor professionalism. Errors can be induced through bad design, poor training or poor/inadequate management

systems. Some specialists argue that modern technology has reached a point where improved safety can only be achieved on the basis of a better understanding of human element within the system.

Ship operations in maritime business is a commercial enterprise similar in many regards to any other profit-making organization. It has shareholders interested to make a return on their capital and stakeholders. [1]

The board of directors have the duty to deliver that return while at the same time ensure that this is achieved in a professional, responsible, safe, qualitative and timely manner.

A competitive maritime company is the one that clearly states a mission reflecting a serious commitment to international transport activities and has the ability to identify and adjust rapidly to client's needs and opportunities providing high-quality, competitive navigation services. The following elements are determinants for a firm's international competitiveness: specific assets and core competences that can be exploited to their competitive advantage, reputation, continuous innovation in ship building, ship design or ship services, shown in particular in passenger cruises, a firm's architecture which describes the culture of the company.

## **2. Importance of Training for Seafarers Competitiveness**

Traditionally, the purpose of training and development has been to ensure that seafarers can accomplish their jobs efficiently. Today, during the financial world crisis, the business environment has changed, with intense pressure on organizations to stay ahead of the competition through innovation and reinvention. Strategic positioning of training and development directly promotes organizational business goals and objectives.

Current trends emphasize the importance of training and intellectual capital, a critical factor for competitive advantage. The development of partnerships for knowledge sharing (e.g., consultants and/or academic partners as subject matter experts) has increased. To develop specialized training programs in corporate university settings, training departments often work closely with academic partners to prepare high-potential seafarers for leadership roles.

When strategically applied, continuous learning fosters knowledge and skills acquisition to help the maritime company achieve its goals. Human resources department role is to establish and implement a high-level roadmap for strategic training and development. The starting point is an in-depth understanding of the business environment, knowledge of the organization's goals and insight regarding training and development options. HR must then develop strategic learning imperatives (high-level, learning-related actions that an organization takes to be competitive) that align with business goals. Differences in industry, business goals, human capital skills and resources influence the selection of learning imperatives [2].

In maritime business, competitive firms are the ones that provide qualitative transport services at a competitive price [3]. Business excellence and competitiveness can be achieved at the early stage of selecting personnel. For selection of crew members, maritime companies make a psychometric profiling, interviews, aptitude tests and portfolio determination. Entry level solutions are pre-sea courses for cadets, counselling, distance learning, STCW courses and system training. Professional competence is acquired after passing competency courses, simulation training. For professional competence, an important tools are assessment and on board mentoring. Enhancement is provided by using advanced simulation training, leadership and teambuilding programs, customized training based on the needs of the team. A constant analysis of productivity is also recommended for up to date results. The training system that a competitive company must take in consideration is not only limited to shipboard training. Shore based training implies external courses like STCW 95 mandatory courses, competence and soft skills enhancement courses. In house shore based courses are related to company's system and policies, safety, productivity and loss control. The objectives of structured shipboard training are acquiring theoretical knowledge, familiarization and drills, mentoring and next rank training.

Many maritime companies are registered in tax-free fiscal paradise countries because of advantageous tonnage tax regimes. In many cases, this does not encourage companies to train crew and master to a higher level, but rather attracts those who wish for commercial

advantage with the minimum amount of training required by the international regulations like IMO Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW)[4]. Such companies should take into consideration that business excellence is acquired by those that take into consideration the level of non-mandatory training, apart from those regulated by International Maritime Organization in order to establish the quality level of the crew and to ensure a supply of high calibre officers needed for the high-tech vessels of tomorrow. This issue has a major impact on a vessel's earning potential.

In order to be legally acceptable, maritime companies must comply with operational rules issued by International Maritime Organization (IMO), employment condition issued by International Labour Organization, National Flag legislation and local country legislation and condition imposed by International Transport Workers Federation (ITF) imposed or agreed with the relevant unions.

IMO's Standards of Training, Certification and Watch keeping (STCW) Convention were drafted in 1978. In its first version, it had the scope to formalize a system nearly identical to the US marine system, around the world. In 1995 when the US Coast Guard approached the International Maritime Organization and asked them to amend the convention, significant changes were made. The STCW 95 amendments did not have to be ratified like the original convention because it was an amendment to an existing convention. The amendments, however, completely re-wrote enforcement related to the Convention, and more importantly created an STCW Code that set stringent standards for mariners to meet. Unlike the original 1978 Convention, the 1995 Amendments required a separate piece of paper to certify that the mariner met the requirements - a STCW Certificate.

The traditional way of studying human performance in the maritime work domain is through the analysis of accident reports or even better through the analysis of accidents. 80% of maritime accidents are caused by human factors or human error. Experts who make accident reports evaluate in the first stage the human performance in the particular case against the performance standard you could expect from the crew in the given situation [5]. According to international regulations, after any incident

needing the involvement of authorities, the first thing an inspector of Marine Investigation Branch does on boarding the vessel is to check the competence and training of the seafarers on board.

Good quality training is a prerequisite to ensuring a vessel maintains a high standard of operation. Training in all its forms adds to the value and safety culture on a vessel. From the legally imposed training certificates of competence to the cadet programs of practice at the board of the ship, it is essential to understand the strategic importance of operating a vessel to the highest levels.

For crew members aspiring to higher ranks, statutory training is carried out as they seek for promotion, but a good ship operator will have their own in-house training program that will help reinforce the company's culture and safety.

Undertaking responsibility ashore means learning many new skills. Skilled officers make excellent managers but the knowledge prescribed to prove competence at sea leaves gaps in a number of disciplines required in an effective competitive ship management company.

A great number of companies today have human resource sections instead of „personnel department” that were used in the past. This is the part of the company that is responsible to the CEO, the board of director and shareholders for ensuring that the operational matters of crew deployment are carried out successfully.

A well-trained seafarer is the most valuable asset an owner has on board. Companies must meet the requirements for which they are directly responsible. Having well-trained seafarers is essential to any maritime company who wishes to demonstrate that responsibility, while at the same time be seen by the community as having quality and competitive operation.

Competitiveness means professionalism and high productivity. At the level of maritime company, it means cost efficiency and cost effectiveness. But competitive companies don't cut costs with training systems for seafarers and invest in sending employees to international conferences and seminars on safety issues and safety management.

### 3. Ways to improve the crew personnel strategy

Improving the personnel strategy includes a general evaluation of the company focusing on a good business plan, analysis of the human resources by establishing the portfolio of human resources and the efficient manning pool and the analyze of the existing situation, of the distributed tasks and of the motivational system.

A favourable external medium for the maritime company is set by creating interesting jobs and developing strategies for attracting valuable personnel. The decision factors must notice the aspects which influence the personnel fluctuation and must find solutions for solving them. The causes which increase the emigration of personnel might be lack of material motivation for the specialists or politics for keeping the personnel with low qualification. The company should implement periodical brainstorming meetings at shore and at the board of the ship for collecting good ideas and motivating the personnel. Ways of increasing the number of employees with superior qualification are reducing the ratings and personnel with medium studies and increasing the number of personnel with proper qualifications.

In Romania, competitive maritime companies are the ones that hire seafarers after they passed a technical computer exam in English and a very well structured interview. Competitiveness is acquired when seafarers act as professionals in every action they make at the board of the ship or on land. Employment conditions for seafarers should be at least comparable with those found in other industries – particularly in view of the obvious impact that the quality of the shipping industry's workforce has on safety at sea and protection of the marine environment. Applying a professional way of thinking, not only in their job, but in life in general, brings satisfaction.

Maritime companies can assure the adequate resources for the continuous professional training by internal and external financing of professional training [6].

Finally but not exhaustively, the company should believe in investing in its people for its success, supporting employee development to grow talent from within by using a Performance Management Plan. This is a strategic performance tool which support strategic plan and goal attainment of the organisation. The

objectives of a Performance Management Plan is to compensate related decisions, promote the crew's potential, establish efficient rewards and recognition systems, helping objective or equitable decision making. By using a Performance Management Plan, the management can identify proper training needs. This tool is also used to document and analyze performance and to promote a high-performance culture.

### 4. Conclusions

To maintain success in today crisis period, investment and innovation in recruitment and training programs must continue in order to achieve a competitive status. Used on a large scale, seafarers' recruitment training programmes can give a competitive edge. Their aim is to select and equip new entrants to the maritime industry with the skills and knowledge to pursue a career at sea and to perform their jobs better. The training programmes are also essential to gain new set of skills and knowledge for seafarers' career transition. In order to acquire competitiveness and business excellence in this business, the management of the maritime company should state a clear vision so that the crew members can understand the expectations of management. A solution for establishing derived strategies, in specific areas of the personnel activities, in consonance with the concrete conditions of the international environment is to develop partnerships for elaboration and implementation the strategies in continuous professional training.

### 5. Resources

[1] N. Malpass, "Manning and Training", Diploma in Ship Management - Module 6, Lloyd's Maritime Academy, London, 2005, pp. 12-13, 15;

[2] S. Tannenbaum, "A strategic view of organizational training and learning", In K. Kraiger (Ed.), *Creating, implementing and managing effective training and development: State-of-the-art lessons for practice*, Jossey-Bass, San Francisco, 2006, pp. 10-53.

[3] C. Nistor, G. Surugiu, "Maritime Human Resources Competitiveness Through Proper Implementation of Safety Management", *The Annals of the University of Oradea, Section Economic Sciences*, TOM XVIII, ISSN 1582-5450, 2009;

[4]. [www.stcw.org](http://www.stcw.org)

[5] E. Barsan, P. Arsenie, I. Pană, R. Hanzu-Pazara, “Analysis of Workload and Attention Factors on Human Performances of the Bridge Team”, Pomorstvo (Journal of Maritime Studies), vol. 21, No. 2, Rijeka, 2007;

[6] D. Bălan, L. Popescu, “Strategic objectives in Human Resources Management”, The Annals of the University of Oradea, Section Economic Sciences, TOM XVII, Oradea, 2008, p.67.

## Research and Development, New Contemporary Management Challenges

Popovici Norina, Sorici Costin Octavian  
*“Ovidius” University, Constanta*  
*norinapopovici@yahoo.com*  
Radulescu Nicolae  
*ASEM, Chisinau, Moldova*

### Abstract:

Climate changes, energy security, population ageing and other contemporary world challenges necessitate an international cooperation in order to take advantage of the resources and to coordinate all the countries' investments for a long-lasting development. In this context, the European Commission launched the Framework Programme, which is the principal instrument of the European Union, used for research funding. The international scientific and technological cooperation has always been part of the European Union research policy, from the moment when the first Framework Programme was launched in 1983. An open access approach to the international cooperation was implemented once the sixth Framework Programme was launched between 2002 and 2006. This approach has been consolidated, in accordance with the seventh Framework Programme (2007-2013), by new instruments designed in accordance with each specific programme (“Cooperation,” “Capacities,” “People,” “Ideas”) in order to promote international cooperation. The purpose of this article is to provide an analysis of the application and of the access to these programmes.

**Key Words:** Framework Programme, research, cooperation.

**JEL classification:** O32

### 1. International Research and Development within the Framework Programmes

In January 2000, the EC identified the necessity to consolidate the international research inside and outside Europe. The European research needs to align with the citizens' major preoccupations, by approaching common problems such as energy, environment and health, together with partners outside Europe. In 2007, the Green Charter confirmed this objective as an opening of ERA towards the world as well as the European engagement to deal with the global preoccupations, together with Europe's international partners, by means of multilateral cooperation. The Green Charter declared that in the global world of science and technology, the European countries need to develop a coherent approach for international cooperation in order to ensure themselves that science and technology efficiently contribute to the stability, security and prosperity in the world.

Approximately 75% (figure 1) of the world research has been done outside Europe. The global changing research and development environment is marked by the activities which are becoming more and more internationalized in each country. In most of the industrialized countries, the research and development process has performed abroad in foreign subsidiaries, approximately 16% of the total research and development expenses in many European states, and even in other parts of the world.

The community Framework Programmes extended their capacity to cooperate at an international level during 1998-2007. International scientific and technological cooperation has always been part of the European Union research policy from the

moment when the first Framework Programme was launched in 1983. It is about the Framework Programme FP5. In November 2002, in Brussels,

the European Commission launched the sixth research Framework Programme in the European Union, for the period 2002-2006.

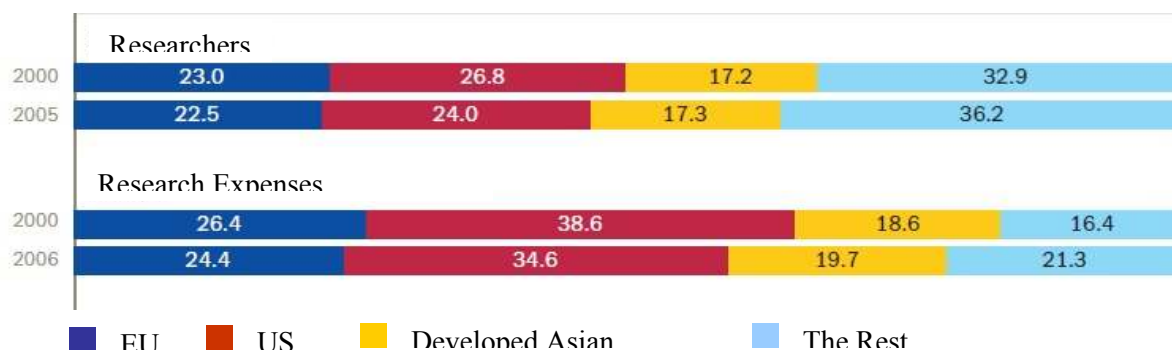


Fig. 1: The Percentage of Research and Development Researchers and Expenses

(source: Science, Technology and Competitiveness key figures report 2008/2009)

Eventually, the investments and funds for the exploitation of the research results are more and more fungible and the research production itself in the multinational companies is structured in global value chains.<sup>1</sup>

While the ex-Framework Programme focused almost exclusively on the Eastern and Central European developing countries, the sixth Framework Programme was opened for the third category countries in all thematic domains.

FP6 proposes to contribute to the creation of a true research space, a new vision on research in Europe, a new internal science and technology market. The economic growth depends more and more on research and many present and future challenges cannot be solved only by national actions.

The participation rate in FP5 and FP6 during the last years is presented in figure 2.

Most of the third category countries, which participated in the FP5 and FP6, came from the Russian Federation, the USA and China. The five countries which are considered emerging economies lead the ten participating countries in FP5 and FP6: the Russian Federation is in first place, followed by China, India, Brazil and the South Africa. The USA is the first in the industrialized countries top, followed by Canada and Australia. Eventually, Morocco leads the developing countries top, followed by Tunis, Ukraine and Argentine. The leading countries, which participate in both programmes, have

increased their participation rate, in absolute terms, between FP5 and FP6. Nevertheless, in general, the participation rate of the third category countries is still very low, at 5,5%. The Russian Federation, the USA and China represent 32% of the third category countries participation rate.

In 2007, the seventh Framework Programme was launched (2007-2013) for funding the research in priority domains in order to meet the needs of the modern economy.

The provisory data regarding the participating countries in FP7, the cooperation and the capacity of the programmes in 2007 or the first call for proposals shows that the three leading countries, the Russian Federation, China and the USA, remain the same: the Russian Federation is in the first place with 697 participations, China in the second place with 548 participations and the United States, which occupies the third position with 492 participations. India is in the fourth place, with 422 participations (figure 3).

Regarding the financing proposals, those which involve the industrialized countries have, in general, a higher success rate than those which involve other countries: 22% in case of the USA and 29% for Australia, while the emerging economies vary between, for example, Brazil with 9%, China and the Russian Federation with 14% and 16%, respectively, and the South Africa with 24%.

<sup>1</sup> Remi Barre, Bastiaan de Laat, Jacques Theys, Management de la recherche, Ed. De Boeck, Paris, 2007, pg. 43.

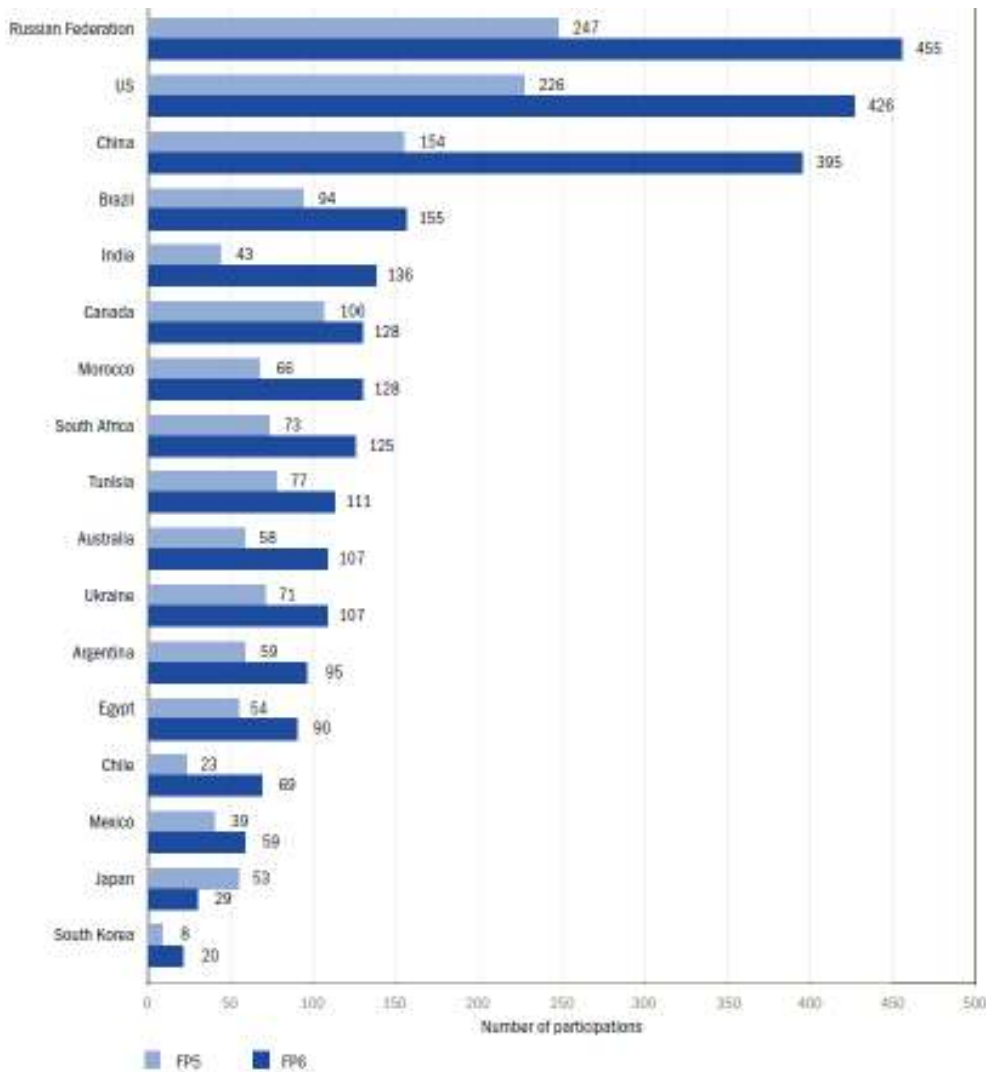


Fig. 2: The Participation of Different Countries in FP5 and FP6.

(source: Science, Technology and Competitiveness key figures report 2008/2009)

All the third category countries have seen the collaboration relationships with the EU member states multiplied by more times between FP5 and FP6. In general, Germany, France, Italy and the Great Britain are the largest research countries of Europe and they have more extended cooperation relationships than other member states of the EU. A typical example is the cooperation with the Russian Federation and China: Germany is the leader, followed by the United Kingdom, France and Italy. Nevertheless, other countries such as Holland, Sweden, Belgium, Finland, Greece, Hungary, Poland and Austria have strong connections with the Russian Federation and China. The cooperation relationships with Brasil are the best for the

United Kingdom, followed by Germany, France and Spain. Smaller countries such as Holland, Belgium and Denmark also play an important role in establishing collaboration relationships at the global level (see table 1).

At the community level, the framework programmes have extended their application domain during the last 10 years. Although it innitally focused on the developing countries, Europe framework programme extended to the industrialized countries, as well. Most of the third category countries participants come from the Russian Federation, the USA and China.



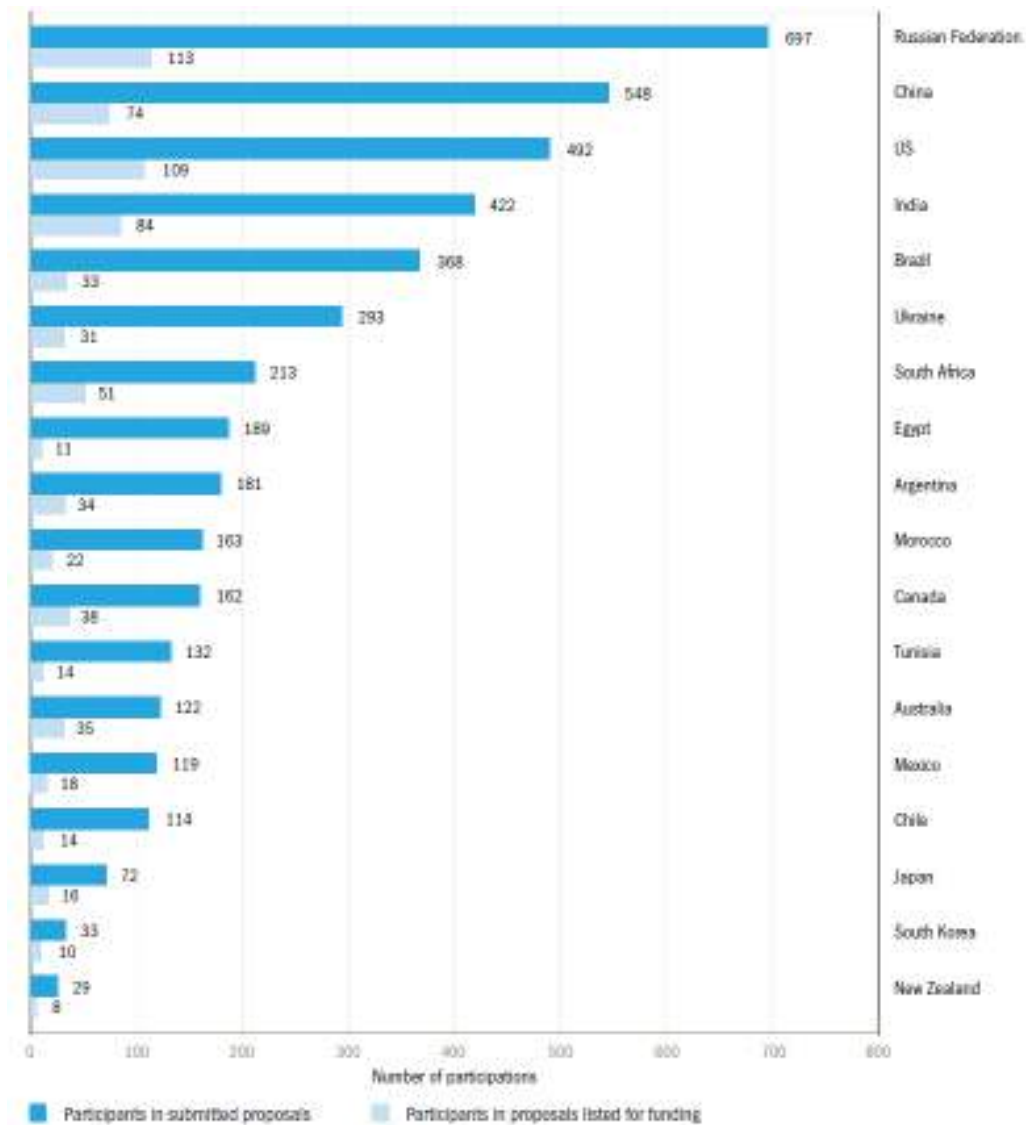


Fig. 3: Participations and Funding within FP7.

(source: Science, Technology and Competitiveness key figures report 2008/2009)

Although the largest research countries from Europe - Germany, France, Great Britain and Italy - have the most collaboration relationships with the third category countries researchers, more small member states used Europe framework programme in order to extend substantially the collaboration relationships.

## 2. The framework programme for funding the research and development in Romania

By implementing the National Strategy CDI, Romania ensures the alignment to the CDI policies orientations within the European space and participates actively in the consolidation process of the European Research Area.

From the statistical data, presented by European Commission, which refer to the calls launched during 2007-2008, a number of 187,532 entities applied the Framework Programme FP of the EU during 2007-2013 (FP7) and FP7 Euratom, from which 23,160 participations were from Romania.

NUMBER OF LINKS PER COUNTRY

	Brazil		China		Russian Federation		India		South Africa		US	
	FP5	FP6	FP5	FP6	FP5	FP6	FP5	FP6	FP5	FP6	FP5	FP6
Belgium	31	60	35	139	8	189	4	56	13	82	1	95
Czech Republic	-	20	-	25	-	96	-	16	-	15	-	37
Denmark	3	43	3	121	8	129	2	51	11	54	1	76
Germany	52	179	80	420	75	772	9	138	24	194	2	421
Estonia	-	5	-	17	-	31	-	5	-	12	-	3
Ireland	3	24	3	36	10	58	-	8	5	18	-	46
Greece	20	39	13	103	20	158	2	38	9	39	-	108
France	61	140	59	298	27	577	5	97	16	174	1	315
Spain	55	131	24	200	7	292	4	70	18	96	-	154
Italy	69	113	63	291	25	423	10	106	35	134	-	236
Cyprus	-	2	-	7	-	16	-	2	-	4	-	5
Latvia	-	2	-	7	-	32	-	2	-	11	-	3
Lithuania	-	-	-	17	-	34	-	4	-	7	-	3
Luxembourg	-	5	9	10	-	10	-	-	-	-	-	2
Hungary	-	16	-	38	-	89	-	15	-	21	-	31
Malta	-	2	-	4	-	17	-	4	-	5	-	3
Netherlands	21	103	23	221	16	286	18	103	22	147	-	183
Austria	11	26	57	80	14	155	5	31	-	35	-	49
Poland	-	31	-	75	-	155	-	19	-	33	-	60
Portugal	23	27	26	48	1	85	2	12	12	34	-	32
Slovenia	-	9	-	20	-	41	-	2	-	12	-	20
Slovakia	-	5	-	16	-	40	-	6	-	13	-	9
Finland	8	18	15	76	34	113	9	21	4	25	-	50
Sweden	16	36	25	101	8	190	9	45	23	72	-	112
UK	-	186	-	405	-	636	-	183	-	261	-	371
> Total	373	1222	435	2775	253	4624	79	1034	192	1498	5	2424

Tab. 1: Collaborations within FP5 and FP6.

(source: Science, Technology and Competitiveness key figures report 2008/2009)

As a result of the evaluation, 21,497 entities have been selected for funding, from which a number of 230 from Romania. Those 230 entities from Romania participate in 181 contracts funded by the European Commission, 18 of them as collaborators.<sup>2</sup>

The total value of the European Commission for these contracts is of 640,419,434 euro, from which 30,041,281 euro for the Romanian entities (a percentage of 4,69 %). The distribution of the

number of contracts in which Romania is involved) regarding the programmes and thematic, as well as the value of EC contribution looks as follows:

- COOPERATION: 114 contracts, EC contribution =21,409, 200 euro, namely 71.26%,
- HUMAN RESOURCES : 14 contracts, EC contribution =2, 236, 407 euro, namely 7.44%,
- CAPACITIES : 47 contracts, EC contribution =5, 829, 279 euro, namely 19.4%,

<sup>2</sup> Ion Plumb, et. al., Managementul cercetarii si inovarii, Ed. ASE, Bucuresti, 2007, pg. 157.

- EURATOM : 5 contracts, EC contribution =432, 050 euro, namely 1.44%.

We mention, in particular, Romania's participation in projects based on a solid transnational cooperation, supported by PC 6 and PC7, in the following way:

- Romania is directly involved in the coordination process, at a European level, of the national research programmes, through the participation of 16 projects of the type ERA NET. We can mention the projects in which ANCS is a direct partner, namely EUROPOLAR (polar research), HY CO (energy), NEURON ERA NET (health), SEE ERA.NET (bilateral cooperation).
- Romania is continuously supporting the development of the new forms of public-private research partnership, represented by the technological platforms as well as by the common technological initiatives. During 2007-2008, Romania enrolled as a member in 4 from the six approved common technological initiatives: ARTEMIS (integrated computer systems), ENIAC (nanotechnologies), IMI (innovative medicines) and CLEAN SKY (aeronautics).
- In the 34 European platforms, Romania participates with 31 national mirror platforms, from which we can mention in the Nano-domain - the platforms MANUfuture Romania, MINAM - Microand NanoManufacturing, NANOMED - (the Collaboration Platform in Nanomedicine).

Concerning the funds on domains, the priority ICT from COOPERATION detains the first place both as a percentage (23.66%) and as the sum paid to the participants from Romania (7,108,467 EUR). After ICT the domains with the highest success rate are transports (18.51% from the total and 5,561,365 EUR), nano-scientific and nano-material (9.5% from the total and 2.855.224 EUR) and the environment (4.36% from the total and 1,310,218 EUR).

If we look at the participation of the IMMs, 48 of the 230 participants come from these enterprises; this fact represents 20.87% of the total Romanian organizations, which benefit from the European funds from PC7, contributing to the research and technological transfer activities.

The contribution of the European Commission for IMMs represents 18,24% of the total 30, 041, 281 EUR, from which the Romanian scientific community has benefitted till now.

The share of the funds accessed by Romania on programmes and domains at PC7 (2007-2008) can be visualized in figure 4.

#### 4. Conclusions

Europe needs to strengthen the coherence of the research strategies, to increase the production potential, to use knowledge to become more competitive. The increase in the research and development investments must arrive at 3% from the GNP in the EU, in 2010.

More than 100 countries from the whole world are involved in the EU research programmes. These activities will continue within the cooperation programme of PC7. The international research will lead to the decrease of the differences, which exist between the countries of the world.

The international cooperation in the research and development domain will integrate the EU into the international community and will support the evolution of research and technology in those countries which are building their own knowledge capacity.

The Lisbon Strategy has the main purpose to make Europe become in 2010 the most competitive and dynamic economy, based on world knowledge, capable of sustained economic growth, with more workplaces and an extraordinary social cohesion.

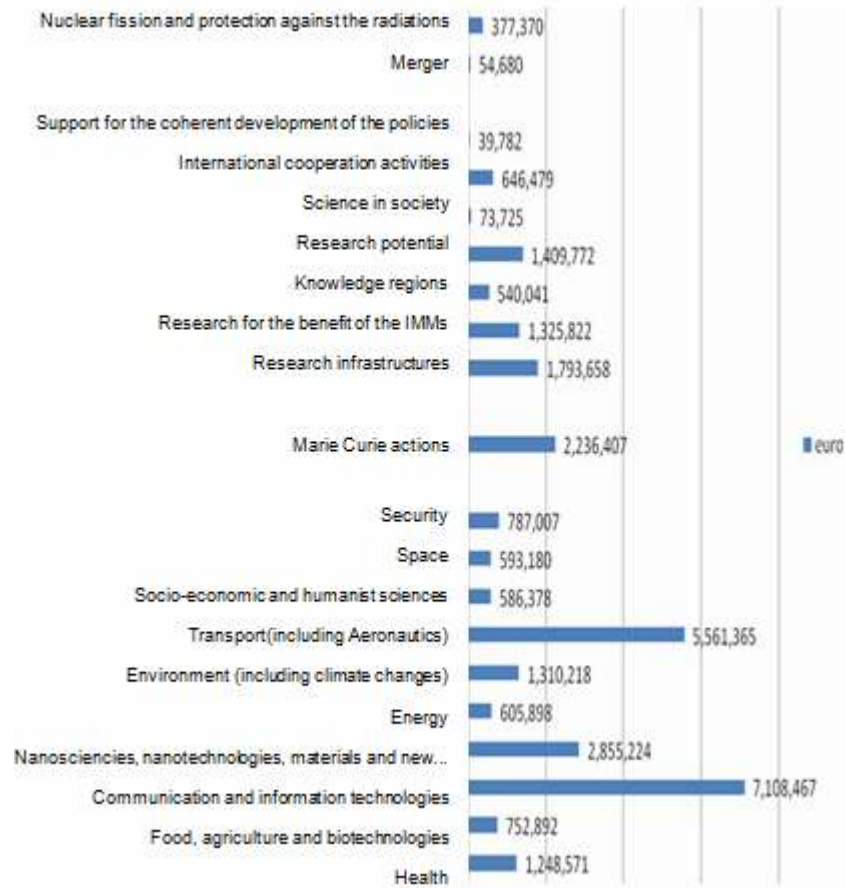


Fig. 4: The Programmes and Domains of the Funds accessed by Romania at PC7

(sursa: ANCS – Raport anual 2008)

### Resources

[1] ANCS – Raport anual 2008.

[2] R. Barre, B. de Laat, J. Theys, Management de la recherché, Ed. De Boeck, Paris, 2007.

[3] I. Plumb, S. Visan, L.F. Botez, M.S. Florescu, A. Angelescu, Managementul cercetarii si inovarii, Ed. ASE, Bucuresti, 2007, pg. 157.

[4] Science, Technology and Competitiveness key figures report 2008/2009.

## The Bearers of Information in Healthcare and their Dynamics

Ileana G. Răducanu,

*National Institute of Gerontology and Geriatrics "Ana Aslan" Bucharest  
ileanaghraducanu@yahoo.com*

### Abstract

The need of correct and in short time information to do management and marketing decisions it is a priority and a necessity in any area of human activity today. In healthcare area the information is necessary not only to strategic decision but provide healthcare service too. The information in healthcare system is generated at local level inside healthcare organizations but it is usually inaccessible to marketers. For this reason, the identification of bearers of information, increased capacity to collect data, analysis and statistic interpretation with their transforming into information make the difference between success and failure for marketing initiative and better outcomes in healthcare system. The bearers of information in healthcare domain are: general population, insured people and healthcare providers. The collected data from them are used to strategic decisions. The analysis of health information result to the dynamics of bearers of information show some major change in population structure and health needs. So, the population's aging change the number of aged person with increased healthcare needs; the disease structure change with increased chronic diseases; the increased health costs because of development of new technologies and medical procedures; the geographical distribution of health staff is a high problem; the inequality access to health for rural or isolate areas and disadvantaged communion is a real issue. The marketing tools applied to the specific of healthcare domain serve to adjustments of healthcare system. The Integrate Unique Information System creates by National Health Insurance House can solve partial these issues.

**Key words:** information, healthcare system, organizations

**JEL classification:** I11

### 1. Introduction

The need of correct and in short time information to do management and marketing decisions it is a priority and a necessity in any area of human activity today. Doubtless the healthcare must no more be peer as a distinct and independent area that it is separate from the rest of economic and social activities. Today, in the economic context the principle and criteria of efficiency must to govern any activity with the view to acquire maxim of outcomes using the existent resources. For this reason, the information becomes an absolutely necessary resource. So, the identification of the bearers of information, the collection of information is a priority to know the customers' real needs; it is create not only an informational flow important to adjust the patients' supply to the demand and need but it is prevent the inutile consumption of resources with a higher performance of healthcare system.

Moreover, the information is an important part at health services provided. The healthcare service does not be provided without a previous evaluation of patient's healthcare need. This evaluation can not be performed by the patient because of lack of expertise. The healthcare supplier is the one who evaluates for each patient their healthcare need based on information. The healthcare services entail close relationship between healthcare supplier (the physician as a rule) and customer (patient) with an increased level of patient participation to healthcare service and a high degree of personalization. Some studies show that 60-80% of requisite information to put a diagnosis is acquired by anamnesis (the interview with the patient) [1]. At their turn, the patient must to receive all information to be able to do their own decision which the physician must respect it, if this is an informed decision even their disapprove it.

So the patient information is their right and the information must be correct, completed, accessible and related to the patient's understanding level.

The information in healthcare system is generated at local level, inside healthcare organizations and the data are accessing with difficulty and they are not usually utilized in extensive research based on which are made strategic decisions. So inside healthcare system is generated many information but they are inaccessible to marketers [2]. Increasing the capacity of collection data, analysis and statistic interpretation with their transforming into information make the difference between success and failure for marketing initiative and better outcomes. The projection, development and usage of marketing information system at healthcare system level become a necessity for strategic decisions and planning of specific activities.

## **2. The bearers of information in healthcare system and their particularities**

The selection of sources, the choice of methods for data collection, the collection and processing data into information are made inside the information system. The flow of information is the basis of strategic decisions. Depending of required information the bearers of information are selected:

1. General information on people's static and dynamic; these kinds of information are collected from:

- National information system for personal data. These information are collect from official papers emit by Register of births, marriages and deaths from birth, marriage, death or divorce certificates. There are five types of statistic papers that content personal data and are transmitted to National Institute of Statistic for analysis. Here are analyzed data concerning the intern migration, collected by workers of Ministry of Internal Affairs as statistic paper for changing residence.

- Demographic survey on general population (census) or on representative sample. The personal data are collect too.

The bearers of information are all people and the main information refers at number of people, natality, mortality, sex age and territorial distribution. Because of personal data collected they have a special regime and

the confidentiality and identity protection must be insured [3].

2. Consumer's information (patient information); these information are collected from medical papers and now are transferred to District and National Health Insurance Houses by the Integrate Unique Information System. This is a secure network for collection and processing data at local level and then they are aggregated and managed at national level. The data collected refers at personal data, medical general data, primary care or specialist care (consultation, treatment and prescribed drugs), hospitalizations, medical investigations (lab tests, radiological procedures, and functional tests), medical expertise.

The bearers of information are any insured person who need and receive healthcare.

3. Information on medical procedures; these information are collected by healthcare providers. In Romania there are over 26 000 providers (medical or pharmaceutical providers) [4]. The data are registered in medical papers at contact with the patient (medical registers, medical papers, medical certificates, receipts, other papers).

In this situation the bearers of information are the healthcare providers.

The particularities of bearers of information in healthcare area refer at confidentiality of information and professional secret. The confidentiality is a form to protect patient's personal life and it is guaranteed by healthcare provider obligation to keep professional secret. These restriction are stipulated into The Deontological Code and Law no 306/2004 concerning medical profession as well as the organization and working of Romanian Physician College at national level, and The Charter on Medical Professionalism made by the European Federation of Internal Medicine, The American Board of Internal Medicine Foundation and The American College of Physicians–American Society of Internal Medicine Foundation at international level. The professional secret has not a temporal limit, there is even after the end of treatment or patient death and medical evidences must be kept as professional secret papers.

In concordance with these principles and to protect them, all projects and activities concerning to informational systems must be coordinate by physicians. Moreover it is forbidden to use them if these principles can not be abided. The responsibility to any error in this area is assigned to the physician and can not be attributed to the information system



even the error is only technical. These are the reason for the restrictive access on healthcare information for other people behind medical personal. So, the medical personal must learn techniques and methods used in marketing researches to provide qualitative information [5, 6, and 7].

### **3. The change leads by the dynamics of bearers of information on health organization and working of healthcare system**

The main functions of marketing are: the market, consumer needs investigation; the dynamic connection of organization at its environment; the satisfaction in superior conditions of consumer needs; the maximization of economic efficiency [8]. These functions are important in healthcare area as in any other activity and the information is an important part to accomplish them. The analysis of health information result to the dynamics of bearers of information show some major change in population structure and health needs. These tendencies are underline not only at national level but at international level too. For these reason the national healthcare system must be adjust as the supply too because the demand and need change. The main tendencies are:

1. The population's aging by increased of life expectance because of mortality decreased and natality reduction. This phenomena change the structure of healthcare services with an increased number of people who need permanent hospitalization or who need home healthcare.

2. The disease structure change too, with many chronic diseases and few acute diseases. So the percentage of diseases as dementia, osteoporosis, diabetes mellitus, and hypertension are increased. Even the infant mortality decreased, the child health is no better because many diseases are diagnosed: obesity, asthma, behavior change with violence, depression. This is the paradox of the modernity.

3. The increased costs because of development of new technologies and medical procedures: prosthesis, diagnosis procedures and interventional therapy, special radiological technologies.

4. The health personnel's necessary and their geographical repartition are a important problem to be solved, a medical staff's deficit

especial with high qualification in a rural or isolate areas and disadvantaged communion.

5. The inequality access to health services with inequities especially for disadvantaged communion (as gypsy communion) is a challenge for the health system that must provide health services for all people.

### **4. Conclusions**

1. The need of correct and information and in short time information to do management and marketing decisions it is a priority and a necessity in any area of human activity today.

2. Inside healthcare system is generated many information but most of them are inaccessible to marketers.

3. The information in healthcare system is generated at local level, inside healthcare organizations and the data are accessing with difficulty.

4. The Integrate Unique Information System creates by National Health Insurance House can solve partial these problems.

5. The main barriers to obtain and disseminate this information are tie to objective causes: the confidentiality of information, the professional secret and the restriction that the collection and management of data to be made only by medical personal.

6. The selection of bearers of information, the collection and analysis of data to know the real need of patient become a priority to adjust the patients' supply to the demand and need and prevent the inutile consumption of resources with a higher performance of healthcare system.

7. The dynamics of bearers of information in healthcare show many change (the aging of population, the change of disease distribution, the existence of disadvantaged group, the deficit of medical personal) that draw the continuous adjustment of healthcare system.

### **5. References**

- [1] Păcurar, A., Comunicarea medic-pacient, Pharma-bussiness, accesat [http://www.pharma-business.ro/index.php?option=com\\_content&task=view&id=253&Itemid=0](http://www.pharma-business.ro/index.php?option=com_content&task=view&id=253&Itemid=0) accesat la 10 ianuarie 2007
- [2] Thomas, R., Marketing health services, Health Administration Press, Chicago, 2004
- [3] G. D.Minca, M. Marcu, G., D. Enăchescu, N. Chiriac, C. Chivu, E. A. Cochino, I. Eclemea, F. Furtunescu, A. Galan, M. Marin, C. Moga, N. Murgea, B. Pană, A. Popescu, G.

Șcîntee, Em. G. C. Stoicescu, A. Vasile, A. Voinea-Griffin, Sănătate publică și management sanitar, note de curs pentru învățământul postuniversitar, ediția a II-a, Editura Universitară "Carol Davila", București, 2004

[4] \*\*\* Raport CNAS 2008 accesat [www.casan.ro](http://www.casan.ro) la 9 mai 2009

[5] \*\*\* Codul de deontologie medicala al Colegiului Medicilor din România, publicat în Monitorul oficial, partea I nr. 418 din 18/05/2005

[6] \*\*\* Legea nr. 306/2004, privind exercitarea profesiei de medic, precum și organizarea și funcționarea Colegiului Medicilor din Romania

[7] H. C. Sox, Medical Professionalism in the New Millennium: A Physician Charter, *Annals of Internal Medicine*, 2002, vol.136. no.3, pp.243-246.

[8] V. Balaure, V. Adăscăliței, C. Bălan, Șt Boboc, I. Cătoi, V. Olteanu, N. Al. Pop, N. Teodorescu, *Marketing*, Ediția a II-a revizuită și adăugată Editura Uranus, București, 2002



## Communication Networks in Business Settings

Raluca – Nicoleta Rogoveanu  
Ovidius University of Constanta  
ralu\_ionita@yahoo.com

### Abstract

Communication is an integral part of business settings since each functional area of a business organization depends on communication. Although such independent functions as marketing, production, finance, receive indications and instructions from corporate ideals as transposed into objectives, communication offers the necessary “cohesive element” that enables departments to function harmoniously and successfully. Employees at all levels need to be skillful communicators in order for a company to be effective by twenty-first century standards. Effective communication is a prerequisite for the good management of organizational strategies and behavior. Ineffective communication is detrimental for organizations since it can lead to poor performance, unsuitable interpersonal relations and high levels of stress.

**Key words:** communication networks, communication channel, sender, receiver, upward/downward/horizontal communication,

**JEL classification:** L22, M54

### 1. Theoretical framework

On a day to day basis, one is constantly faced with communication challenges. They may occur in a variety of forms such as: interacting with others face-to-face, transacting business on the telephone, inputting and accessing messages via the computer, dealing with regular snail mail for incoming and outgoing correspondence. Communication is therefore a vital link in achieving personal and career success. Without

strong communication skills, today’s employees and employers alike cannot expect to build successful relationships.

To be a successful communicator, a business person needs to select a communication medium appropriate for each particular message. Taking the right decision and communicating it in the most professional and polite manner usually ensures good interpersonal relations and increased goodwill and cooperation among people. For instance, it is difficult to establish whether a congratulatory message should be conveyed through a letter, a phone call or orally, in a public /private meeting. It may be twice as hard to determine if a layoff announcement should be made in a memo or at an organization-wide meeting. Nevertheless, these issues are routine issues business people need to tackle on a regular basis.

When choosing a communication medium for message, people need to consider three factors. The first and most important is the level of “information richness” that the message needs to convey. Information richness is the amount of information that a communication medium can carry and the extent to which the medium enables the sender and receiver to reach a common understanding (see Sims 14). The time span necessary for communication is the second factor that one needs to take into account when selecting a communication medium. The third factor that affects the choice of a communication medium is the need for a paper/electronic trail or some kind of written documentation to attest to the message being sent.

Most of the time devoted to communication is spent during one-on-one, face-to-face interactions. Face-to-face communication provides immediate feedback and is the richest information medium as it can convey a variety of details and nuances through voice, eye contact,

posture, blush, and body language. It is the best medium for delegating tasks, disciplining, instructing, sharing information, asking/answering questions, developing and maintaining interpersonal relations. Telephone or spoken communication electronically transmitted lacks the “hic et nunc” and provides only the cue of voice inflection. The telephone is the suitable medium for short and quick exchanges of information but is highly inappropriate for personal matters. Interpersonal written communications (memorandums, for instance) are the lowest in richness, are not focused on a single receiver, use limited information cues, and do not permit feedback.

Media selection should be based on the type of message one wishes to communicate. If the message is likely to be misunderstood or is rather ambiguous, then a rich channel with immediate feedback gives one the possibility to send information rapidly until a common understanding is reached. For many managers, meetings are the most common communication medium used in their regular interaction. The quick, informal get-together with two or more employees is also a common form of meeting, especially appropriate for instructing/ coordinating employee activities, delegating a task to a group, and providing feedback on the success of the activity performed

Before sending a message inside or outside the organization, one needs to consider a variety of details pertaining to the information to be exchanged: the nature of the message, the most appropriate medium for accepting the message, the potential relevance and impact which the medium will have, the available sources of information, the people to engage in the process of communication, and the consequences of the message.

## 2. Communication Networks

Although various communication media are used, organizational communication falls into more or less recurrent patterns. The pathways along which information flow in groups, teams and throughout an organization are called *communication networks*. The type of communication network occurring within a group depends on the nature of the group’s goals and the extent to which group members are willing to communicate with each other in order

to fulfill corporate goals. There are three types of “Official” communication channels: downward, upward, and horizontal.

By means of *downward communication* one transmits instructions, directions, and orders—that is, messages telling direct reports what they are expected to do. This type of communication can be used by a manager announcing/instructing/explaining to his/ her reports what tasks they should fulfill. Especially in the case of oral communication, the further the information goes from the sender to receivers, the more likely it is to get distorted. “Going through channels”, from a superior organizational level to the subordinate one, formal information loses something from its original accuracy and precision. To eliminate such problems, many organizations have introduced programs in which they communicate formal information to large numbers of people at different levels at one time.

*Upward communication* starts at low levels and moves to higher ones within an organization. Such messages from direct reports to their supervisors are known as upward communication. They usually involve information commissioned by managers from reports, those data required to complete projects and help in the decision making process. This may include suggestions for improvement, status reports, reactions to work-related issues, and new ideas.

At first sight, one may feel inclined to consider that downward communication is the logical opposite of upward communication. However, there are many other important differences between the two, differences which become evident once one realizes the status of the people acting as senders and receivers respectively. For example, it has been established that upward communication occurs far less frequently than downward communication. This is only natural if we consider that the amount of instructing and orders that we receive from higher levels exceeds the amount of ideas we can suggest and propose to our superiors. And, when people do communicate upward, their conversations tend to be shorter than the ones they have with others at their own level. In many instances, upward communication can convey inaccurate information, as negative information is often overlooked or ignored. For instance, a request

for a salary rise will be “accompanied” by the attempt to highlight one’s accomplishments and to downplay his/her mistakes.

Within organizations, messages flow up and down the organization chart but sideways as well. *Horizontal communication* is the term used to identify messages that flow laterally, at the same organizational level. Such messages are indications of the fact that people at a certain level of company/organization hierarchy are willing to work together and exchange ideas. Unlike vertical communication, in which the parties are at different organizational levels, horizontal communication involves people at the same level. Therefore, it develops more easily, it is more casual in tone and occurs more frequently due to the fact that there are fewer “status barriers” between the parties. Yet, despite a certain degree of familiarity which people working at the same level may have, there are many hindrances in communication that such employees are likely to experience. The misunderstood concept of competition may determine people in different departments to feel that they are competing against each other for the resources of the organization. This may lead to emerging resentment toward one another and this antagonistic, excessively competitive orientation may prove detrimental to the overall cooperation among people.

### 3. Managers as Senders of Communication

There are various kinds of barriers to effective communication in organizations and some may have their origins in senders. When messages are unclear, incomplete, ambiguous or difficult to process, when they are sent over an inappropriate medium, or when no provision for feedback is made, communication becomes imperfect. In other communication circumstances, the guilt lies with receivers. When receivers pay little or no attention to a message or when they make no definite effort to grasp the meaning of a message, communication also suffers.

To cope with communication situations successfully, managers (as well as other organization members) must possess, acquire or develop certain skills. Some of these abilities are particularly helpful in sending messages while others are of utmost importance when receiving messages. These skills help ensure that managers

will be able to share information, will have the information they need for the decision making process, and will be able to reach a common understanding with others.

Organizational effectiveness depends on employees being able to effectively send messages to people both inside and outside an organization. One usually associates effective speaking with properly understood message and a smooth transmission phase. Consequently, a person intent on communicating effectively needs to make sure that they are able to:

*Send clear and completes messages.* Managers need to learn how to send a message that is both clear and complete. A message is clear when it is easy for the receiver to comprehend and process, and it is complete when it comprises all the data that the sender and receiver need to reach a common understanding. In their attempt to send messages that are both clear and complete, corporate workers must learn to anticipate how receivers will decode their messages and adjust them to eliminate possible causes of misunderstanding or ambiguity.

*Encode messages in symbols which the receiver understands.* People need to understand the fact that when they encode messages, they use symbols / language that the receiver understands. When sending messages in English to receivers whose native language is not English, for example, it is important to use basic vocabulary and to avoid using clichés that, when translated, may add little or no clarification to the main idea, sometimes being comical or insulting. Jargon—specialized terminology that members of a group, or organization develop to facilitate communication among themselves—should never be used when communicating with people outside the occupation, group, or organization. Meaningful utterances to people engaged in certain areas of production mastering a certain vocabulary may seem utterly incomprehensible and frustrating to the people outside the domain. When choosing among various media, managers need to take into account the level of information richness required, time limit, and the need for a paper/electronic trail. A primary concern in choosing an appropriate medium is also the nature of the message (personal, important, non-routine and likely to be misunderstood).

*Select a medium that the receiver can easily access.* Another factor that managers need to consider when selecting a communication medium is whether the medium is one that the receiver monitors. Many managers simply select the communication medium which they are most comfortable with, without paying definite attention to the fact that their reports might be less comfortable or at ease when using it. Managers who dislike telephone conversations and too many face-to-face interactions may prefer to use e-mail, send many e-mail messages per day, and check their own e-mail every few hours. Managers who prefer to communicate with people in person or over the telephone may have e-mail addresses but use them less frequently.

*Avoid information distortion.* Filtering occurs when a sender obliterates part of a message because he/she wrongly considers that the receiver does not require the information or finds it useless. For example, managers should avoid mistakenly filtering the information they give their direct reports, especially when that detail is of a definite importance to them. Filtering is likely to occur at all levels in an organization, in both vertical and horizontal communication. Many employees may filter messages they send to managers, managers may filter messages to middle managers, and middle managers may filter messages to top managers. Such filtering usually takes place when messages contain bad news or problems that direct reports fear that they will be held responsible for. Information distortion originates in the process of passing the message through a series of senders and receivers. Some information distortion is unintentional due to faulty encoding and decoding. Other information distortion is intentional and takes place when senders change messages to receive preferential terms and conditions. Managers should make a definite effort to avoid filtering and distorting information but this can only be achieved if they strive to eliminate the communication barriers between the members of an organization.

*Include a feedback source in messages.* As feedback is vital to effective, high quality communication, managers should consider a built-in feedback mechanism into the messages they send. This can be done either by including a

request for feedback or by mentioning when and how receivers will follow up on the message. When managers write letters and memos or send faxes, they can request that the receiver should respond with comments and suggestions in a letter, memo, or fax, schedule a meeting to discuss the issue or follow up with a phone call.

#### **4. Managers as Receivers of Communication**

Since managers receive as many messages as they send, they must possess or develop communication skills that allow them to be thorough /effective receivers. It is important for them to pay attention, be a good listener, and be empathetic.

*Paying attention.* When faced with enormous workloads, managers are often forced to consider several tasks at once. In cases of multi-tasking, they sometimes fail to pay enough or adequate attention to the messages they receive.

*Being a good and empathic listener.* In order to be good listeners, communicators should refrain from interrupting senders in the middle of a message. This way, senders do not lose their stream of thought and managers do not reach wrong conclusions based on incomplete information. They should also consider asking questions so as to clarify points of obliterated meaning or confusion. Receivers are empathetic when they strive to understand the sender's feelings and interpret the message from the other's perspective, rather than view the message from their own standpoint.

According to Manning, Curtis, and McMillan, an effective listener will observe the following principles:

1. Follow closely the speaker's reasoning, weigh evidence and read between lines
2. Listen for central or overall ideas
3. Assess content by listening to entire message before making judgments
4. Withhold judgment until comprehension is complete
5. Give the speaker full attention
6. Fight distractions and concentrates on the speaker

7. Listen to both favorable and unfavorable information
8. Treat complex presentations as exercise for the mind

## 5. Conclusion

When all members of a team, company or organization are able to communicate effectively with each other and with people outside their department/ organization, they are much more likely to perform professionally and successfully. When the members of the organization are ineffective communicators, organizational performance is seriously impaired in many cases, poor communication sometimes can be a frustrating experience for all the people involved in the message sending and receiving process. Better communication results in increased morale, a more cohesive work climate, better interpersonal relations, and higher productivity. It also reduces errors and misunderstandings, while enhancing accuracy and understanding.

In the transition from interpersonal communication situations to mass audience settings, the process of communication becomes increasingly sophisticated, both strategically and tactically. The person taking on the task of a public presentation is confronted not with one or two message recipients, a straightforward and relatively simple communication process, but with an audience made up of a large group of members, each with his specific interests, different media exposure patterns, and unique interpersonal networks that ultimately influence the impact of mass media messages (see Selnow and Crano 47) The public communicator/presenter must consider the various characteristics of the media that convey the message. Since media time and space are expensive, choosing appropriate media channels is essential to achieve the greatest possible effect with the least possible expense. Choosing the wrong media combination involves unnecessary waste of money and reduced communication impact.

People with high media exposure (in business or politics for instance) acknowledge that they need to ensure the maximum possible effectiveness of their public communication plans. So it becomes increasingly necessary for them to master the art /science of

communication studies. The decisions concerning the approaches and the selection of the elements in a public communication campaign are most logically predicated on tested principles that have yielded success under diverse conditions and circumstances. To achieve success, the public communicator must rely on increasingly complex strategies to affect audiences and promote the success of a campaign.

## 6. References

- [1]Hargie, Owen, Dickinson, David. *Skilled Interpersonal Communication: Research, Theory, and Practice*. Routledge, 2003
- [2]Manning, Curtis, & McMillan. *Building Community. The Human Side of Work*. Cincinnati, Ohio: ITP,1996
- [3]Selnow, Gary W., Crano, William D. *Planning, Implementing, and Evaluating Targeted Communication Programs: A Manual for Business Communicators*. Quorum Books, 1987
- [4]Sims, Ronald R. *Managing Organizational Behavior*. Quorum Books, 2002.

## The Motivational Dominants of Communication in Crisis Situations

Lecturer Rus Mihaela, PhD  
Professor Ana Rodica Stăiculescu, PhD  
The Faculty of Law and Administrative Sciences  
Ovidius University Constanta  
psiholog\_m@yahoo.com

### Abstract

The attitude of the staff involved in public relations, communication methods, the personal specificity are important elements in the interaction with clients or beneficiaries. The satisfaction or dissatisfaction of a beneficiary sometimes depends largely on how he/she perceives such a relationship. Obviously, in this case, the staff plays an essential role; its style - manner of behavior, social attitudes, in general the overall structure of personality. Therefore, what motivates the employees has an important connection to how it relates to duties, to how it communicates and to how it relates to customers.

**Keywords:** motivate, customers, employees, communication.

**JEL classification:** J53

### 1. Introduction

The main problem that involves the study of communication is that of determining the content and means through which it is sent. Regarding content, it is extremely varied. Communication convey images, concepts, ideas - has informational content - it facilitates the expression of emotional behaviors, produces psychological dissonance or consonance effects of acceptance or refusal, match or mismatch (which is the affective-emotional content), is transmitted by communication needs, aspirations, impulses to action - motivational content - is initiated, the trigger or halt activities, there is resistance to efforts - volatile content. In conclusion "our mental life is specifically involved in human communication, it is differentiated by its contents expanded one held at intrauman. In

general, three types of information communicated:

1. Cognitive - sign language content;
2. indiceale - focusing on population in order to define and control role during communication;

3. injunction or conative - exchanged between interlocutors to advance communication to achieve a goal. To characterize and analyze any real crisis is needed employment in a typology. Synthesizing typologies made by several authors recognized, Cristina Coman four classification obtain crisis following criteria:

- 1) as causes (due to internal or external factors);

- 2) after run-time (sudden or slow);
- 3) scale (superficial or deep);

- 4) the level at which place (Operational - affecting normal operations, strategic - affects strategies, identity - affects the identity of the organization);

- 5) effects (affecting employees customers, partner organizations, part of the public etc.).

Proposing criteria, Newsom et al<sup>1</sup>. obtain two main categories of seizures, violent and nonviolent, each category having three subdivision respectively

- Products of crisis;
- Crisis produced by intentional human action;
- Seizures caused by unintentional human action;

Finally, running relatively the same idea of human action and using two axes classification (internal-external and non-

---

<sup>1</sup> Newsom, Doug, Scott, Alan, Turk, VanSlike Judy – *This is PR*, Belmont Wadsworth Publ. Comp., 1993, pp. 538-539

intentional), Coombs<sup>2</sup> six obtained four types of crises:

Accidents - internal, unintentional (seizures due to technical problems);

- errors - unintended actions of its members that an external agent seeks to turn into a crisis (doubt, hesitation, professional misconduct - for example, operated a medical mistake to affect hospital that has a post of responsibility);

- transgressions - intentional action committed by organizations that knowingly violate the rules of behavior previously assumed (bankruptcy banks or diplomas fake license);

- Terrorism - intentional actions performed by external actors in order to affect a given organization is directly or indirectly (attacks);

All these classification schemes can be used both as a tool to analyze real crisis, as well as support element in generating alternative plans crisis.

## 2. Crisis management

A recommended policy for resolving the crisis successfully is the first step in trying to avoid as much as possible. In a careful analysis of several situations public relations crisis in history has been found that even when production was unpredictable, the event itself was predictable (for example, when the shuttle Challenger were reported six months before the reactor technical problems). Politics avoid crises require identifying and tracking items that can change negative study of weak links of the organization. Fink<sup>3</sup> identifies several stages of a crisis:

a) preparation of financial crisis is the stage where it is possible to anticipate and avoid crisis

b) acute crisis: the trigger time, which can be overcome only if there is a crisis communication plan can be implemented;

c) Crisis chronic phase: a phase reaction occurring in government

investigations and public debate, and the organization is trying to restore balance and public image;

d) The end of financial crisis if it fails to keep the crisis under control (through sound management of the first two phases) then it is possible for the organization to achieve a shorter period of crisis that finally opens the road to the normality reintoacerea;

In his opinion Cutlip et al.<sup>4</sup> three elements are retained in connection with Information Center. First, it must be conceived as an information center public and therefore should not be superimposed nor the space nor the powers over press center. Secondly, the authors believe that there should be two teams working in this center, one to manage communication and another that coordinate and update information, taking in touch with the organization's leadership team. Ultimately such a center must have before triggering the crisis, the status of a source of reliable information, adequate circulation information yet to be achieved during routine organizational activities.

In within the organization, employees should be informed about this center and be encouraged to either provide information or to request information if needed.

Basically, the emergency communication will take place on several areas: the internal and external audiences, the actors and the media crisis. This last component is one of the most important. Experience has shown that most of the times organizations are concerned with emergency and support less work Documentation journalists. In this case, journalists are resorting to rumors or take a position from the organization, which contributes more to damage the image of it. Experts in public relations, in such cases to take the role permanently contact journalists to achieve the correct operational information transmission, accompanied by the organization's position in relation to ongoing events

---

<sup>2</sup> Coombs, Timothy – Ongoing Crisis Communication: Planning, Managing and Responding, London, Sage, 1999, pp. 454-455

<sup>3</sup> Steven Fink, *Crisis Management: Planning for the Inevitable*, New York Amacom, 1984, pp. 20-28, apud Cristina Coman, *Relațiile publice - principii și strategii*, București, Polirom, 2001, pp. 123-124;

---

<sup>4</sup> Cutlip și colab., *Effective Public Relations*, New Jersey, Prentice Hall, 1994

### 3. Research Methodology

#### 3.1. Scope of the study

This paper investigates elements of changing attitudes in the current context of a constantly changing economically and socially, how motivation may influence attitudes to work, where attitudes toward work involves customer service attitude.

#### 3.2. Participants in the study

Lot of subjects, was selected by stratified randomization of subjects all existing employees of different professions, employees in those organizations, in positions involving public relations so obtained is representative group specificities of the two organizations. Selected sample contains a total of 230 subjects, of which 120 in the state sector (50.8% representing 61 men and 59 women representing 49.2% and 110 private (50 men representing 45.5% and 60 women representing 65.5%).

Comparative study in terms of training shows that the state sector have a higher percentage of highly educated people on the private sector is the greater percentage of persons with secondary education.

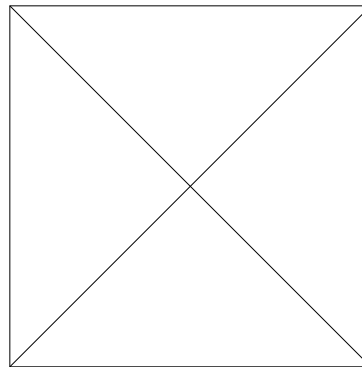
Depending on such subjects, where private institutions have a uni-modal distribution (module = 45 years) with mean age of 40.5 years, median 41.5 years and standard deviation of 8.65 years. The amplitude of this distribution is 39 years from a minimum age of 22 years and a maximum age of 61 years.

State institutions have a bimodal distribution (module = 48 to 50 years), left asymmetric with higher prevalence of age, with mean age 44.06 years, median 45 and standard deviation of 9.12 years. Amplitude distribution is 36 years, between a minimum of 24 years and a maximum of 60 years.

### 3.3. Objectives and research issues

This study seeks to establish a correlation between the dominant values and motivational orientation.

#### 3.3.1. Assuption



1. It is assumed that there is a link between the dominant motivational orientation and values;
2. Suppose that there are significant differences between men and women in the motivation and the value-orientation;
3. Type of institution and study motivation and orientation influence values

#### 3.3.2. Tools

The tools used are:

##### 1. OV questionnaire for measuring orientation values.

It comprises 32 items, each having a rating scale response from 1-7. Items are divided into three dimensions as follows:

Scale 1 - personal. This dimension focuses primarily on human values, to improve the system's reasoning and communication employees.

Scale 2 - yield. With this increased size is placed primarily on the values of productivity / efficiency, which means collective performance improvement.

Scale 3 – conservatism

##### 2. DM for dominance motivational questionnaire.

It comprises 32 items, each having a rating scale response from 1-7. Items are divided into four dimensions as follows:



Scale 1 - management (lack of power) - this being understood as a desire to influence those around them to mobilize its success or manipulating his personal interest;

Scale 2 - expertise (need for achievement) expressing this tendency or desire to excel in the activities they undertake, to be considered an expert, or be a professional man, the shadow' that influence decisions (expert professional)

Scale 3 - networking (need for affiliation) - which expresses the wish that the individual feels to establish and to demonstrate relations of friendship with others.

Scale 4 - Subsistence (lack of existence) - the concerns of the person for basic needs of existence such as rest, stability, money, food security.

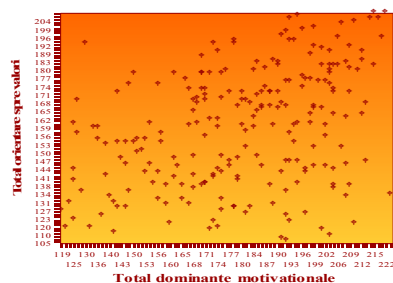
### 3.3.2. Data analysis and interpretation

#### Checking assumptions

The first assumption assumes that there is a link between work motivation and value orientation. To check it we used a correlational plan through which to establish the correlation between scores obtained by subjects in value-orientation and motivation score obtained at work. Since one variable is normally distributed, we used the correlation coefficient of Rank "rho" Spearman.

Between values and dominant motivational orientation there is a significant, positive and weak ( $\rho = 0.37, p < 0.01$ ). This shows that as motivation to obtain the high rate increases and the move towards true values of the company.

Figure 1 - Correlation between dominant value orientation and motivational



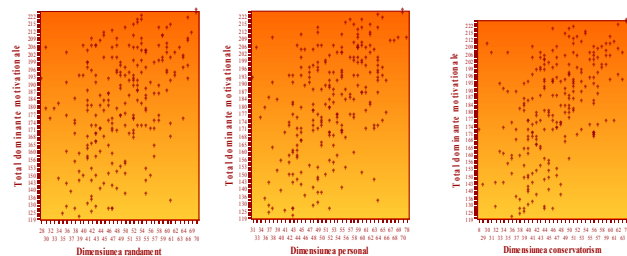
But we do not know which part of that motivational dominance orientation value subcomponents correlate each other dimensions. This will make correlations between each component of a total score of other sizes and dimensions.

Analysis we see that value orientation correlated significantly with all components positive and weakly dominant motivational orientation values as significantly correlated positively with the size and weak leadership ( $\rho = 0.30, p < 0.01$ ) with expertise dimension, ( $\rho = 0.38, p < 0.01$ ), the size relationship ( $\rho = 0.28, p < 0.01$ ) and subsistence size ( $\rho = 0.26, p < 0.01$ ).

Table 1 - Correlation between dominant motivational orientation and component values

Correlations			Total dominante motivationale
Spearman's rh	Total dominante motivationale	Correlation Coefficient	1,000
		Sig. (2-tailed)	.
		N	230
	Dimensiunea personala	Correlation Coefficient	,472
		Sig. (2-tailed)	,000
		N	230
	Dimensiunea randament	Correlation Coefficient	,402
		Sig. (2-tailed)	,000
		N	230
	Dimensiunea conservatorism	Correlation Coefficient	,531
		Sig. (2-tailed)	,000
		N	230

Figure 2 - Correlation between dominant motivation and attitude to change components



Studying other dominant motivational note that overall score correlated significantly with positive and low staff size ( $\rho = 0.47, p < 0.01$ ), yield size ( $\rho = 0.40, p < 0.01$ ) and size conservatism ( $\rho = 0.53, p < 0.01$ ).

The first assumption is fully confirmed, there is a significant link between work motivation and value orientation, and weak positive relation.

What the second assumption assumes a significant difference between men and women regarding work motivation and value

orientation.

The first variable orientation values are normally distributed and we use to verify the existence of differences, the test "t" Student of the significant differences between averages of two independent samples.

Table 2 - The difference between men and women in terms of orientation values

Independent Samples Test						
	Levene de egalitate a varianțelor	t de egalitate a mediilor				Sig. (2-tailed)
		F	Sig.	t	df	
Total orientate către valori	1,447	,230	,517	228	,605	
Variante egale			,516	24,365	,606	

The data obtained do not show any difference between men and women in terms of orientation values, views of the two populations are homogeneous in this respect. Since the second variable is normally distributed, the test "t" Student of significant differences between the average will not be relevant. I preferred using a nonparametric test and Mann-Whitney test the difference between ranks. Note the existence of significant differences between men and women in terms of motivation at work ( $Z = 2.59$ ,  $p < 0.05$ ) in the sense that the motivation of men is significantly higher compared to women's motivation.

To see which components of motivation differs between men and women have repeated the procedure for dominant motivational dimensions. Note the existence of significant differences between men and women in terms of motivation at work ( $Z = 2.59$ ,  $p < 0.05$ ) in the sense that the motivation of men is significantly higher compared to women's motivation. To see which components of motivation differs between men and women have repeated the procedure for dominant motivational dimensions.

Table 3 - The difference between men and women in terms of dominant motivational

	Test Statistic			
	Dimensiunea conducere	Dimensiunea expertiza	Dimensiunea relationare	Dimensiunea subzistenta
Mann-Whitney U	4650,000	5988,000	6327,000	5894,000
Wilcoxon W	11790,000	13128,000	13467,000	13034,000
Z	<b>-3,879</b>	-1,226	-,552	-1,410
Asymp. Sig. (2-tailed)	<b>,000</b>	,220	,581	,158

a. Grouping Variable: Gen

Note that only one component differs between men and women in this respect. It's about leadership dimension where men are significantly more motivated in terms of leadership in relation to women ( $Z = 3.87$ ,  $p < 0.01$ ). In other words, opportunities for leadership is a strong incentive motivational significantly more important for men compared with women.

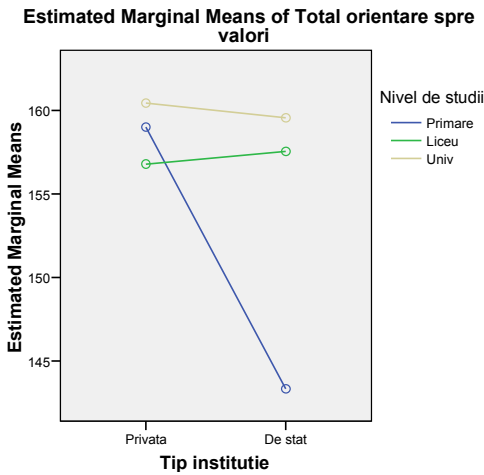
The second assumption is partially confirmed. I found that there are significant differences between men and women only in the variable "dominant motivation" where men are significantly more motivated compared with women. The dominant motivational components have shown that only component that distinguishes between men and women is the driving dimension.

The third assumption, that type of work and study motivation influences may be demonstrated by studying the effect that carries two independent variables, type of institution and study the dependent variable orientation on the dependent variable values and motivation at work.

Variable "type of organization" has two degrees of intensity: State institution and private institution and the variable "education" has three intensity levels: primary, high school and university.

For dependent variable "value-orientation" does not observe any significant effect caused by the existence of independent variables. There are differences of views in terms of studies or type of institution in terms of value orientation, which is observed in the figure below.

Figure 3 - Analysis of variance for value-orientation



Analyzing the dependent variable "dominant motivation" we find there is a main effect of variable studies ( $F(2,229) = 5.26, p < 0.01$ )

Table 4 - Analysis of variance for dominant motivational.

**Tests of Between-Subjects Effects**

Dependent Variable: Total dominante motivationale

Sursa	Suma patratelor tip II	df	Media patratelor	F	Sig.
Model corectat	11952,350 <sup>a</sup>	5	2390,470	4,559	,001
Interceptari institut	857964,492	1	857964,492	636,164	,000
studii	47,593	1	47,593	,091	,763
institut * studii	5516,706	2	2758,353	5,260	,006
Eroare	1927,467	2	963,734	1,838	,162
Total	117460,172	224	524,376		
Total corectat	534686,000	230			
Total corectat	129412,522	229			

a. R Squared = ,092 (Adjusted R Squared = ,072)

The variable "study" thus influence the dependent variable "dominant motivation. To see what is the meaning of this influence we used a test post hoc Bonferroni test. Is a similar test test test Bonferroni "t" in the study there significant differences in the environments of the three groups determined by the independent variable.

Table 5 - Effect of studies carried out by the dominant motivation.

**Multiple Comparisons**

Dependent Variable: Total dominante motivationale

Bonferroni

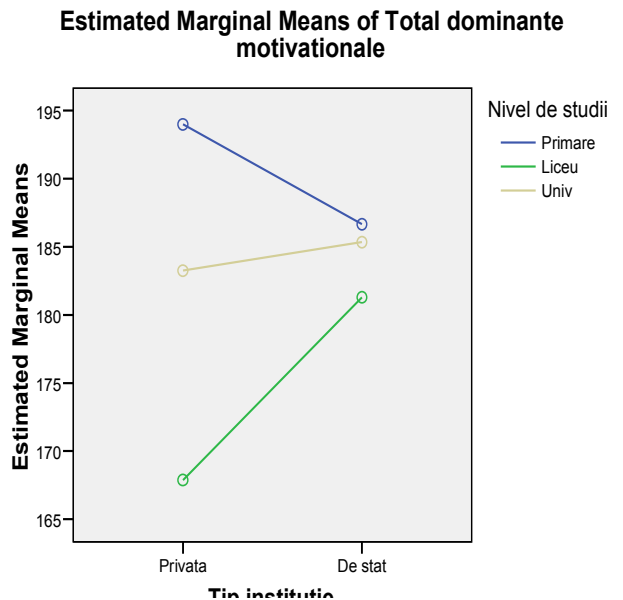
(I) Nivel de stuc	(J) Nivel de stuc	Mean Difference (I-J)	Std. Error	Sig.
Primare	Liceu	14,84	11,658	,613
	Univ	4,00	11,644	1,000
Liceu	Primare	-14,84	11,658	,613
	Univ	-10,84*	3,048	,001
Univ	Primare	-4,00	11,644	1,000
	Liceu	10,84*	3,048	,001

Based on observed means.

\*. The mean difference is significant at the ,05 level.

From the table above we see that the effect is caused by significant difference between those subjects with university and high school education (Bonferroni = 10.84,  $p < 0.01$ ) in the sense that those with university education have a significantly higher level of motivation compared with those who only graduated high school, something reflected in the figure below.

Figure 4 - Analysis of variance for dominant motivational



#### 4. Conclusions

In a special organizational dynamics, with profound changes in the state institutions and private companies, the question is, first, the rapidly changing attitudes. A special role in this direction has motivation as a factor influencing the attitude toward work. Moreover, we tried to separate and define the role and importance of motivational factors in influencing attitudes towards work in general. We chose a large sample to allow, on the one hand, comparative study for different categorical variables and secondly to ensure representativeness.

The purpose of this study is to identify the relationship between orientation to certain values and motivation at work. For this I left a number of assumptions that I assumed that gender differences in the motivation and value orientation, but that type of institution and level of education influences work motivation and value orientation. Following correlational studies have shown the existence of positive correlations between value orientation and motivational dominant. But correlation is not strong, only 13.6% of variation in how the two variables is explained by this correlation (.37 x0, 37). A high motivational level determined favorably values and vice versa, at low rates motivation involves an attitude characterized by values generally ignored.

While moving towards certain values significantly correlated with dominance motivation components, although the correlation, is positive, is also weak. Stronger motivation to work correlated with components of value orientation, although overall we are not dealing with a strong correlation.

Second assumption can be studied by inferential method. There were no significant differences between men and women in terms of orientation values, but these differences appear when we analyze and observe that the dominant motivation motivational men is significantly higher compared with women. Moreover, one motivational dimension that made the difference is related to driving. It seems that it meets the most part men compared with women. For the third case we found the existence of a single main effect, that exercised by the dominant motivation for studies. Under this effect, subjects with university education have a significantly higher level of motivation compared to subjects with high school

#### 5. Bibliography

- [1]. Coman, Cristina (2001), Public Relations - principles and strategies, Iasi, Polirom;
- [2]. Coman, Cristina (1999), Public Relations - media communication techniques, Bucharest, All, 1999
- [3]. Cutlip, Scott Center, Alan Broom, Glenn (1994), Effective Public Relations, New Jersey, Prentice Hall;
- [4]. Coombs, Timothy (1999), Ongoing Crisis Communication: Planning, Managing and Responding, London, Sage;
- [5]. Newsom, Doug, Scott, Alan, Turk, Judy VanSlike (1993) - This is PR, Belmont Wadsworth Publ. Comp., Pp 538-539
- [6]. Steven Fink (2001), Crisis Management: Planning for the inevitable, New York Amacom, 1984, pp 20-28.
- [7]. Zlate, M., (2000) "Foundations psihologiei", Bucuresti Pro Humanitatea.
- [8]. Zorlențan T., pommel, E. Căprărescu, G. (1998), Organization Management, Bucuresti, Economic.

# Data Equivalence in International Marketing Research

Rusu Sabina Mihaela  
*Doctoral School of Economics*  
*„Al. I. Cuza” University, Iasi*  
*mhl\_sbn@yahoo.com*

## Abstract

The field of international marketing research is a challenging one through its proportion and complexity. The model construct submitted for testing in an international research is more complex and difficult to manage as more factors and variables are interfering and the simple identification of all of them can be a real challenge. As the international environment is considered to be formed from a large number of diverse environments, the research design must prove its validity for any of these environments and also for the entirety, or for the international one as a whole. Also choosing a representative sample is usually confronted with limited resources and the samples used in international marketing research are often associated with research limits. The sampling encounters difficulties as much in sample size as in sample structure, due to the amplitude of international phenomena and to the large sample frame to which the research results must be extended. The research in the field of international marketing demands a higher degree of refinement as both global and local aspects, as well as the interactions between them, must be comprised in the analysis. But in spite of all of these impediments, the international research is gaining importance among the researchers, as more companies and institutions are targeting a bigger market. The paper covers the topic of international data equivalence by providing a conceptual base for international marketing research and emphasizes the importance and the specificity of this area.

**Key words:** international marketing research, data collection, data equivalence

**JEL classification:** M31

## 1. Introduction

Conducting a research on an international market is not the same with conducting a research on a domestic market. Although the research objectives are mostly the same, regarding the way to manipulate the marketing mix variables and whatever to enter or not on a market, the research environment is different and this affects the entire research perspective. The complexity of international marketing research is sustained not only by the different factors that must be managed in an international environment, but also by their increasing number [1, p.161; 2, p.135]. Following the same steps of the domestic research process, the international marketing research also has to consider for each of these steps the political, economical, legal, social and cultural differences across countries, being responsible at the same time for managing the research results comparability [9, p.113]. The researcher who attempts to analyze the international market has to be gifted with cultural sensitivity in order to comprise in his study all the relevant differences as well as all the relevant similarities. He has to have the ability to face up his “lack of familiarity with costumers, competitors and the market environment” [2, p.135].

As the “international research almost inevitably crosses cultural boundaries”, the data equivalence is a major issue of international marketing research [7, p.391]. \

Problems of data equivalence are accompanying the international research process from the first stages of defining the research problem and of secondary data collection to the final ones of primary results interpretation. In order to improve the international research accuracy and validity, the use of both secondary and primary data as well as the triangulation of quantitative with qualitative research methods is

recommended [2, p.145]. Unlike the domestic marketing research, the international one sets data equivalence utilizing different methods, instruments and techniques on different samples for the same purpose, depending on the cultural specificity of the sample.

But before exploring the subject of data equivalence, it is necessary to understand how international studies are being approached.

Sampling methods		
Sample type	%	Median sample size
Sample based on lists supplied by others	33,7	203
Judgment	15,1	135
Convenience sample	14,6	174
Probability sample	9,3	242
Financial data	7,7	197
Government data	7,0	154
Others	5,4	-
Census	1,9	351
Newspaper articles	1,6	186
Unspecified	3,7	-
<b>TOTAL</b>	<b>100</b>	<b>-</b>

## 2. How is the international marketing research approached?

The studies regarding the use of international marketing research are few, but the concern for this issue is increasing as more companies and institutions are becoming aware of the fact that this type of research is vital for accessing the global market (defined as the whole or the worldwide market, but not with the connotation of the homogeneous one) or for accessing the international one (defined as a set of multi-domestic markets). A complex study that examined this aspect is the one conducted by Yang Z. et al., who analyzed 1.296 empirical studies that were published between 1992 and 2003. The studies were extracted from six top international business journals (JIBS: Journal of International Business Studies; MIR: Management International Review; JWB: Journal of World Business; IMR: International Marketing Review; JIM: Journal of International Marketing, and IBR: International Business Review) and the content analysis has been applied. The results of the study are the syntheses in tables 1, 2 and 3.

The research results indicated that the data collection techniques mostly used are the survey

by mail questionnaires, followed by secondary data analysis and the survey using administrated questionnaires.

Table 1. Review of data collection methods  
Source: after Yang Z. et al. (2006)

Data collection methods		
Type of study	%	Response rate
Survey	60,3	-
Mail survey	37,6	27,4
Administered questionnaire	11,9	51,2
Personal interview	9,9	36,6
Telephone interview	1,0	45,2
Secondary data (database, case study etc.)	32,7	-
Other (e.g. content analysis, focus group, intercept, panel)	4,9	-
Experiment	2,1	-
<b>TOTAL</b>	<b>100</b>	<b>-</b>

on a one country sample can be explained through the difficulties and the costs implied in a multi-country sample.

Table 2. Review of data sources used  
Source: after Yang Z. et al. (2006)

The median sample size was 180 and the average response rate was 40.1%. Also the study conclusions reflected a big percent of international studies - 60,9% - that used just one

Data sources			
Countries sampled	%	Subjects used	%
USA	39,0	Managers/CEOs/VPs	49,5
UK	15,7	Individuals (e.g. consumers and citizens)	11,3
Japan	14,4	Financial data	10,3
China	10,7	Government data	10,3
Germany	9,5	Students	3,9
Canada	8,6	Journal articles	3,2
France	8,2	Product / sale data	2,1
Australia	6,4	Advertisements	0,8
Sweden	5,6	Newspaper articles	0,8
Holland	5,6	Other	7,8
Hong Kong	4,8		
Korea	4,6		
Italy	4,6		
Spain	3,9		
Norway	3,9		
<b>TOTAL</b>	<b>100</b>	<b>TOTAL</b>	<b>100</b>

country sample [8, p.612].

Table 3. Review of sampling methods used  
Source: after Yang Z. et al. (2006)

Another study conducted by Nakata C. & Y. Huang that analyzed 487 articles published in nine leading marketing and international business journals between 1990 and 2000, revealed a progress of international marketing research reflected in the diversification of topics and “the rise of analytical sophistication in quantitative studies”. But the authors also pointed out the factors that inhibit the development of international marketing research: the predominance of US researchers in the detriment of multi-cultural research teams, “the heavy reliance on analog frameworks, the simplest form of conceptualization” and the increased use of surveys that favor a lack of qualitative research and of multi-method approach to the international market [6, p.306]. The practical approach of international marketing research is evolving as the international businesses evolve themselves. The necessity of conducting international research cannot be denied any more, but the confrontation generated by time and financial resources, as well as by the need of researcher specialization in the international aspects, demanded in such a research, will still dominate a long time the practical way of approaching the international market.

### **3. Research hypotheses – the issue of equivalence at the basic stage of the research**

The equivalence of the research hypotheses refers to the full understanding of the research problem by all the researchers implied and also by the beneficiary of the results (the person or the institution that ordered the study), especially in the case in which the subjects are geographically separated and when they belong to different cultures. At this stage the equivalence is threatened both by the self-reference criterion (SRC) and by the lack of familiarity with the foreign environment that has to be investigated [1, p.164]. The SRC is represented by the people’s tendency to see all the situations in terms of their own background and to assume that a foreign environment can be interpreted in the same way as their local one. A four step procedure has been suggested in order to remove the SRC [4, p.66; 1, p.70]: 1) defining the problem considering the researcher’s own

cultural context; 2) defining the problem in the context of the foreign or international market that has to be investigated; 3) isolating the SRC, and 4) redefining the problem without the SRC.

The lack of familiarity with the foreign environment “can lead to false assumption and poorly defined research problems”[1, p.164]. Also, the lack of familiarity can favor the influence of cultural stereotypes in the research problem definition. The cultural stereotypes are general pictures that we have in mind about other cultures based on informal sources like movies one has seen, friends’ opinion and things that one often hears about a culture, short experiences like a trip in a country or an individual one once met that belonged to a certain culture. All of these can create false images in our minds as the means for a scientific validation of this information is missing. In order to define the research problem in a foreign context a foreigner or secondary data results may be used.

An example of a poor problem definition in international marketing research that had lead to false results is the study conducted by Reader’s Digest regarding the spaghetti consumption. They defined the spaghetti consumption as a measurement of packaged spaghetti sales and concluded that West Germans eat more spaghetti than Italians do. They obtained a false result because they didn’t consider the differences in buying habits when defining the problem: while West Germans buy packaged spaghetti, Italians buy much of their spaghetti fresh and in bulk, from local pasta shops. The conclusion is that preliminary information about the market such as consumption patterns, decision makers, business habits and others, are needed before starting the research and defining the problem [5, p.274].

### **4. Research design equivalence**

The research design equivalence comprises construct equivalence, measurement equivalence, scale equivalence and sampling equivalence.

Construct equivalence means that the researcher and the subjects understand a concept or a phenomenon in the same way. If they have a different perspective on the issue, this can have an impact on the functional equivalence, the conceptual equivalence, the definitional

equivalence, the temporal equivalence and the market structure equivalence. The functional equivalence refers to the functions associated with an action. For example shopping can be a servant duty like in some Asian countries or can express the function of a social activity like in some European countries. The conceptual equivalence means that a concept has to have the same meaning across countries. One of the reasons why the meaning may differ is the customer experience with a product. Reliable is a concept that can mean different things to a car owner in Germany, where sales of Mercedes and BMW are high, compared to a car owner in India used to a local brand of cars. The definitional equivalence relates to the categories used in order to group data, categories that usually differ across countries. For example family means parents and children in USA, while in others countries the concept includes also grandparents and other members of the extended family. A businessman has a high status in Europe, but this may not be the same in countries where status is based on education or caste. The temporal equivalence is affected by the reverse seasons between the southern and the northern hemisphere and by the fact that gift-giving seasons differ across countries. The perceived value of time also differs across countries depending on the time perception of each culture. The market structure equivalence is related to the infrastructure of the countries and the stage of development of the market [1, p.165].

The measurement equivalence has to take into account the calibration equivalence and the translation equivalence. The translation equivalence can be assured using translation and back-translation of bilingual translators, but as the meaning is more important than verbatim translation, the items must be included in pre-tests with respondents in the countries under investigation [5, p.296-297]. The calibration equivalence, also called the gradation equivalence, refers to the equivalence of units of measurement, procedures, safety standards, perceptual cues and all the other aspects that vary from one country to another. The translation equivalence can be analyzed in such aspects as lexical equivalence (whether the translations in dictionaries match precisely), idiomatic equivalence (linguistic usage natural to a native speaker), grammatical Equivalence (the

construction of sentences and word ordering), experiential equivalence (words have to relate to the subjects' experience; for example, in hot countries there is a larger number of words that express the degree of heat than the colder countries have) and character equivalence (for example the meaning conveyed by ideographs is highly contextual, while the meaning conveyed by words is less contextual) [1, p.166-167]. A special issue of measurement equivalence is the one regarding the unit of analysis. For example household definition and size vary greatly from one country to another [3, p.333].

The scale equivalence means not only the use of the same scale, but it also assures that the respondents attach the same meaning to each point in the scale. For example, Italians like the extremes, while Germans are more restrained. As a consequence Italians will mark toward the extremes of the scale and Germans the middle points of the scale, fact that has to be considered in the results comparability [5, p.295]. Another example is the Likert scale which has versions with 5 or 7 points in countries like UK, while other countries like Germany may use a version of 10 points. Also, there are substantial differences in the way in which the respondents use the scales. Some cultures favor the firm answers, while others prefer to be more equivocal. To reduce the differences in the measurement of terms interpretation, the use of pictorial scales in international research is recommended [1, p.167-168]. The type of scale used in international marketing research also has to be adapted to the respondents' level of education and to their experience with the product. For developing countries and for respondents not familiar with the product ordinal scales are recommended, or even the dichotomous scales (the simplest type of ordinal scale) in order to improve the response rate and the response accuracy [3, p.270]. In international marketing research the use of pan-cultural scales is recommended, the ones that are free of cultural biases. An alternative to such scales are the ones whose respondents are asked to set the anchors (the verbal descriptors for the extreme scale categories) before responding the question, in this way assuring the cultural equivalence of scale descriptors. Scale numbering must also be avoided as far as possible, due to the different association of numbers across cultures [3, p.299]. The use of



unstructured or open-ended questions is necessary when the researcher does not understand all the alternatives that may be associated with an answer in a different culture [3, p.334; 2, p.150]. Also, the questions have to be “culturally acceptable”, and the researcher has to take into account that questions that can be asked directly in some cultures must be asked in an indirect manner in others [2, p.150].

Sampling equivalence is difficult to be assured in an international context, and the problems appear from the first stage of defining the population. If the population is defined using external criteria like for example income classification, the samples risk being incomparable across countries because the same income group may have different lifestyles in different countries. Instead, the internal definition may include in the sample people with high interest for the product in some countries and people with low interest for the product in other countries. For assuring the sample comparability, the sample representativeness may also be sacrificed. It is more likely to achieve the comparability of samples across countries by using different sampling procedures, than by using the same ones.[3, p.366]. The equivalence of samples can be assured by making them broad enough to cover all the subcultures influences or by drawing specific samples representing the same subculture in each country, if a specific subculture is specific to the phenomenon under investigation (for example Bolivia nurses and Argentine nurses) [5, p.297]. Sample size depends on population variance which usually is unavailable. For achieving sample size comparability, the relative homogeneity or heterogeneity of markets can be compared. Often, markets that are familiar with a product are presenting more homogeneous consumer preferences than the markets in which a product has been newly introduced [3, p.390].

## **5. Data collection and research results equivalence**

In the international marketing research, data collection has to adapt to each specific market. As a consequence the questionnaires must be designed to adapt to a variety of administrative methods. In primary research, using local field workers may be an advantage, as they are

familiar with the local customs, but they must be trained in order to understand the research purpose and supervision is also necessary [3, p.440]. In collecting data it is more important to use techniques with similar reliability rates than to use the same technique but with high reliability differences across countries [2, p.154]. Surveys may need to be administrated in different ways, using telephone interviews, mail questionnaires, face-to-face questionnaires or on-line questionnaires depending on each specific market.

The interpretation of international research results can be affected by the selective perception of the researcher due to cultural biases. The Anglo-American researchers are in disadvantage in recognizing the cultural biases due to their lack of familiarity with other languages, fact that limits their cultural understanding. The correct interpretation of the data can be improved if at least one person from the team is familiar with the culture and business customs of that region [5, p.303]. The results equivalence may also mean preparing the final report in different languages and using different styles if the persons interested in the research results belong to more than one culture.

## **6. Conclusions**

The research in the international environment requires a completely new approach. Each step of domestic market research has its own particularities and more than that, rules that work well in the domestic market lose their validity in the international one. In order to manage the variety of the markets implied in the study, assuring their comparability is essential. Most of the international marketing research peculiarities rise exactly from this continuous effort to maintain data equivalence. Comparing samples different in size and sometimes different also in structure, considering different techniques of data collecting as similar in results and using the subjective concept of “culture” as a base of the research, with almost a different meaning in each different research, are just a few of them. But, as the market globalizes and as more businesses internationalize a full understanding of international marketing research becomes more than necessary.

## 7. References

- [1] Burca, S. et al., "International Marketing. An SME Perspective", Pearson Education Limited, Edinburg Gate: Harlow, 2004
- [2] Hollensen, S., "Global Marketing. A decision-oriented approach", 3<sup>rd</sup> ed. Pearson Education Limited: Madrid, 2004
- [3] Malhotra, N.K., "Basic Marketing Research. Application to contemporary issues", Pearson Education Limited: New Jersey, 2002
- [4] Malhotra, K.N. & B.C. Bartles, "Overcoming the attribute prespecification bias in international marketing research by using non-attribute correspondence analysis", *International Marketing Review*, vol.19, no.1, 2002, pp: 65-79
- [5] Mühlbacher H. et al., "International Marketing. A Global Perspective" 3<sup>rd</sup> ed. Thomson Learning, 2006
- [6] Nakata, C & Huang, I, "Progress and promise - the last decade of international marketing research", *American Marketing Association. Conference Proceedings*, no.13, 2002, pp:306
- [7] Salzberger, T & R.R. Sinkovics, "Reconsidering the problem of data equivalence in international marketing research", *International Marketing Review*, vol.23, no.4, 2006, pp: 390-417
- [8] Yang Z. et al., "A review of international methodologies in international business", *International Business Review*, no.15, 2006, pp: 601-617
- [9] Young, R.B. & R.G. Javalgi, "International marketing research - A global project management perspective", *Business Horizon*, no.50, 2007, pp:113-122

## Quality Assurance of Statistic Data of Romanian Tourism

Secară Mirela  
Nenciu Daniela

*Dimitrie Cantemir Christian University Bucharest  
Faculty of Management Touristic and Commercial Constanta  
mirela\_secara@yahoo.com  
nenciu75@yahoo.com*

### Abstract

The increasing attention paid to Romanian tourism revival asks for a more precise evaluation of the incoming cash obtained in this field of activity in order to underline the real contribution that it brings to our national economy. Tourism is considered, and verified as the main source of foreign currency incoming cash that can positively contribute to better balance external due payments, as it has already been the situation for countries with a tradition in tourism.

**Key words:** tourism, statistic data, Tourism Satellite Account (TSA)

**JEL classification:** L83

### 1. Introduction

Given the wide diversity of touristic services, the seasonal feature of tourism, various forms of tourism, as well as the range of quotes and tariffs that differentiate according to comfort level, forms of tourism and economic agents, the activity in this field is not to be characterized statistically by means of a single indicator, but by a system of indicators.

The increasing attention paid to Romanian tourism revival asks for a more precise evaluation of the incoming cash obtained in this field of activity in order to underline the real contribution that it brings to our national economy.

The natural and anthropic touristic potential available in our country justifies fully the present government's preoccupation to raise the bid of tourism both on the internal and especially on the international market. Tourism is

considered, and verified as the main source of foreign currency incoming cash that can positively

contribute to better balance external due payments, as it has already been the situation for countries with a tradition in tourism.

Firstly, a series of other priorities meant to contribute to the increase of Romanian tourism competitiveness are added to the national projects as follows: modernization and increase of comfort level of present accommodation structures and their expansion to areas and towns with touristic potential, yet lacking a certain level of comfort, the improvement of service quality and their diversification, expansion of the range of leisure activities for all touristic destinations, development of skiing areas that are not yet part of touring circuit, renewal of technical facilities of treatment bases and so on.

The result arising from these efforts constitutes the very economic achievements obtained that can be a stimulant to more native and international investors in a field of activity that proves its profitability.

Within systemic approach, tourism can be considered as one cybernetic system that is included in the national economic system and it is formed of a series of interconnected subsystems, whose state of functioning has been permanently obvious[1].

In order to propose, fundament and choose the optimum decisions, the management has to acquire continuously information on the status of the system, that is to gather data, systematize them, process and present them in the shape of indicators.

This system of indicators forms the main part of the statistic informational system in the field

of tourism and represents a component, a subsystem of indicators system of our national economy.

## **2. Organization and operation of the informational statistic system in tourism**

Touristic activity, as integrant part of the national social economical system, can be quantified and analyzed by using the entire statistic methodology, but it has to be particularized according to specific conditions and features of the touristic sector.

Statistic research of the touristic phenomenon requires developing certain stages as: statistic observation, that consists in gathering touristic information by using unitary methodology for all units of the researched collectivity regarding characteristics included in the research schedule; statistic procession, that consists in systematization of individual data gathered, calculation of statistic indicators, presentation of data under the shape of tables, series and statistic graphics; statistics analysis and interpretation that consist in data confrontation and comparison, hypotheses verification, draw of conclusions on the research and prognosis calculation[3].

In order to achieve an accurate statistic research in tourism, it is necessary to organize an informational statistic system to provide on a daily basis or whenever necessary, appropriate data to disclose to public opinion, state authorities, as well as to international institutions in the field of tourism that our country is affiliated to.

The above require that the entire activity of touristic statistics is developed with a systemic approach and is materialized in an open and dynamic system of indicators, as part of the national statistic informational system[2].

The informational statistic system of tourism comprises a system of indicators of the touristic activities that can be determined as: absolute indicators (global and medium) and relative (according to their intensity, structure, indexes etc.) These indicators are: indicators of the economic (supply indicators – technical material basis and the indicators of the work force); indicators of the economic results ( indicators of tourism incoming cash, indicators of tourism expenses, indicators of economic efficiency);

indicators of touristic circulation; indicators of the quality of touristic activity[2].

These indicators can be expressed in natural units, natural-conventional units and units of account.

The importance of elaboration of appropriate methodology, meant to provide statistic indicators with unitary content to the touring industry, that are comparable on the national level in their dynamics, is an intense preoccupation of the national and international touring organisms.

All of the above interests target to synthesize a broad system of statistic indicators in tourism, based on a rational database of gathered information and data that are necessary to adopt optimum decision regarding the future of the economical-organizational activity, linked to the future development of touristic industry[1].

As any other economic sector, touristic activity is evinced by the contemporary researcher as a large cybernetic system, whether it is a mere touring agency or the entire field of tourism as a branch of national economy. Economic units that are active in tourism develop their activity considering decisions of their economic management[2]. These decisions have to take into account the activity of economic prognosis elaborated according to analysis of recorded data of the so-called database.

Determination of economic effects resulted from touring circulation require access to detailed information concerning tourists' income, the currency they use, their manner of financing voyages (current income, savings, credits, rate payments). These data have to be compared to the touristic supply (material basis, level of quality, structure of services), divided on characteristic periods of touristic activity (top season, out of season), and this shall lead to more elaborate analyses and a more precise determination of the social-economic parameters that characterize touristic circulation[2].

In its entirety, the touring database is constructed as a vast recipient where all information and available data on touring activity gathered systematically, permanently and rationally accumulate. The more the information, the better the decision to be considered. Information record shall not be random, but according to wisely selected criteria

that are situated at the same level with the activity of each touring company involved.

Given the set of requirements, a comprehensive system of the national touring statistics can fulfill the following main functions as: an estimation, according to demand, of the volume and dimensions of the international and intern tourism. The basic information to achieve a connection between these two forms of tourism is provided by the number of visitors and days/nights of accommodation, the country of residence, duration of vacation, purpose of visit, transportation and accommodation choice, as well as individual expenses of tourists; information provided on the accommodation supply and on the other touristic services, analyzed according to geographic areas and resorts: capacity of accommodation, level of occupation, supply of services, available personnel and other aspects of touring companies; evaluation of the international tourism influence (incoming and outgoing) on the external cash balance and on the economy at large and including the effects of touring expenses on the income, the effectiveness and on the employment level in various sectors of production and services and on the profit obtained by the touring companies[2].

By analyzing aspects of the manner of obtaining touring information, it is important to have a certain quality of information interpretation, according to actual conditions of touristic activity, considering the following essential characteristics: content and form of touristic information; age of information; frequency of touristic information.

As concerns the content and type of information, it is important that all data reflect precisely the evinced touristic phenomena. The accuracy of touristic information is a function of the quantitative and qualitative expression of the analyzed phenomena, taking into consideration the possibility of verification of information source. Within the touring activity, because of its large scale performance, the possibility of control decrease with the large volume of data, and this requires a certain reliability, which is a higher probability of the gathered information.

The age of touristic information is measured by the period between the record time and the time of data use. The concept of touristic information use is relative enough since it comprises both the immediate use of data and

their adequate storage, with the purpose of their later use for various comparative analyses and tourism dynamic trends.

Within tourism, because of the seasonal feature of the activity and the fact that the medium vacation of tourists has a relatively short duration, the gathered information depreciates, at large, very rapidly. This fact implies a lot of reticent approach of the stored data and intensifies preoccupation to continuously update the database.

The frequency of touristic information refers to the rhythm this information complies with the conditions of interaction of the elements of rational organizational structure: operative touristic system (economic developing processes), the informational system (data procession and transmission) and the management system (information capitalization with a view to optimize solutions and elaborate decisions in touristic activity).

The above-mentioned interdependence leads to the fact that the frequency of information has to be organically fit with a well-established logic, in which the action – information – decision are useful parts to develop management activities in every touring company. As in the case of the information age, the decisive factor that confers usability to data is the processing method.

A special importance is given to the Tourism Satellite Account (TSA), which is a statistic method to pursue the estimation of tourism economic impact, by a direct comparison of the dimension of touristic sector with the other sectors of the economy, the result being the measurable degree of its influence. TSA has been created to provide a methodological unit in defining, gathering, analysis and interpretation of data at the national level.

Tourism Satellite Account shall provide aggregated macroeconomic indicators in order to describe the size and economic importance of tourism, as for example, the Added Value in tourism and how much is tourism contribution to GDP (other than national GDP), according to similar aggregate indicators for the national economy: detailed data on tourism consumption and the manner this consumption meets the internal supply, basic information necessary to develop patterns of tourism economic impact, to prepare analyses of touristic market, the connection between economic data and other

non-monetary information regarding tourism, as: the number of trips, duration of vacation, transportation.

Tourism Satellite Account (TSA) represents the most important statistic element to measure economic impact of tourism. Tourism is different of other economic activities by the fact that it does not comprise a single branch of activity within the National Accounts System. Consequently, there is a larger difficulty in the quantification of touristic sector within the national economy, and the TSA meets this challenge.

### 3. Conclusions

In conclusion, the informational statistic system in the field of tourism is formed of the following:

statistics obtained of reports addressing to visitors/tourists such as The Report of the Touristic Demand of Romanian Residents; statistics obtained from the touring companies: level of frequency of the accommodation structures; capacity of touristic accommodation existing as of 31<sup>st</sup> of July; touristic activities organized by the touring agencies; market research programs regarding the quantitative and qualitative analysis of touristic demand, economic

results and labor force in the accommodation units in Romania; statistics obtained from administrative sources – Romanian International Tourism; statistic syntheses; balance of payments; national accounts; other data providing sources.

Consequently, a more precise evaluation of the efficiency of touristic development is an objective necessity, a fact that requires a more accurate follow-up and record of the obtained results, especially of the foreign currency incoming flow obtained by economic operators in the field as: direct service providers, touring agencies etc.

### 4. References

1. Biji Mircea, Biji Elena Maria, Lilea Eugenia, Constantin Anghelache. *Trade Statistics*, Publishing House - Economic, Bucharest, 2002.
2. Biji Elena Maria, Lilea Eugenia, Rosca R. Elisabeta, Vatui Mihaela. *Statistics practice in economy*, Publishing House - Universal Dalsi, Bucharest, 2000.
3. Biji Elena Maria, Secara Mirela, Popa Gratiela, *Statistics*, Publishing House - Ex Ponto, Constanta, 2006.

## Gaining Customers` Trust In Online Stores

Anamaria Severin-Humelnicu, PhD. Student  
*Transilvania University of Braşov*  
*anamaria.humelnicu@unitbv.ro*

### Abstract

Trust is very important in running businesses on the Internet. It plays a significant role in the actions a consumer undertakes in the online purchase process. An online store will never reach the desired level of sales until it gains the trust of its consumers. Building confidence is the key of succes in electronic commerce. Therefore, any online retailer should strive to achieve this goal.

**Keywords:** consumer, electronic commerce, confidence, products.

JEL M31

### 1. Literature review

Online shopping is different from shopping in traditional stores. The main difference is the uncertainty that appears in the purchase process. Therefore, trust is an important factor that facilitates online transactions. Most studies have shown that confidence plays a significant role in the actions a consumer undertakes in the online purchase process. Gaining customers trust equals with increases customer confidence intention to buy a product from an online store.

In the literature, the concept of trust in the offline and online medium has been extensively discussed. According to Srinivasan (2004), two major factors contribute to the success of electronic business: the trust people place in the online businesses and how secure they feel when doing business on the Internet. [14]

Martínez-López and Montoro-Ríos define trust in Internet shopping as the consumer's perceptions regarding the credibility or reliability of shopping over the Internet. Building strong customer relationships is the key to a successful marketing strategy. [10]

Prasarnphanich shows that when customers build their trust in a retailer, they are more likely to see value in the relationship with the retailer, they want to maintain the relationship, and commit to that retailer. [12]

Credibility and trust are very important for success and although intangible, essential to any online transaction. Credibility comes before trust and is part of building trust. Claxton stated that credibility is a major issue that a company has to overcome before it can do business on the Internet, because online visitors can't look you in the eye or gauge your handshake to determine your trustworthiness. [2]

Srinivasan (2004) stresses the importance of gainig consumers` trust in order to be highly successful. [14]

A lot of researchers view consumer trust as the most critical factor in a consumer's selection of an online store. If a consumer perceives trust in an online vendor, its overall satisfaction will be greater.

Researches like Chow S. and Holden R. have found strong relationships between trust and customer loyalty. [1]. Daemen concludes that in general, customer satisfaction is shown to positively relate to consumers' overall trust in a business. [4]

The study of Connolly R. and Bannister F. provides evidence that consumers' trust in Internet shopping is the result of specific factors, the first of which relates to the vendor's perceived integrity (social antecedents of trust), and the second of which relates to the vendor's perceived competence (the technical antecedents of trust). Both of these factors are within the control of the online vendor. An online vendor can convey a perception of integrity by providing clearly defined terms and conditions regarding transactions and by providing customers with guarantees that their rights are protected. By providing a

web interface that is easy to use, reliable and secure, it is possible for the online vendor to convey a perception of competence. [3]

A research conducted by Hoffman, D., Novak T., Peralta M. reveals that this lack of trust that consumer feel, arises from perceived lack of control over the access others have to their personal information during the online purchasing process. [6]

In a research conducted by Mukherjee and Nath (2003) perceive trust as a driver of customer relationship commitment. They demonstrate that trust has a significant positive influence on relationship commitment. [11]

It is very difficult to convince the online visitors that the online store is trustworthy and assure them that that the online entrepreneur has good intentions. It takes a long period to build credibility and trust, but unfortunately just a few seconds to destroy it. Hoffman et. all concluded in their paper that consumers simply do not trust most web providers enough to engage in "relationship exchanges" involving money and personal information with them. [5]

## **2. The role of trust in online business**

The virtual market changes the power structure of the participants. Online market allows customers to compare products and prices without any big effort. Online stores should provide high quality products at lower prices than in offline stores. Customer can by just one click to move to the competition. Often the reason for not buying online is not the price of the products, but the lack of services for the customer. Because of the lack of communication between client and vendor, the confidence in electronic commerce is still low.

Srinivasan (2004) identified several factors that significantly contribute for enhancing transaction trust for consumers. This factors are: easy access to description of products and services; ease of placing orders; order confirmation; order tracking and post-sales service. All of these factors are centralized around overall customer satisfaction when dealing with an e-business [14].

Consumer behavior in the virtual environment is not completely different from the behavior of the physical environment. The virtual medium has a disadvantage which online stores managers must know how to face it. In general, customers need confidence to buy, but to gain consumer

confidence online is more difficult than offline, because electronic commerce means having no contact with the store staff and not touching the products which a customer wants to buy. Therefore, customers want to know as much as possible about a product and about its features. Detailed product descriptions and images posted on the stores` website will help customers buying online. By offering this information, customers level of trust in the online store will grow. Rowley (2000) also recognized the need for online companies to generate trust so that consumers may develop purchasing processes on the websites. [13]

The online store`s reputation contributes directly to gaining customer confidence. A well-known store will be more successful in obtaining the trust of new customers. New, unknown stores can poorly convince visitors, because people often doubt that the online shop is a trustworthy one. People are influenced by what they hear. If they hear repeatedly about the unfair business practices conducted on the Internet, their perception of electronic commerce will be strongly influenced.

Customers are searching on the internet for certain products, but often they interrupt the process of purchasing online because they do not find the product they are looking for, whether the price is too high. However, the main reason for deciding not to continue a purchase is the lack of confidence.

Generally, because of the lack of trust in online stores, customers prefer to pay only when the goods are delivered. This payment method offers him the certitude that he gets the products he has ordered. Not everyone wants to pay online by card, because they fear fraud. The vast majority of Romanian online shops accept cash payment. This is a secure method for buyers. They fear that the personal data they provide may be transferred to others or that their products will not be delivered and the money will not be returned.

Late deliveries, extra delivery costs which are not listed on the site, or untrue information about products affect the trust consumers have in online shops.

It should be noted that most buyers react to opinions of other shoppers. A dissatisfied customer who has encountered a problem



when buying online will tell at least ten other people, which also will inform further persons.

It is worthy of mention that for trusting an online store, a person must have confidence in the technology itself and generally in the virtual environment. A study conducted by Martínez-López and Montoro-Ríos aimed to demonstrate that consumer trust in the Internet as a shopping medium is affected by the overall opinion that consumers have about this medium in general. [10] Lee and Turban (2001) also note that trust in shopping through the Internet is a bidimensional construct formed by trust in the online businesses and trust in the Internet as a purchasing medium. [8]

### 3. Managerial implications

Especially when doing business on the Internet, customer confidence is very important. An online store must succeed in convincing consumers that is trustworthy, reliable and safe. Traditional mechanisms of building trust and eye contact disappear online. According to Koufaris, trust in the company is an important determinant of customer retention and intention to buy. [7]

One method by which online stores can gain the trust of its customers is posting on the website the real price of their marketed products. They should clearly indicate whether the price listed there is the final price, or if the price will be increased due to delivery charges or other fees. If other charges should occur, the total amount must be indicated precisely.

Trust depends also on how much do managers invest in promoting their online store. There are a lot of ways to promote a website. The most used is submitting the website to search engines. Lack of confidence is due also to lack of promotion of electronic commerce.

When creating their website, online entrepreneurs should remember that they have to create customer confidence and a positive impression at first sight. A visitor takes some seconds to decide about the seriousness of the store when browsing the website. Customers feel whether they can trust or not the company that manages that website. The quality of a website is determined by the degree of usability of the site. Thus, a high quality website means for consumers to find easily information they seek. Consumers are also demanding for a simple ordering process. A good website means an attractive web design, functional pages, but also

minimizing loading times of pages. The website is a reflection of all store activities. Therefore, all site content must be updated regularly. Koufaris stated that if customers find a company's web site easy to use and useful, they will perceive the company as being more trustworthy. The effect is significant even after the first customer visit to the web site. Lohse and Spiller (1998) suggest that improving the browsing and navigation capabilities of stores and especially product lists can generate significantly higher traffic and sales per store. Larger stores attract more traffic, but this traffic does not necessarily mean higher sales. One reason for this outcome is that consumers may not find the products they are looking for in larger stores. [9]

Customers feel attracted to an online store and gain confidence when they have the feeling of purchasing online superior quality products. The consumer can not see and touch the product he wants to buy before it gets delivered, and therefore the fear exists, that the product is not like he desires. A large description of the product, including pictures, or even descriptive videos will always help deciding to make the purchase.

A website which contains clear information about products may be similar to a traditional store, where the visitor can be advised by the responsible person. Visitors can be advised also in an online store, using telephone, e-mail or chat. When a online store offers the possibility to use chat, the visitors know that their queries will be answered immediately by the one responsible for the customer support. If a customer needs additional information about products or he wants to place an order using e-mail, the response he receives must be prompt and conclusive. If a customer requests a response to a question, it must come within 24 hours. Placed orders must be confirmed immediately. The speed of the reply will be seen as an indicator of how important the individual customer is for the company.

Confidentiality is very important in running their businesses on the Internet. Information that vendors receive from customers has to be kept confidential and protected from unauthorized access. Online

shoppers care a lot about their privacy. To reduce suspicion and to be closer to the customer, every online store should inform the shoppers on site that the company respects their personal data. If the online store collects confidential information from its customers, then an SSL Certificate (secure sockets layer) is vital. The information is transmitted through an encrypted link so that the data cannot be stolen. When building a website, the company's Terms of Sale and Return Policies should not be forgotten. Lohse and Spiller (1998) believe that stores having a „Frequently Asked Question – section“ generate more visits per month, compared to those stores without this section. [9] In addition, some online shops provide a statement of ethics. It is very important that a company provides contact information (company name, e-mail address, telephone number).

Gaining customer confidence means to induce a feeling of safety to online visitors. Companies that are able to obtain customer confidence will have nothing to lose, they will only benefit. Managers must take appropriate measures for building trust and to change negative point of views about online stores. They should strive to transform potential customers into actual customers.

An online store will never reach the desired level of sales until it gains the trust of its consumers. Building confidence is the key of success in electronic commerce. Therefore, any online retailer should strive to achieve this goal.

#### 4. References

- [1] Chow, S. and Holden, R., "Toward An Understanding of Loyalty: The Moderating Role of Trust," *Journal of Managerial Issues*, 1997, pp. 275-298.
- [2] Claxton L., Woo A., How to say it-, Marketing with New Media- A Guide to Promoting Your Small Business Using Websites, E-zines, Blogs, and Podcasts

- [3] Connolly R., Bannister F., Consumer Trust in Electronic Commerce: Social & Technical Antecedents, *World Academy of Science, Engineering and Technology*, nr.34, 2007
- [4] Daemen D., Trust: The Key to E-Business Success. A study of the antecedents of consumer trust in e-business, 2008, accessed at: <http://people.stfx.ca/~Final-BSAD%5B1%5D.415%20Research%20Paper.doc>
- [5] Hoffman D., Novak T., Peralta, M. "Building Consumer Trust in Online Environments: The Case for Information Privacy", 1998
- [6] Hoffman, D., Novak T., Peralta M., *Communications Of The ACM*, vol. 42, nr.4, 1999
- [7] Koufaris M., Hampton-Sosa, W., Customer trust online: Examining the role of the experience with the web site, working paper, CIS Working Paper Series, New York, Baruch College, Zicklin School of Business, 2002
- [8] Lee, M. and Turban, E., "A trust model for consumer Internet shopping", *International Journal of Electronic Commerce*, vol. 6, nr.1, 2001, pp. 75–91.
- [9] Lohse, G. L. , and Spiller, P., "Electronic Shopping: Quantifying the Effect of Customer Interfaces on Traffic and Sales," *Communications of the ACM*, vol. 41, nr. 7, 1998
- [10] Martínez-López F., Montoro-Ríos F., Modelling Consumer Trust in Internet Shopping based on the Standard Learning Hierarchy: A Structural Approach, accessed at: [http://jib.debi.curtin.edu.au/iss02\\_lopez.pdf](http://jib.debi.curtin.edu.au/iss02_lopez.pdf)
- [11] Mukherjee, A., Nath, P., „A model of trust in online relationship banking“, *International Journal of Bank Marketing* vol.21, 2003, pp. 5-15
- [12] Prasarnphanich P., Does Trust Matter to Develop Customer Loyalty in Online Business?, accessed at: [http://www.ijcim.th.org/v15nSP4/P23SEARCC\\_DoesTrustMattertoDevelopCustomerLoyalty.pdf](http://www.ijcim.th.org/v15nSP4/P23SEARCC_DoesTrustMattertoDevelopCustomerLoyalty.pdf)
- [13] Rowley, J. , "Product searching with shopping bots", *Internet Research: Electronic Networking Applications and Policy*, vol.10, nr.3, 2000, pp. 203-214.
- [14] Srinivasan S., Role of trust in e-business success, *Information Management & Computer Security*, vol.12, 2004, pp. 66 - 72

## What Can Be Done About the Situation of SMEs Today?

Sima Mihaela-Georgia  
*Bucharest Chamber of Commerce and Industry*  
*georgiasima@yahoo.com*

Barsan Simona-Clara  
*Research Institute for Analytical Instrumentation Cluj-Napoca*  
*simonaclara\_barsan@yahoo.com*

### Abstract

The article deals with the analysis of the main variables that significantly influence the competitive positioning of the companies and their evolution, emphasizing the strong connections among management, environment and performances.

This analysis is based on a research carried out on 614 Romanian SMEs, within one of the authors' doctoral program and is targeting to offer new perspectives over the factors that affect the enterprises behaviour and what are some of the options that the present managers can apply in a more and more dynamic environment in order to meet appropriately the stakeholders expectations.

**Key words:** SME, management system, crisis

**JEL classification:** M10

### 1. Introduction

SMEs are important for Europe. These enterprises account for a significant amount of European work experience and economic activity. Furthermore, SMEs make an important contribution to the dynamism and innovative performance of an economy, thus enhancing economic growth especially in the medium and long term.

Romanian government should confer great importance to SMEs, since they represent the base for developing a dynamic economy at a competitive level. European Union (EU) experience shows that SMEs have an important contribution to GDP growth, increasing employment opportunities and boost exports. SMEs have the ability to respond in a very flexible manner to market challenges, adapt quickly to cyclical and structural changes of the

global economy.

The SME sector can thus enhance the well-developed macro-economic stability and growth.

### 2. General overview

The EU economy counts over 20 million enterprises, over 99% of which are SMEs. Within the SME sector, the vast majority (92%) are micro enterprises, having less than 10 occupied persons. The typical European firm is a micro firm. With the exception of Liechtenstein, the situation is the same for all EU partner countries [1].

In Romania the number of SMEs situates a little over a half a million which is below EU average. In terms of weight and proportions, the figures vary is not importantly significant: 90.38% are micro enterprises, 7.71% are small, 1.59% are medium sized and only 1931, respectively 0.31% are large companies.

In February 2009, there were 600 000 SMEs in Romania, but 100 000 SMEs went bankrupt in the first half, most businesses facing sales decrease between 21% and 50%. In Romania, 90 000 firms appear each year, while 40 000 go bankrupt. Currently, the difficult economic situation has increased the number of bankruptcies (30-40%) and for 2010 is forecast at a rate of 15-20% compared to 2009. Among the measures companies have taken to reduce the impact of economic crisis: 36% have reduced administrative costs, 19% have reduced the number of employees and 9% lowered the income of their employees.

Underdeveloped entrepreneurial base is a serious problem for the country's economic development, especially within the underdeveloped areas. Many SMEs end their

economic activity in the first year of its establishment, particularly because the lack of financial support, business support services, entrepreneurial skills and limited work experience and lack of information on market demands.

SMEs have a lower productivity than large enterprises, as follows from the fact that SMEs contribute a lower share to value added (58%) than to employment (67%). Productivity is lowest in micro enterprises. They (micro enterprises in particular), also present lower profitability and smaller employee compensation than large enterprises.

At the same time, micro enterprises appear to have a propensity to invest that is significantly above the average of the economy (23 % versus 18 % for large firms in terms of value added). This phenomenon is not yet clearly understood (data on this became available only recently) and should be further investigated. However, it could point at a high knowledge intensity of micro firms accompanied by a high level of investments, a higher tendency to absorb uncertainties in the market through new investments, a rejuvenation of business affecting the production function of industry in the way of "creative reconstruction". All these explanations suggest a significant contribution of micro-enterprises in the dynamic EU economy.

As SMEs are more dependent on external sources of funding, it is clear that the current financial crisis has a strong impact on them. Traders face greater problems than in previous years: difficulties in obtaining credit and a large number of taxes. Analysis made on the needs of SMEs have showed there are huge difficulties in accessing credit from commercial banks and repayment, since those are reluctant to according loans to start-ups that present high associated risk, very stringent warranties being requested.

In a globalizing economy, where large incumbent firms are able to outsource and offshore production and employment to lower cost locations, SMEs are an important source of employment.

At the macroeconomic level, there has been noted the need for the industry to re-become the heart of European recovery, highlighting the role of SMEs. On what kind of scenarios will this "New Deal" industry be based on? First, on a regulatory framework and incentives to encourage innovation, simplifying the access to financial resources and developing the "Key

Enabling Economy." Innovation requires reordering and improvement, understood as a growth of government efficiency. The fight and sensitivity of Europe with regard to late payments of loans that SMEs claim to the government are well known. It also required a new policy to promote trade with foreign partners (China for example), so that European companies will be able to export know-how rather than passively suffer the reverse process. To restart the economy, tourism needs to be also restarted, so that it becomes a handy tool for providing income. Location is also fundamental to industrial economic system development.

In addition, SMEs serve as a key mechanism facilitating knowledge spill-over from the organization where knowledge is created to the organization where it is actually implemented and commercialized. The contribution of SMEs to facilitating spill-over is confirmed by a wide set of studies finding an empirical link between various measures reflecting entrepreneurial activity and economic growth.

Globalization forces Europe to focus on finding a way to create better opportunities for companies to establish new collaborative environments including the competitors, having as objective building strategies for environmental security, social responsibility and marketing strategies connected to and for the consumer, led by strong technological integration, using ICT tools and the approach focusing on individual progress, in order to respond to the intensive progress of countries like China, India or Brazil. Collaborative environments that use ICT tools [3], but are focused on individuals, will allow better use of opportunities offered by global markets. Furthermore, instead of considering the global powers as a threat, European companies should take advantage of them and create innovative products or services.

With the development of innovative inter-firm collaboration, Research and Development activities imply the process of attracting innovative SMEs, universities, public administration and so on. Promoting innovation is a priority of the new Regional Development Programs of the European Union. Framework Program 7 (FP7) contains the incentives for innovation and has as one of the objective and that in 2020,

collaborative work environments will offer ubiquitous hardware and software infrastructure made out of resources providing a new range of oriented activities, software flexible services depending on the context, supporting models of human interaction, human robot interaction and the collaborative devices, which all interact in a dynamic and proactive [3].

Promoting entrepreneurship, quality assurance and quality management in the SME sector, represent areas that especially require the development and implementation of evaluation systems and procedures, management and quality assurance business activities, as well as the professionalization of management.

### 3. Management system analysis

Business activity takes place in a strong uncertainty and risk. This means that companies no longer can be programmed to work in conditions of certainty for the activity is influenced by many unmanageable factors. The solution is to pertain to *planning* as a compromise between the needs and knowledge possibilities and should always be supported and completed by research and studies. Crisis Management acquires new dimensions to the strategic and operational level. In what *forecasting* function is concerned, processing priorities or successions, regardless of field, become essential. They have superior value to plans specific timeframes or activity program. Transition, from strategic planning to strategic vision is compulsory. Thus, strategic planning is based on a realistic assessment of what can be done within the organization and on detailed planning of strategy implementation. In this respect, the strategy contains many details, as a guarantee of achieving it. Hierarchical strategy undermines competitiveness and leads to demobilization of a large number of employees who no longer recognize their goals within those of the organization. They no longer actively, consistently involve themselves in achieving those objectives. Strategic vision, in exchange, requires management to set a number of goals for the organization and create networks to build necessary competencies, but leaves the decision on how to actually achieve/obtain those to the various organizational levels within the organization.

It can be seen that strategic vision transfers management goals to operational levels, using

the most appropriate ways and not through successive derivation.

In what the *global strategies* [8] are concerned, only 70% of businesses actually have global strategy formulated, but not necessarily in a scientific way. In what process components, as well as at organizational level, partial strategies are formulated (30%). Regarding the *objectives* set, most of the companies aim to maintaining their present level and as specific objective, the first place is occupied by increasing sales volume (77%).

In what the *methodological system* is concerned, even though partially, companies use methods and management techniques. Far more important is the fact that those are used in a very small professional manner. Available resources should be harmonized with the objectives, so as to achieve maximum possible business efficiency. Delegation should be promoted and the "descent" of managerial actions and all functions at the level of operational centers and direct executants. In summary, decentralization is recommended as a way of strengthening the top management.

In what *organization function* is concerned, it is necessary to define and redistribute tasks at all levels. The old hierarchical organizational structure, with a large number of levels, is flattening. In multilevel hierarchical structures, problems are solved sequentially; top-level decisions pass through all management levels, to reach to the subject of decision. Management with many hierarchical levels does not ensure effective control by the top management regarding the circumstances in which changes are happening at the bottom levels. The time in which orders are transmitted and reports on their implementing effect are received is relatively long, in the same way as the length of change is larger than the responses to change.

In what *research and development*

*function* is concerned, design activities, as well as those of management organization, labor and production, are poorly covered by procedures. *Marketing activity* is conducted largely empirical; however it contributes to deliver superior results in 38% of the cases. *Supply and distribution*, respectively the calculation of raw materials needs and signed contracts for selling the finished production, are mostly based on orders rather than on forecasts of potential contracts signed without preliminary order. *Production* is only 37.5% fully regulated by procedures and its cost is determined by expenditure and revenue (43.4%), the existence of a profit (23.8%), norms of production (8%), market dynamics (7%) or the nature of the product (17.8%). *Financial function* shows that: 67% of the companies had hand over their balance in 2009 and intends to do the same in 2010, taxes are determined in accordance with tax laws in 34% of cases, security of assets is provided at a rate of 56 %, the system of financial records is mostly electronic and data are communicated to managers under the form of reports and briefings.

*Coordination* imposes the strengthening of horizontal linkages among departments of same type or those with convergent goals. The preparation of management decisions should be initiated at the lower levels, since decisions' quality is determined by the degree of vertical coordination.

*Involving and motivation*, as management function is carried out based on priorities set by forecasting function. Long-term forecasts, regarding strategies and policies, usually on shorter periods of 2-3 years are less formalized, their establishment involving fewer people. In developing annual forecasts it is observed a broadening circle of decision, including employees. Motivation is essential and requires the use of leverage and adequate means of stimulating the personnel. Factors that have proved to be most effective are: attribution of responsibility, delegation of authority, salary, supporting employee to developing a career, ambition, allowing employees to build a reputation, the degree of safety ensures by the company, company policy framework, rewards, adapting working programs to employees' interests, rational use of geographical factors.

At control function level, management processes are under the impact of TQM methodology [2]. Total quality is a goal, an

objective which must mobilize all elements of the unit. Total quality is an organization approach, an effective propinquity to professionalism and success. It refers not only to a product or certain products, but to the entire activity of an organization, to what it can or should do to crucially influence not only clients' opinion, intermediaries or end beneficiaries, but also its entire reputation.

As regards to *information system*, it is necessary to facilitate the movement of information from and to hierarchical interested levels so as they function effectively, the implementation a system able to remove interference from the communication channels, avoiding overcrowding persons with some unnecessary information, information that does nothing else but occupy their time and to diminish work efficiency. Furthermore, the computerized system within enterprises should be encouraged, so that it can ensure communication and storage of essential items.

SMEs *human resources* development must be sustained (managerial and operational) in order to adapt them to structural changes within the labor market and Romania's strategic priorities to achieve progressively the medium level of development from EU Member States, with stress on managerial skills development, quality management, human resources and assistance on human resources development (development of human resources strategies, training needs evaluation, training plans, exchange of best practices in human resource development).

#### 4. Conclusions

Within the economic crisis context it is necessary to rethink the management process and in particular the introduction of changes in managerial functions. At the basis of all the steps lies the innovation process. Edmund Phelps [6] stated that "innovation is one of the things we can do to reactivate economic activity level. Confidence in innovation and change is also suggestive expressed by famous scientist Albert Einstein [9] who says: "do not pretend that things would change if we do the same thing

all the time."

Within this paper we have presented a global perspective of the strengths and weaknesses from a large part of companies from Romania, information that could represent the starting point in designing clear strategies, able to offer the necessary answers for the challenges that the managers have to cope with during the crisis period.

## 5. References

- [1] Audretsch, D., Van der Horst, R., Kwaak, T., Thurik, R., Annual report on SMEs, disponibil la: [http://ec.europa.eu/enterprise/policies/sme/files/craft/sme\\_perf\\_review/doc\\_08/spr08\\_annual\\_reporten.pdf](http://ec.europa.eu/enterprise/policies/sme/files/craft/sme_perf_review/doc_08/spr08_annual_reporten.pdf), 2009
- [2] Falniță E., „Managementul total al calității”, Editura Mirton, Timișoara, 2007, pag. 39,
- [3] European Commission, “ICT - Information And Communication Technologies, Work Programme 2009-2010”, Agreed by ICT Programme Committee, from: (<http://cordis.europa.eu/fp7/ict/>), 2008
- [4] Hölzl, W., Peneder, M., Silva-Porto, M., “The economics of entrepreneurial activity and SMEs: policy implications for the EU”, WIFO, mimeo, 2008
- [5] Ivan, I., Ciurea, C., “Collaborative Systems, Information Systems and Operational Management”, Workshop ISOM., 2007
- [6] Pârvu, F., Olaru, S., „Managementul întreprinderii”, Editura Lumina Lex, București, 2008
- [7] Nicolescu, O. Verboncu, I., “Fundamentele managementului organizației”, Editura Universitara, bucuresti, 2008
- [8] Verboncu, I, Nicolescu, O, Popa, I., Nastase M., “Analysis of the Industrial Enterprises Behaviour”, Revista de Management Comparat International, vol.10, Bucuresti, 2009, pg. 669-672,
- [9] Ziarul „Săptămâna financiară”, 11mai 2009 pag. 10-11

## Impact of knowledge based economy on career

Sîrbu Mirela

University of Craiova  
[mirsirbu@yahoo.com](mailto:mirsirbu@yahoo.com)

Roșca Doina

University of Craiova  
[doina.rosca@gmail.com](mailto:doina.rosca@gmail.com)

Mangra Mădălina Georgiana

University of Craiova  
[madamangra@yahoo.com](mailto:madamangra@yahoo.com)

### Abstract

In the context of the knowledge based economy, more and more organizations discover again the unexhausted force of human resources as the active, creative and innovational factor of modern society. The powerful development of the information and communication technology has favored and imposed some substantial modification in the nature and contents of work process, new professions and qualifications emerging because of it, which have as their most essential attribute the process of thinking and creation, the knowledge and intelligence. At the same time, the new mutations manifested on the labor/work market under the impact of markets' globalization and activities' internationalization, of continuous and rapid changes taking places in all domains of activity generate profound transformations in the professional carriers, accentuating the necessity of an efficient management of this essential component of human resources management. Consequently, many organizations are preoccupied to develop attractive carrier plans that will contribute to bring into relief the entire professional potential of a person, concomitantly with achievement of each individual's desires and aspirations in the domain of carrier.

**Key words:** career, knowledge based economy, motivation

**JEL classification:** D 83

### 1. Career – an important aspect of human life

Though at first hand, the term *career* seems simple and understandable to everyone, but it is actually a complex concept in which many famous human resources management specialists were interested. This derives from the fact it is oriented on the human being, the organization's most dynamic and valuable resource.

If, from a person's point of view, the career consists of an accumulation of opportunities or better jobs that are better remunerated, from the managerial perspective it represents a succession of functions, in the ascending order of prestige, the employee occupies successively, following a predictable rule [1]. Being an important part of a human's life, the carrier signifies in fact the evolution of a man from social an professional points of view, including an assembly of professional activities and positions, attitudes, knowledge, specific competences accumulated and developed in time.

Evolution, the movement in time of a person along the road of his professional career, is approached from two perspectives:

- As an objective succession of positions in a hierarchy together with the associated functions, which targets the personal development and the promotion opportunities, signifying in fact the *objective aspect of career*;



- As a dynamic framework in which an individual perceives his life as a whole and is able to interpret the signification of his different personal qualities, actions and things that happened to him, representing the *subjective aspect of career*.

The career is a permanent fight of a human for achievement of his personal objectives, who is developing and evolving by the close interaction between existent knowledge and aptitudes, on one hand, and the person's desire to improve himself, on the other hand. Since career is manifested only within organizations, it is a consequence of the interaction happening between individual and organizational factors, existent aptitudes, desire for professional success and the work experience gained in the organization.

## 2. A person's attitude towards career

In general, each person has his own career plans, and the organizations must supply various alternatives and opportunities for the achievement of those, as well as the most appropriate ways to bring into relief his professional potential, to stimulate permanently his creative/ innovative ability, in strong concordance with his individual desires and aspirations. It is obvious the employees' attitude towards career influence, in a considerable degree, their attitude towards the organization. The efficient organizations are, actually, the cumulus of a number of individual successful careers.

A person's attitude versus his career follows three aspects [2]:

- Motivation of career;
- Involvement in career;
- Orientation in career.

*Motivation of the career* is meant to explain many of the human beings' behaviors in the domain of career: choosing a domain of activity and an organization, searching and accepting a profession, deciding to stay in a certain organization, updating the career plans and the individual efforts made for the achievement of the personal goals etc.

The motivation of career is a resultant of three dimensions, more explicitly: *the career's identity, discernment and elasticity*.

*The identity* explains the relation between a career and a person and includes two important components:

- The manner in which individuals perceive their life in report with the time, solving by themselves the problems they are confronted with in the present, as a natural consequence of the experiences accumulate in the past;

- In what measures the employees are aware of the future perspectives and act in order to achieve their own interests, aspirations and systems of value.

*The discernment (judgment)* expresses the degree of realism of the perception individuals have in regard to the career choice they had made. Thus, the persons having a positive perception and attitude regarding their career are, in general, well integrated in the organization, get involve 100% in the activities and tasks specific for the position occupied, they attain superior performances in the activity developed by them and this fact, obviously, generates positive effects on the organization's efficiency.

*The elasticity of career* is an urgent necessity in present times, when change is the dominant characteristic of all socio-economic systems and professions constantly disappear and other new ones appear that require knowledge, skills and qualifications compatible with the technological improvements brought to work's nature and inner structure. In regard to this aspect, M. Armstrong [3] points out the dominant of career management, of the career's perspectives is given by the stress put on promoting flexible career, by the reduction of the intermediary, bureaucratic structures, by the construction of multifunctional structures, enriching in this way the employees' experience and improving at the same time their aptitudes, competences, knowledge, and abilities corresponding to the new demands. As a consequence a new, modern concept has appeared– „portfolio of careers”; this expresses exactly the professional and occupational mobility and flexibility and replaces the term „life career”.

To have an elastic means being able to anticipate problems, to overpass failures and

to find always the resources necessary for ascent in the career.

*Involvement in the career* is manifested by the involvement shown at work, the premise being that only the attainment of high performances guarantees the managers' positive appreciation, the respect of other colleagues, collaborators and subordinates, in not so many words the professional success. The degree of involvement of these persons increases considerably when their expectations are met by favorable answers on behalf of the organization, and they succeed to achieve the aspirations and objectives in the plan of career.

*Specific orientation* means „the tendency to monitor a progress in career by means that are not based on performance”[4]. It is characteristic especially for the youngsters, who take more easily the decisions concerning mobility and change of employer/organization, due to their desire to gain higher wages and to have more chances to be promoted.

*Orientation in career* is a scheme, a model or pattern of talents, values, attitudes, activities, occupational behaviors projected by an individual within a professional activity [5]. It implies the existence of the next elements:

- *The individual's intrinsic characteristics*: talents, capacities, needs, values, motivation, attitudes, preferences etc.;

- *The professional environment*: responsibilities, rewards, exigencies, opportunities, constraints etc.;

- *The individual's behaviors and attitudes*: performance and adaptability, competence, satisfaction, interest manifested for the work station and the organization, decision to stay and to be promoted in an organization etc.

Therefore, the career orientation is a conscious and complex process of research, documentation and gathering information for using optimally the personal potential and abilities. The person in case must, permanently, evaluate himself from the perspective of at least three aspects: *Who is he? Where is he? and Where he wants to arrive?*. Those are questions that must guide a person's career, since success is directly proportional with personal abilities and the capitalization on the professional skills and potential.

By knowing the elements that influence a person's attitude towards career, the

organizations must identify the most adequate ways to increase the employees' fidelity and to avoid the departure of the valuable employees, who must be motivated and stimulated along their professional ascent.

### 3. The career in the knowledge based economy

Within the society based on knowledge and information, the human resources become more and more important and complex, and a person's life and his evolution is based now on intelligence and knowledge. Man is the organizations' major asset in the present, their main competitive advantage, and investment in human capital clearly becomes a necessity and a condition for survival and lasting development in the new competitive context. Referring to this, Tick Chan appreciates that “the new competitive advantage and the new barrier for the 21<sup>st</sup> century's organizations is represented by the human resources' knowledge and information”[6].

Modern society generates deep transformations of structure and contents in the human existence, in the work's nature and structure, in the personal and interpersonal relationships, in the intra și inter-organizational relations. At organizational level, changes of the work stations appear and they are materialized in such aspects [7]:

- Creativity, innovation and knowledge represent the essence of the work processes at all organizational levels;

- Work teams are the defining element of all work processes;

- New types of work emerge on the market (telework, munca la domiciliu etc);

- The increasing role of partnership and dialogue, which determines the jobs' preconditions in the organizational environment.

So, the individual must develop his capacity to deal with the new challenges generated by the changes occurred, because they determine significant changes in the occupational structures, by gaining and

developing some superior abilities, corresponding to the new forms of work. These facts bring in transformations and modifications in the essence of careers, since they represent a „route” of human knowledge, behaviors and actions along his existence, and this is the natural consequence of the development of mankind.

*The impact of the knowledge based economy on career* is manifested specifically by:

- *The emergence of new conditions in which the organizations function*, leading to: an increase of competitiveness and competition and of the degree of adaptability to the new realities; a new manner of organizing work and employees; the reduction of the number of employees, departments and hierarchic levels, concomitantly with the simplification of the organizational relation; the promoting of cooperation relations, detrimental to those based on authority and subordination; a growth in the management’s transparency and flexibility; the exhaustion of the personnel, especially the managers etc.;

- *The externalization of some activities*, which generates various and contradictory reactions from the employees or those making them;

- *The adoption of new employment criteria*, such as: a person’s competences and values in report with the organization, his loyalty to the organization, his performance etc. those criteria must be in close concordance with the new forms of organizing work: work at home, work network, multifunctional operative teams, part-time jobs etc.

- *The new attitudes and behaviors of the employees* towards some negative events that occurred in the life of the organization, especially after massive layoffs, which provoke feelings of regret or rebellion, noninvolvement, lack of interest, but also a decrease of creativity and innovative spirit etc.

The influences exerted by the information and knowledge based society impose the necessity to *approach professional career in a new manner*, which has the following main characteristics:

- a) *Replacing stability and continuity of professional careers with their mobility, dynamic and flexibility* [8]. The stability of a job is already a past aspect. Nowadays, individuals must be „employable”, meaning they have to have the knowledge, abilities and professional

reputation requires at a certain time;

- b) *The increased presence of a complex and variable career trajectory*, detrimental to the ascending organizational line;

- c) *The enhanced preoccupations related to the perspective of a career*, to its evolutionary analysis, making necessary the permanent analysis and evaluation of career in the present days.

- d) The transition from the pattern of a career management administrated by the organization to the *model of a flexible and dynamic career, built through the direct involvement of each individual*, which concretely means the transfer of the career management from the organization to the employee, the later one taking on the commitment to develop his career.

- e) *The interdependency of career*, which signifies making simultaneous actions, specific for the double or no limits career, that offer to the individual multiple possibilities to optimally capitalize on the skills, abilities and experiences accumulated. It is a phenomenon characteristic to the present period, when the stress is put on finding the most adequate means for increasing the creativity of the personnel.

The complex processes characterizing modern society, under the impact of knowledge and information based society, have a direct impact on professional career, thus the persons must be more and more preoccupied to achieve multidisciplinary and multi-professional education.

#### 4. Conclusions

These days, when knowledge and information rules the human existence, when the world undergoes a continuous process of change, a modern vision on the career is necessary, in consensus with the exigencies imposed by the new conditions in which the organizations function. The progresses registered in the domain of science and techniques, applying on large scale the technology of information and communication, and the emergence of the intelligent organizations based on knowledge have determined structural modifications of

the business environment, in the work's structure and styles of work, generating a unprecedented dynamism of the contemporary professions and occupations.

Both at the level of the organizations and at global, national or world level, the human resources' creativity, abilities and spirit of commitment represent the essential element of the competitiveness. Within the global competition of computerized economy, the quality and inventiveness of the human resources will be the only ones able to differentiate each society's contribution in the context of global knowledge based economy [9].

All those provoke the career's upgrading, its permanent adaptation to the new transformations and the adaptation of strategies that can anticipate new situations, but also the affirmation of possible professions and their dynamic, able to keep under control the eventual mutations, twists and turning points in career, being promoted the flexible careers on large scale.

In the conditions in which the work market is confused by the effects of the global economic crisis, each individual has to consider his professional future as a patrimony and, in consequence, has to be concerned with an efficient career management.

## 5. References

- [1] R. Mathis, P. Nica, C. Rusu (coord), Human Resources Management, Editura Economică, București, 1997
- [2] C. Roșca, M. Vărzaru, I. Gh. Roșca, Human Resources Management and Administration, Editura Economică, București, 2005
- [3] M. Armstrong, Human Resources Management. Practice Manual, Editura Codecs, București, 2003
- [4] D. C. Feldman, B.A. Weitz, From the invisible hand to the gladhand: understanding a careerist orientation to work, Human Resource Management, Nr. 30(2), New-York, 1991
- [5] G. Johns, Organizational Behavior, Editura Economică, București, 1998
- [6] T. Chan, Knowledge Management in Document Company, in Capitalizing on Knowledge Workers, APO, Tokyo, 2002
- [7] P. Totterdill, Developing New Forms of Work Organization: The Role of the Main Actors, Employment & Social Affairs, EU, Brussels, 2002
- [8] M. Huteau, Gestions des carrières et développement personnel. Introduction, in Cl. Levy-Leboyer, M. Huteau ș.a., La psychologie du travail, Editions d'Organisations, Paris, 1994.
- [9] J. Naisbitt ș.a., Megatendencies, Editura Humanitas, București, 2000

## The Swot Analysis Of The Rural Tourism In The South- Eastern Romania

Spătariu Elena Cerasela , Trandafir Raluca Andreea, Lazar Cristina Mihaela  
Ovidius University, Constantza  
[cgrozea@yahoo.com](mailto:cgrozea@yahoo.com)

### Abstract

The rural tourism is characterized by a slow, but sure development, being a keeper of the traditions, customs, natural landscape and folklore. The basis of this form of tourism is represented by the existence and maintenance of the rural areas' functionality, the preservation of the traditional life-style, of the specific cultural identity and of the rural infrastructure.

This paper focuses on the specific aspects of this form of tourism in the south-east region of our country, eventually making a SWOT analysis on it.

**Key words:** rural tourism, analysis, region

**JEL classification:** P25

### 1. Introduction

Tourism, along with other sectors of the economy can become an important component of the national economy, which may lead to important changes in the territorial area and may be a main factor in the creation of the regional identity.

Studying the aspects regarding the rural tourism on areas of interest, with their potential, leads to the increase of knowledge of the regions and contributes to the creation of an image about their development possibilities.

The tourism field may become a main driver for achieving the intra- and interregional convergence, by increasing the incomes of the less favoured communities and areas, due to the high valuing of the specific potential of these areas (historical, cultural and natural objectives, romanian traditions and customs, a specific life-style, etc). That is why the rural tourism may

represent an alternative element for the national tourism forms.

The experience of certain countries such as Spain, Portugal, Greece and Ireland prove the contribution of the rural tourism to the development of the poor countries and the prosperity insurance of of the less favoured communities. It is true that the concern of the central and local authorities for preserving, developing and exploiting the opportunities offered by this type of touristic activities, has contributed to the attraction of a growing number of tourists in these countries annually and, therefore, to the development of the adjacent services of the field. The latest estimations of the WTO reveal an annually tendency to increase of the tourists' interest for the alternative forms of tourism, which would bring them closer to nature, to discovering the authentic cultural values, to a more relaxed and healthy lifestyle.

Specifically for the european economies, tourism delivers an essential contribution to the integration process. The intensity of the mutual touristic flows stimulates the mutual knowledge, creates the sense of belonging to a common values area, contributes to the development of the european identity and, through all these elements, it contributes to the shaping of the european citizenship. Through the high degree of internationalizing the production, tourism contributes to the amplification of the changes between communities and to the integration of the european markets. Therefore, the EU efforts to promote tourism on external markets maintain the image of a unit of cultural heritage, as a key element of the European unity.

In this context, Romania benefits from certain comparative and competitive advantages in relation to the countries near it. These advantages are being offered by the variety of

the landforms, but also by the number of archeological, historical, cultural touristic objectives and by the number of traditions and customs, which are well preserved, especially in the rural area.

The intensity of the rural tourism, as a mass phenomenon, has increased in the last years and is considered to be a true alternative of spending the spare time. The reason for the rural tourism development is represented by the farmers' awareness for the necessity of diversification of the activities within the farm, but also outside it, through their engagement in forestry, tourism, or by using certain activities determined in time, within the local economy.

A number of official documents released by international organizations- the most representative being *Romania Tourism Report*, published by World Travel Organization in 2006, highlighted the huge potential which tourism has in Romania, particularly in fields less exploited internationally (rural, cultural, hunting tourism).

At the end of 2007, launched the Romanian National Tourism Master Plan for 2007-2026. This document reproduces some of the conclusions from the report published by the WTO and outlines a development strategy of the products and of the touristic understructure for the next 20 years.

The various regions of the country, together with a large, geographical framework: mountains, hills, planes, lakes, the Danube Delta, the Black Sea, etc, focus real treasures of culture, sometimes of universal interest and represent all the motivations for tourism.

The cultural heritage of our country is an invaluable resource for the sustainable cultural, economical and social development, especially through an innovative approach to the rural tourism, in the spirit of the International Cultural Tourism **Charta** (ICOMOS, 1999).

## 2. The Characterization of the south- east region of Romania

This paper aims to undertake a brief analysis of the characteristics of the rural tourism in the south- eastern Romania.

The rural tourism is based on three coordinates:

- Space, which represents the support for coexistence ;

- People, who represent the activities' motor ;
- Products, which represent the object of the toutistic consumption .

The rural residents must be the ones to be engaged in this type of tourism, but it is necessary that the traditional hospitality of the peasant to be doubled by specific knowledge regarding the tourism activity. Rural tourism involves staying in the village and spending time in the countryside and to various touristic attractions.

The rural tourism can not be separated from the place where it is practiced, that is the touristic village, which must accomplish certain conditions: the natural landscape with reduced pollution, the presence of human objectives, cultural and folk traditions , traditional habits, access understructure, accomodation, food and entertainment services. By valuing certain resources of high touristic attraction, we can create a specific typology of the touristic villages: historical, fishing, viticultural and fruit-growing villages.

For the development of the rural tourism, a strong relationship must exist between the hosts and the local and central administrations, in order to insure the success of this form of tourism.

The South- Easter region is the second largest of the eight Romanian Regions, comprising 15% of the total area of 35.762 km<sup>2</sup> and with a population of 2.846.379 residents, representing 13,1 % of the country's population, from which 55,5% of them live in the urban area and the rest of 44,5 %, in the rural area. It is bounded on the North by the North- East Region, on the West by the central Region, on the South- West by the Regions of South Muntenia and Bucharest- Ilfov, on the South by Bulgaria and on the East by the Republic of Moldavia, Ukraine and the Black Sea.

On this region, there are places almost all the landforms: the Danube flood plain, the Baragan plain, the Dobrudja Plateau with the Macin Mountains, on the North- West area there is a part of the Carpathians and of the Curvature Sub- Carpathians, it is drained by the Danube, including the Danube Delta and it is bordered on the East by the Black Sea.

The presence of the various landforms make this area attractive for the tourism.

The various ethnic structure in the region may be considered a key- point for the development of the rural tourism and may be presented as follows:

- from ethny (1,7 % );
- the lipovan russian community (0,9% ) – concentrated in Tulcea county, representing 16.350 persons from 25.464 persons in the region;
- the greek community (0,1% );
- the turkish community (1%) – concentrated in Constantza county, representing 27.914 persons in this county from 32.098 persons in the region;
- the tatar community, quite large, concentrated in Constantza county, where there are registered 23.230 persons of 23.935 persons in the country.

The tourism products require the existence of objectives of human, cultural and folk traditions, traditional habits, accommodation and food services specific to this region.

At the region's level, there have been identifies several areas that represent different elements of attractiveness to potential customers in rural tourism, as follows:

- Baragan plain area is characterized by the presence of climatic resorts that are situated near lakes with curative properties(the Salt Lake, Amara Lake) near numerous recreational resources (hunting and fishing), in the Smalland Large Island of Braila.
- The Northern Dobrudja area, which includes the Danube Delta reservation and the National Park-Macinului Mountains, where rare species of flora and fauna can be met. The predominant economic activities are focused on the exploitation of natural resources and the tourism; the attractiveness elements being given by the forestry potential, by the diversity and unique biotypes, the historical and religious monuments (monasteries: Celic-Dere, Cocos-Niculitel, Saon and the paleo-christian Basilica situated in the

village of Niculitel, Italian- roman fortresses, and byzantine fortresses: Troesmis,Arrubium,Dinogetia,Novio donum,Halmyris,Arganum,Enisala)

- The Dobrudja South- East area is characterized by the Romanian Black Sea coast which gives it a high degree of touristic attraction, a special spa background (Techirgiol Lake, Eforie North)
- The mountain area in Vrancea and Buzau presents touristic interest through Soveja and Lepsa resorts, and unique tourism areas in the country, such as Mud Vucanoes,Bozioru caves, The Living Fires.

### 3. The SWOT analysis of the rural tourism in the South East region

To determine the development potential of the rural tourism in the region we have made an analysis that highlights strengths, weaknesses, opportunities and threats as follows:

#### 1. Strengths:

- The variety of landforms with typical continental;
- sludge treatment (Sărata Monteoru ,Lacul Sărat, Techirgiol );
- the existence of reservations and national parks ( the Danube Delta Byosphere Reserve and Măcinului Mountains );
- the number of the touristic villages ;
- the diversity of the flora and fauna;
- the existence of the romanian Black Sea Coast ;
- the diversity of heritage objectives – monasteries, fortresses,
- rural settlements where the traditional lifestyle can be experimented;
- museums and archaeological sites;
- a various ethnic structure with specific traditions and customs;
- the preservation of the traditional crafts;
- a wide range of traditions and folklore festivals;
- culinary traditions of the region;
- the presence of Pan -European transport corridors;
- the presence of the harbours and the airport of an international level capacity ;
- well-developed communication networks-telephone, radio, GSM, satellite;

- available human resources;
- population with language skills, offering a potential human resources in tourism;
- welcoming people with traditional hospitality;
- many qualified and experienced travel agents;

#### 2. Weaknesses

- the environmental and utility understructure is underdeveloped in the rural areas (sewer, gas, waste management) ;
- Rural areas with a high number share of population employes in agriculture and a low profitability of the agricultural activities ;
- The inadequate medical equipment and the small number of doctors in the rural area;
- A poor implementation of the environmental legislation;
- The lack of investments in the development and promotion of the cultural objectives – museums, monuments;
- The lack of a data base regarding festivals and cultural events, which can allow an efficient promotion for the tourists;
- The lack of parking places and sanitary facilities in a great number of touristic objectives;
- The lack of target indicators for the touristic objectives and points of attraction;
- The lack of a tourists information centres network;
- The lack of stimulents and support mechanisms for the investors;
- The failure in the legal problems concerning the lands ownership and the real estate properties, which limit the development;
- The poor use of the computer and internet for information, marketing and reservation;
- The lack of information and of touristic maps;

#### 3. Opportunities

- The financing of the rural tourism development by structural funds within the Social and Economical Cohesion Programme;
- The increasing of the customers' demands for organic products;

- Romania's state, being a member of the European Union;
- The relatively simple and with minimal investments of the rural motels;
- The existence of certain funds for the development of small households;
- The possibility to attract foreign tourists due to the touristic products offered and to small rates;

#### 4. Threats

- The lack of responsiveness of the administrative bodies concerning the rural tourism development in the region;
- The touristic products offered are not being internationally competitive;
- The competition showed by the neighbouring countries within the rural tourism ;
- The environmental quality in certain areas has a negative effect in the rural tourism development ;

The impact of the rural tourism development must be analyzed on three coordinates: the economical impact, the social impact and the environmental impact. Speaking from the experience of the developed countries, in Europe and also in other areas of the world, the development of the touristic activities, no matter which, leads to positive economical effects at the local communities level through the main understructures development, of other adjacent activities and to the complementation of the touristic industry also through creating additional jobs.

The valuing of the rural tourism participates to the regional development wether directly, through the total of the incomes from the touristic consume, due to the growing number of tourists (accomodation, food services, taxes, shopping), or indirectly through the local, bilateral cultural contact and influences, the knowledge of the local economical values and of the eventual business opportunities, the labour employment in the services, the creation of a favourable image, the civilization of the involved userstructure.

From the standpoint of the environmental impact, it is known that the rural tourism activities doesn't raise any particular problems concerning the environment, it even contributes to optimizing the relationship human- nature.



The measures of development on specific tourism forms will lead to the increasing regional tourism competitiveness to the national and international one, and at intra-regional level, tourism can serve as a means of reducing the regional disparities between unequally developed areas.

#### **4. Bibliography**

1. Space, G. Stănciulescu și colectivul - Regional politics and strategies for the sustainable development of the Danube, A.S.E. Ed., Bucharest, 2004.
2. P. Nistoreanu, ASE - Ecotourism and rural tourism, Ed., Bucharest, 2003.
3. O. Snak, N. Neacșu, P. Baron - The Tourism Economy, Expert Ed., Bucharest, 2001.

# THE ENTREPRENEUR, THE MARKET CONTEXT, AND THE VENTURE

Authors: Prof. Stoyanova M., MSc, [mstoyanova1505@gmail.com](mailto:mstoyanova1505@gmail.com)  
Prof. Stanciulescu G., PhD, [gabriela.stanciulescu@com.ase.ro](mailto:gabriela.stanciulescu@com.ase.ro)

## Abstract

The blending of entrepreneurship, psychology, and marketing research may be beneficial to all disciplines and can assist in comprehending the real essence of doing business. Psychology clearly has a valuable impact on marketing and can have the same effect on understanding entrepreneurial behaviors. Likewise, entrepreneurship can provide an applied test for many psychological and marketing theories, such as in the study of small group behaviors, new product introduction and attention retaining. The unique perspective that entrepreneurship provides is that of highly unstable and unstructured groups in rapidly changing markets whose development is also hard to predict or model in exact numbers. This dynamic environment is an excellent counterpoint to the static and artificial conditions all too frequently encountered in traditional psychological and market research.

**Key words:** creative opportunism, entrepreneurial networks

**JEL classification:** M10

## 1. The Importance of Context

Although it has become increasingly apparent that no simple definition of entrepreneurship is satisfactory [11], it remains clear that the creation of a new venture is a social phenomenon that exists in a market desiring the output of that venture. In fact, it is nearly impossible to define any *entrepreneurial behavior* without at least an indirect reference to the market or social context in which it occurs. Entrepreneurial behaviors are often viewed as most prevalent in unstable socioeconomic environments, where organizations and society are adapting to rapid change [10].

This concept can be traced back to [27] portrayal of the entrepreneur as an agent of "creative destruction" within the market context.

Schumpeter, perhaps the best known twentieth-century student of entrepreneurship, stressed the role of innovation as the distinguishing factor for entrepreneurs. He believed that both managers and entrepreneurs experience risk and held that their challenge is to find and use new ideas. The range of possible alternatives as expressions of these ideas include:

1. Developing new products or services
2. Developing new methods of production
3. Identifying new markets
4. Discovering new sources of supply
5. Developing new organizational forms.

Schumpeter's position was supported later by [19], who felt that the identification of market opportunities is the fundamental function of the entrepreneur. Similar "rule-violating" behaviour of the entrepreneur is also claimed by [18] as a prerequisite for the existence of the entrepreneur and their ventures because otherwise both buyers and sellers play the role of non-decision makers who simply follow the set rules for conducting their daily purchasing/producing activities.

Research writers at the end of 20<sup>th</sup> century have abandoned the struggle of defining "the entrepreneur." This is because definitions have tended to change as business concepts have evolved and ownership forms have changed which was a very dynamic, transitional process, especially in Eastern Europe, at the turn of the new century. Long [21] argued that the universal aspects of entrepreneurship involve uncertainty and risk, complementary managerial competence, and creative opportunism. Other writers have characterized entrepreneurial behavior as the

pursuit of opportunities for value creation in resource-poor situations. Some propose that entrepreneurial behaviors occur within organizational and market contexts that are resource-tense or strained ([13]; [11]). Still others have emphasized that entrepreneurial behaviors are elicited most frequently when and wherever the socioeconomic and market environments are most congenial [32]. Yet each of these conceptualizations demonstrates that the entrepreneur exists within a complex matrix of social interactions within an even larger context of community, society, and culture [10].

### 1.1. A contextual model

The image of the highly individualistic entrepreneur fascinates even former communists, as [7] noted in his description of several myths about entrepreneurs and their businesses. In reality, however, even the myth of the individual requires a market environment as the context in which the individual's actions occur. This market context is the "ground" against which the entrepreneur's actions are the "figure." Neither is interpretable without the other and neither exists without the other. A detailed analysis of the social construct/context within which entrepreneurs appear and flourish is available in [26] that focuses on the economic approaches to entrepreneurship from a historical and philosophical perspective.

This social psychological perspective allows access to a rich research literature while providing theoretical linkages among psychology, entrepreneurship, and marketing. Given the perspective of a market context, a simple model of entrepreneurial action has three basic components:

1. The entrepreneur's social context
2. The market context
3. The entrepreneurial process.

Although a number of personality and cognitive variables have at one time or another been implicated in entrepreneurial activity [7], the contextual model focuses on the entrepreneur's external world as a driving force behind the entrepreneurial process. Examples of the entrepreneur's relationships include prescribed roles, role sets, and social

networks.

### 1.2. Role Theory and the Entrepreneur

Knowledge and enactment of appropriate roles is important for entrepreneurial success as well as understanding consumer behavior in marketing. Roles act as social scripts that dictate how one should act within a given situation or market context [33]. In assuming the role of entrepreneur, people must be able to exhibit behaviors that are associated with this role. The more the entrepreneur fulfills role expectations, the more likely the individual will be to succeed in that venture ([29]; [1]). However, there are also authors who challenge the perception of pre-defined entrepreneur's role and behaviour in given circumstances. As [28] suggests, the "role of the entrepreneur is to create new circumstances rather than to be alert to new opportunities in existing circumstances" and such flexibility is especially important within the new market regulations and relations.

As the markets change, or the venture matures, the *role set* also shifts in order to reflect as fully as possible the shifting positions. To continue successfully, the entrepreneur must adjust to the emerging managerial role by learning new behaviors, such as the delegation of authority, adopting attitudes consistent with the changing role such as becoming a mature, expanding business. Unfortunately, entrepreneurial behaviors that once were adaptive may now interfere with the changed expectations because the changes on the market and the position of the company might happen faster than the evolution of the entrepreneur him/herself. The resulting conflict may contribute even to the downfall of the business venture. On the other hand, successful adaptation to the new role expectations can offer new benefits. One benefit is access to multiple segments of society. These different segments may offer distinct network assets that include access to additional resources, monetary (prestige) rewards, and contributions to personal growth and development. In this regard, social networks will grow to become value-added contacts which will provide a customer-base of loyal consumers.

In their review of a social psychological

perspective of entrepreneurial behaviors, [10] propose that the social context of entrepreneurial behaviors includes specified *role sets*. These are components of larger social relationships to which the entrepreneur belongs by virtue of a particular status within the social network of the local community. For example, the entrepreneur's role set may include family members, venture capitalists, bankers, investors, partners, distributors, and customers. The entrepreneur's behavior is significantly influenced by the social fabric, or market-oriented network of contacts for both reassurance and for economic motives.

The complexity of this matrix is most obvious when members of the role set have conflicting expectations for the entrepreneur who simultaneously might be expected to fulfill a great number of roles. For example, a partner may expect an entrepreneur to work 12 hours a day, seven days a week, during the venture's early development; this expectation is likely to conflict with the role expectations of the entrepreneur's children, wife, and friends, even if they are involved in the venture.

Alternatively, a positive factor in entrepreneurial behaviors is the "density" of the contacts or social linkages in which the entrepreneur is enmeshed. These social contacts include not only direct, first-level relationships but also other contacts to which these first-level individuals belong. The resulting phenomenon is best described as the "strength of weak ties." As [2] have noted, within a framework of complex relationships, entrepreneurial behaviors are facilitated or constrained by linkages. These linkages are connections between the entrepreneur, resources, and market opportunities. Such linkages are continuing social relationships with ever-changing dimensions and valences. The more extensive and complex the relationships, the greater the access to resources and market opportunities. The less dense the framework of relationships, the less the probability of encountering necessary resources and opportunities. Thus, networks can best be defined as relationships of varying added value as their intensity directly affects the availability and access to resources and market chances.

From such diverse, indirect contacts, the entrepreneur is able to gather the necessary

means and information to ensure the successful development and growth of a new venture within a changing market and market relations. The developmental and growth activities would include such things as finding product/service ideas, gaining access to new technology, transferring existing technology, locating capital, collecting current market data, and appraising competition. The direct contacts and far more extensive indirect contacts can significantly contribute to the development and success of the new ventures by actually providing customers for the products and services, both new and established ones.

As recent experience in Eastern Europe so dramatically indicates, the creation of new ventures is heavily influenced by the cultural and political context in which that entrepreneurial behavior occurs. All managerial problems are inherently social, economic and also political in nature, and the same is true for entrepreneurial activity. There must be political support for innovation, reliable energy supplies, free flow of information, telecommunication infrastructure, and an acceptable medium of monetary or wealth exchange for the creation of new ventures to flourish. This background is to a market system what air is to a human being. However, it is only noticed in its fatal absence.

Other more noticeable aspects of the day-to-day operation of the market system also contribute to entrepreneurial activity. Population ecologists have noted the importance of a market segment's carrying capacity and degree of differentiation. Students of the labor market have argued that underemployment or unemployment can provide the "push" leading to entrepreneurial activity [30]. Finally, on an individual level, dissatisfaction with an existing job may result in reduction of an entrepreneur's willingness to consider the possibility of failure [7]. Specifically, as many as 60 percent of entrepreneurs decide to start a business before they know what business they will undertake [6]. For many of these people, job dissatisfaction changes the perceived market for entrepreneurial activity and their perceived intentions for undertaking the entrepreneurial roles [20].

## 2. The Entrepreneurial process

### 2.1. Maintaining an Image

Part of the entrepreneur's challenge is to convince the external market to believe in his or her vision. For example, one factor that makes it difficult to obtain capital (not fully secured by collateral) is the perception by the potential providers of these funds that the business will not be successful. Justification for this reluctance can be seen in past studies of discontinuances, which show failure rates to range from 35 percent to more than 70 percent within the first five years [31].

Entrepreneurs, nevertheless, tend to be quite optimistic about their own prospects for success. In a study of almost 3,000 entrepreneurs, [13] found that 81 percent of the respondents perceived that the odds of achieving success for their particular businesses were seven out of 10 or better. For other businesses similar to theirs, however, only 40 percent perceived the odds to be that good. The attribution of success is a very personal one where the individual entrepreneur's image and confidence are critical.

The keys to selling anything are image, confidence and value-trust. For the entrepreneur, these may be even more critical with respect to selling herself or himself to significant others such as bankers, investors, and employees. Impression management focuses on the public presentation to others in the environment and involves the internal representation of this public self. In everyday social interaction this self presentation can serve the person's strategic goals [15]. Tactics such as ingratiation and supplication are especially useful for people who find themselves confronting more powerful others. These normal social tactics may be even more highly developed among entrepreneurs, who depend on others not only for social acceptance but also for access to and use of scarce resources.

An original study by [22] argues that when it comes to creating a new product and an appropriate new image for it, despite numerous, well-structured diagrams and formulas showing key components and stages to venture success, very often creative teams

realise that "what *should* happen is not what *does* happen and that the difference comes from the "aha moments" on the way" [22]. The article describes how a team of academic entrepreneurs decided to start a new EMBA without any previous experience of how to do so. In their unique "adventure" to start it up, the final success was preceded by seven "aha moments" where particular solutions resulted from serendipity and originality and not exactly manual follow-up.

### 2.2. Entrepreneurial Exchange

The issue then arises as to how the entrepreneur develops and maintains the image required by the market place. As noted early in the study of self-presentation, the maintenance of face requires both a performer and an audience [14]. For the entrepreneur, however, the audience is more than a collection of dispassionate observers and very often is even invisible for the entrepreneur as it exists only behind the screen of the computer. If an entrepreneur's venture fails, his or her bankers, employees, and family also suffer. So the success of the entrepreneur's image has economic consequences as well as social consequences. In other words, the entrepreneur and his or her network are *interdependent* in the fashion described by social exchange theory ([16]; [17]).

Each party to the interaction seeks to maximize outcomes, whether these are social, economic or political. But no participant has complete control over the reward system, so each must accommodate the other's expectations. The result, if the interaction is to continue in a balanced way, must be a correspondence of outcomes. The situation has to be "win-win," and the rewards achieved by the entrepreneur and the members of his or her network must exceed a psychological threshold, as well as an economic one, for the relationship to remain stable. Very important aspects for maintaining a stable relationship are also the personality traits of the entrepreneurs themselves as they are the very hearts of the venture itself. According to [25] who conducted a large scale survey of 208 American and Irish participants, various personal characteristics, namely achievement motivation, tolerance for

ambiguity and personal efficacy, affected the way business was initiated and run afterwards and those characteristics of the entrepreneur influenced the development of social, economic and political networks. The most interesting finding, however, was that cultural factors played an extremely important role in how persuasive the message of the entrepreneurship would be, and how this message would influence its auditoria in terms of appropriateness, self-consistency and effectiveness.

### 2.3. Managing the Networks

As is the case with the entrepreneur's mobilization of resources, the market's influence on new venture development is often transmitted by social contacts, or linkages. The exact effect of these linkages is not always easily identified. For example, in asking entrepreneurs to recount their successes and failures, it is not uncommon for them to emphasize the "know-how" aspects of starting or running a business rather than the "know who" [24]. And indeed some new ventures may not uniformly rely on networks. Carsrud, et al. [11] found networks to be unrelated to the success of the initiation process, but potentially very important to success in the growth phase of the venture.

Notwithstanding these exceptions, entrepreneurial networks increasingly have been associated with success. Entrepreneurs count on such connections to cut corners, to pave the way for acceptance, and to enhance image and credibility. Contacts also provide information and support, help avoid costly errors and time-consuming research, help locate resources, and serve as major sources of information about the market. Consequently, entrepreneurs constantly maintain these relationships, so that they are available when needed to provide information and assistance [5]. On the background of more and more complex market relations, it is becoming also popular to form "entrepreneurial cooperatives", uniting various ventures to provide the services needed for the running of a company, which result from the skills brokerage business model [3]. The model greatly elaborated by [23] in the so called "Triple-Helix Approach" according to which by developing rapport at

various levels – encounter, exploring affinities, identifying communality, establishing congruencies, and discovering potential, different companies are able to share their social capital and develop enlarged and more efficient entrepreneurial networks.

However, when it comes to "personal" networks, opposite to the Triple Helix model described above, [24] propose a "silent strength" explanation for the tendency of entrepreneurs to avoid talking about their personal networks in terms of their successes and failures. The entrepreneur may wish for these contacts to remain confidential, because if they were revealed, the strength of the network might be weakened or others might have access. It is also possible that entrepreneurs do not emphasize the importance of their networks because the individual wants to receive personal credit for the success of the enterprise, thus maintaining his or her personal attribution of success.

### 3. Marketing-entrepreneurship research interface

Given the importance of the external market in the entrepreneur's social context, the influences of market factors on entrepreneurial activity, and the dynamic exchange between the entrepreneur and representatives from this external community, it is surprising that so little research has yet been done at the interface between entrepreneurship and marketing. This last section builds on the preceding analysis to suggest possible directions for marketing and entrepreneurship research in the future. For example, using social context to describe the marketing—entrepreneurship interface raises a number of interesting research questions:

1. How do effective entrepreneurs recognize and balance the contending, and potentially conflicting, demands of the various constituencies?
2. How does the unique social context of Eastern Europe and the former Soviet Union influence the reactions of entrepreneur to the ever changing market opportunities there? How do these reactions differ from those of entrepreneurs in the West wishing to enter these markets

- but not having the same social context?
3. Are the skills involved in maintaining an image the same as, or different from, those involved in managing a network? Are entrepreneurs who are highly successful in maintaining their images and managing their networks better able to *shape* the market context in which then-products or services will compete?

Although our analysis suggests that such questions could be fruitful, it also clearly indicates that cause and effect in the market environment of the entrepreneur involves complex relationships. It is possible that simplistically modeled, casual relationships are apt to be misinterpreted. Researchers, the entrepreneurial community, and government policy makers need models that can begin to handle the complexity of this important socioeconomic phenomenon.

The challenge is increased by the fact that researchers and policy makers all too frequently speak different languages. For example, [8] analyzed entrepreneurial and small business research appearing in the major entrepreneurship journals and conferences in 1986 and compared their topics to the 60 recommendations of delegates to the 1986 White House Conference on Small Business. Only six articles or papers from the 268 examined converged on the central core of concerns of the delegates. Thus, marketing-entrepreneurship research in the future should be more practice-oriented rather than primarily theoretical.

Finally, the potential for interaction among key variables must be recognized. For example, the specific market context may alter the effectiveness of the various entrepreneurial behaviors or governmental policies. What compounds the analysis problem is that every entrepreneur has a unique set of personal constituents and micro-market environments. Such market facts help to explain why entrepreneurial ventures are perceived as being chaotic and disorderly. They also help to explain the seeming inconsistency in the influence of various factors over time. Despite the formidable risks involved in cross-disciplinary endeavors, the market context provides a promising light with which to further illuminate entrepreneurial behavior.

Last but not least, the cultural implications on enterprises start-up,

development, maintenance and growth should be perceived as an inseparable element in the overall functioning of the entity. Such cultural considerations hold vital especially with the enlargement of the European Union market, where, as [4] righteously states, regulating business activities within a common market frame presents both freeing and restricting business opportunities and cultural differences more or less affect understanding and application of European common policies. The issues are further complicated on a global scale where European markets compete with any other.

## References

- [1] Aldrich, H., P. R. Reese, and P. Dubini. "Women on the Verge of a Breakthrough: Networking Among Entrepreneurs in the United States and Italy." *Entrepreneurship and Regional Development* 1(4), (1989): 339-56.
- [2] Aldrich, H., and C. Zimmer. "Entrepreneurship Through Social Networks." In *The Art and Science of Entrepreneurship*, edited by D. L. Sexton and R. W. Smilor. Cambridge, MA: Ballinger, 1986.
- [3] Anderson, A. and Jack, S. (2001) "The articulation of Social Capital in Entrepreneurial Networks: a Glue or a Lubricant?, In *Entrepreneurship and Regional Development*, Vol. 14 (3).
- [4] Ashiagbor, D. *The European Employment Strategy – Labour Market Regulations and New Governance*. Oxford: Oxford University Press, (2005).
- [5] Birley, S. "The Role of Networks in the Entrepreneurial Process." *Journal of Business Venturing* 1(1), (1985): 107-18.
- [6] Brockhaus, R. H. "The Effect of Job Dissatisfaction on the Decision to Start a Business," *American Journal of Small Business* 18(1), 1980: 37-43.
- [7] Brockhaus, R. H. "Entrepreneurial Folklore." *Journal of Small Business Management* 25(3), (July 1987): 1-6.
- [8] Brockhaus, R. H. "Entrepreneurial Research: Are We Playing the Correct Game?" *American Journal of Small Business* 12(3), (Winter 1988): 55-61.
- [9] Carsrud, A. L., C. M. Gaglio, and K. W. Olm. "Entrepreneurs, Mentors, Networks, and Successful New Venture Development: An Exploratory Study." *American Journal of Small Business* 12 (1), (1987): 13-18.
- [10] Carsrud, A. L., and R. W. Johnson.

- "Entrepreneurship: A Social Psychological Perspective." *Entrepreneurship and Regional Development* 1(1), (1989): 21-32.
- [11] Carsrud, A. L., K. W. Olm, and G. G. Eddy. "Entrepreneurship: Research in Quest of a Paradigm." In *The Art and Science of Entrepreneurship*, edited by D. L. Sexton and R. W. Smilor. Cambridge, MA: Ballinger, 1986.
- [12] Gartner, W. "Who is the Entrepreneur? Is the Wrong Question." *Entrepreneurship: Theory and Practice* 13(4), (1988): 47-68.
- [13] Cooper, A. C, W. C. Dunkelberg, and C. Y. Woo. "Optimists and Pessimists: 2,994 Entrepreneurs and Their Perceived Chances for Success." In *Frontiers of Entrepreneurship Research, 1986* (1980): 563-77.
- [14] Goffman, E. *The Presentation of Self in Everyday Life*. New York: Doubleday, 1959.
- [15] Jones, E. E., T. S. Pittman. "Toward a General Theory of Strategic Self-Presentation." In *Psychological Perspectives on the Self*, edited by J. Sulus, Vol. 1, 231-62. Hillsdale, NJ: Lawrence Erlbaum Associates, 1982.
- [16] Kelley, H. H., and J. W. Thibaut. *Interpersonal Relations: A Theory of Interdependence*. New York: Wiley, 1978.
- [17] Kelley, H. H. *The Social Psychology of Groups*. New York: Wiley, 1959.
- [18] Kirchhoff, B. A. (1991) „Entrepreneurship’s Contribution to Economics”, In *Entrepreneurship Theory and Practice*, Vol. 16, 93-112.
- [19] Kirzner, M. (1982). "The Theory of Entrepreneurship in Economic Growth." In *Encyclopedia of Entrepreneurship*, edited by C. A. Kent, D. L. Sexton, and K. H. Vesper, 272-76. Englewood Cliffs, NJ: Prentice-Hall, 1982.
- [20] Krueger, N., and A. Carsrud. "Entrepreneurial Vision, Intentions, and Self-Efficacy: Applying Ajzen's Theory of Planned Behavior." Presented at the Western Academy of Management, 1992.
- [21] Long, W. "The Meaning of Entrepreneurship." *American Journal of Small Business* 8(2), (1983): 47-58.
- [22] Napier, N. K., Bahnson, P. R., Glen, R., Maille, Ch. J., Smith, K. And White, H. "When "Aha Moments" Make all the Difference", In *Journal of Management Inquiry*, Vol. 18, (2009) 64-76.
- [23] Papagiannidis, S., Li, F., Eitzkowitz, H. and Clouser, M. "Entrepreneurial Networks: The Triple Helix Approach for Brokering Human and Social Capital", In *Journal of International Entrepreneurship*, Vol 7, (2009) 215-235.
- [24] Peterson, R., and R. Ronstadt. *Developing Your Entrepreneurial Know-Who and Know-How*. London, Ontario: Working Paper Series NC-87-202, National Centre for Management Research and Development, 1987.
- [25] Pillis, E. and Reardon, K. K. "The Influence of Personality Traits and Persuasive Message on the Entrepreneurial Intention", In *Career Development International*, Vol 12, issue 4, (2007) 382-396.
- [26] Pittaway, L. A. „The Social Construction of Entrepreneurship Behaviour”, PhD Thesis, University of Newcastle upon Tyne, Newcastle upon Tyne (2000).
- [27] Schumpeter, J. A. *The Theory of Economic Development*. Cambridge, MA: Harvard University Press, 1934.
- [28] Schumpeter, J. A. *History of Economic Analysis*, 5th Ed., George Allen, New York, NY (1963).
- [29] Sexton, D., and N. Bowman. (1985). "The Entrepreneur. A Capable Executive and More." *Journal of Business Venturing* 1(1), (1985): 129-40.
- [30] Shapero, A. "The Displaced, Uncomfortable Entrepreneur," *Psychology Today* (Nov. 1975): 83-88.
- [31] Shapero, A., and J. Giglierano. "Exits and Entries: A Study in Yellow Pages Journalism." In *Frontiers of Entrepreneurship Research*, 1982 (1982):
- [32] Stevenson, H. H., M. J. Roberts, and H. I. Grousbeck. *New Business Ventures and the Entrepreneur*. Homewood, IL: Richard D. Irwin, 1985.
- [33] Stryker, S., and A. Statham. "Symbolic Interaction and Role Theory." In *Handbook of Social Psychology*, 3rd ed., edited by G. Lindzey and E. Aronson, Vol. 25, 311-78. New York: Random House, 1985. Thibaut, J. W., and H. H.



## Ethical Consumerism in the 21<sup>st</sup> Century

Ștefura Gabriela

*Universitatea Alexandru Ioan Cuza Iași*

*gabi.stefura@gmail.com*

### Abstract

In a world where the global economy has suffered a great deal of changes and has encountered many obstacles, consumers and companies seem less concerned about ethics in their behaviour.

Ethical consumerism regards issues as environmental friendly consumerism, fair-trade, morality and honesty. The paper presents a theoretical background of ethical behaviour from two perspectives, followed by factors of influence, typologies of consumers and causes of unethical behaviour, offering an up-to-date starting point for more thoroughgoing studies and some possible directions for further research.

**Key words:** ethical consumerism, unethical behaviour, environment, morality

**JEL classification:** M39

### 1. Introduction

An issue of great importance for the economic behaviour has been and still is the study of ethical consumption. In the speciality literature there are not many studies concerning this subject, but the interest increased in the last 10 to 15 years.

In order to be able to understand better the nature of this subject, it is important to start with the description of the concept and what are its meanings.

Firstly, “ethics” as a general term refers to a branch of philosophy which seeks to address questions about morality. It has been for centuries in the interest of philosophers the discussion regarding what is right and

what is wrong and how we can live doing the right thing.

Secondly, a more general definition of ethical consumerism describes it as an intentional purchase of products and services that the consumer considers to be made ethically. Ethical consumerism can be practiced through “positive buying”.

Last but not least, among specialists there have been discrepancies regarding the meanings of “ethical consumption” and “ethics of consumption” [9]. The ethics of consumption mainly depicts a set of judgements over the morality of the entire provision system; the consumption is seen as the object of moral evaluation. In the case of ethical consumption, the consumption is now a medium for political and moral action. Although it may seem so, the meanings of the two concepts are not completely separate.

This paper’s main purpose is to build a theoretical frame of ethical behaviour among consumers, providing the description of its different meanings and, also, some directions for further research.

As the last couple of years have been a challenge from an economic perspective, ethical behaviour has begun to be more and more a problem which needs to be properly studied.

In the second part of this paper, the different views of ethical behaviour will be presented, along with the factors which influence this type of behaviour. The third part brings into discussion the typologies which can be found related to this behaviour and the main causes that determine an unethical behaviour (or simply being indifferent to it). Finally, the paper ends with conclusions and some further research directions.

## 2. Ethical behaviour perceptions. Factors of influence

The concept of ethical behaviour has been approached in the speciality literature from two perspectives.

The first one refers to ethical behaviour from an environmental approach. In many studies referrals to “green consumerism” are being made [4; 12]. A green consumer is the one who avoids using products which pollute or is against animal cruelty, he/she purchases eco-friendly products, recycles etc. [apud 4, p.401]. Shaw and Shiu [12] emphasize on the difference that must be made between green consumers and ethical consumers. The second category is obviously much more complex and includes the first one.

Ethical consumption has also been referred to as a behaviour which incorporates the principles of environmental friendly consumption and addresses issues regarding conscience and morality [4, p. 401]).

In the opinion of Callen-Marchione and Ownbey [2] ethical behaviour includes the purchase of eco products, the attitude towards counterfeited goods, how consumers react to companies which approach an unethical behaviour, honesty etc.

The second approach on ethical behaviour regards piracy, petty theft, shoplifting, unethical behaviour of employees etc. In this case, the morality and the honesty of individuals are put into question.

Shoham, Ruvio and Davidow [13] emphasize on the matter of piracy (DVD's, music, software) and describe the phenomenon in three forms, as found in other researches:

- the assessment of software piracy, in the context of the innovation diffusion, accentuating the outcomes of piracy
- the overall issue of purchasing counterfeited products
- the identification of the ethical/moral issues which support the consumers' decision of buying counterfeited goods

Coyle et. ali [5] discuss about piracy in music. They think that the ability to distribute digitized music, the perception of an unfair treatment as long with the misunderstood expectations of buyers/sellers of music have created a favourable environment for music piracy.

Regarding the factors which influence the ethical behaviour or the attitude towards ethical consumption, previous researches have approached demographic, cultural and situational factors.

Babakus et. ali [1] consider that a better comprehension of variations among consumers, regarding their beliefs on unethical behaviour, at a global level, could help in business development, but also in the propagation of public policies.

Many of the researchers think that age could influence the ethical behaviour. Babakus et. ali found out in their study that younger people are more tolerant when it comes to unethical behaviour.

Carrigan, Szmiging and Wright [4] also sustain the idea that age is very important factor. The authors came to the conclusion that older people (50 and more) have higher morale and are more ethical when it comes to consumption. They think that the over 45 age segment is often underestimated, especially regarding subjects as novelty, technological innovation.

Older people are more predisposed to boycotting companies/brands which develop an unethical behaviour, but only in certain conditions. Carrigan, Szmiging and Wright conclude with the idea that their study cannot be generalised and that it can be approached only from an idiographic perspective.

Women were found to have a more positive attitude towards ethical behaviour [1; 14], but other authors think that the sex factor does not have an influence on ethical behaviour [3].

Income and education are positively correlated with ethical consumption [14].

Coyle et. ali [5], in order to illustrate the way how people decide to purchase or pirate music, take in consideration three influencing constructs: attitudinal factors, demographic factors and purchasing/pirating behaviour. They came to the conclusion that younger men with lower incomes have more the tendency to pirate music. Also, they found that the legal/ethical factor has a great significance in describing the past behaviour and predicting the future one.

Starr [14] found through her study that individuals who are influenced by politics, are more likely to have an ethical consumption behaviour, this suggesting a general influence of

pro-active attitudes in the socio-political participation.

Ford, Nonis and Hudson [7] affirm that values influence attitudes, attitudes influence behaviour, and behaviour has effects on culture, forming in this way a circular phenomenon. They think that the most frequent mistake made by marketers is that they fail to understand cultural differences. In their study, they measure six types of basic attitudes, with the help of six scales:

- theoretic
- economic
- aesthetic
- social
- politic
- religious

The authors found a significant difference between the US and middle-eastern culture. The political dimension has the highest result in the case of the US culture, regarding ethical consumption. This dimension also influences the middle-eastern culture, along with the “social” attribute. The middle-eastern are seen as keen on social welfare and interaction between individuals.

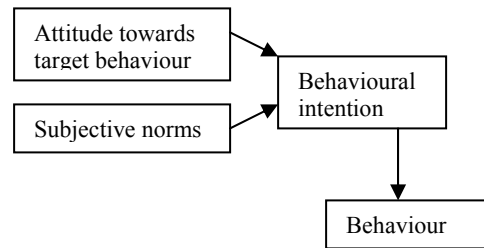
Babakus et. ali [1] also emphasize on cultural differences, trying to expand the research on the role of individual background variables, as determinants of unethical consumer perception. They underline the power of one nation to be different from others.

Egan and Taylor [6] analyse the general personality traits that predict the attitude towards shoplifting and unethical behaviour. Predictors for this type of behaviour, according to their study, are lower IQ’s and lower incomes, especially at young males. Their study also shows that between personality and unethical behaviour exists a significant relationship.

### 3. Behavioural typology. Causes for unethical consumption

Shaw and Shiu bring into discussion the fact that some researchers in ethical consumerism rely on the Theory of Reasoned Action/Theory of Planned Behaviour [12, p. 1487]. This theory is described, from a general perspective, in the next figure:

Fig. 1: Theory of Reasoned Action

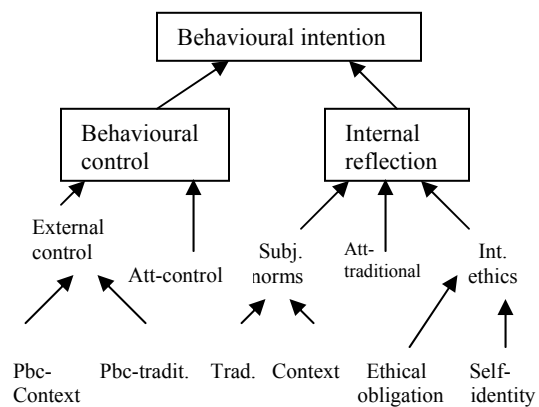


Source: Foxall R.G, Goldsmith E.R. and Brown S. [8]

Attitude and subjective norms (the individual’s beliefs about what other people think related to his actions) determine the genesis of the behavioural intention and, in the end, the actual behaviour.

The authors offer an adapted, more complex model relying on the traditional theory, in order to explain behavioural intention:

Fig. 2: Influences of behavioural intention



Source: Shaw D. and Shiu E. [12]

Explanations:

- Att-control represents the attitude of the individual towards difficulties
- Att-traditional relates to the attitude towards fair-trade
- Subjective norms-traditional reflect the normative others from the traditional theory
- Subjective norms-context refers to groups associated to fair-trade
- Pbc-context and pbc-traditional derive from “perceived behavioural control”

Shaw and Shiu tried to demonstrate that the behavioural intention of the individual has behind it a complex structure of influences.

Rawwas took in account Hofstede's classification of the dimensions which make societies different [apud 11, p. 189]: power distance, uncertainty avoidance, individualism and masculinity.

The author also uses in his study Hofstede's typology to categorize the different types of nationalities and their culture [apud 11, p. 192-193]:

- Functionalists (Nordics, Anglo-Saxons): people with high common-sense, with a well-developed sense of perceived risk; they have the tendency to be individualistic;
- Deferents (Latin nations, Mediterranean and Japan): the opposite of functionalists; are hard-working and obedient;
- Survivors (German): they weigh all possibilities and then they choose the one which can help them achieve their goal;
- Enthusiasts (Asian and African people): they listen to their superiors and are risk-tolerant.

He offers another typology, in order to complete the first one:

- Achievers (American business men, Anglo and some of the Asian): are aggressive and very competitive; their morality is variable;
- Absolutists (Latin Americans and Asian): are cooperant and are encouraged to take group decisions- collectivists;
- Situationists (some of the Latin, German and Japan): they accept a condition only if it brings safety and benefits;
- Conservationists (Indonesia, few of the Nordics and Africans): are preoccupied with society and environment.

The conclusions of Rawwas's study are that functionalists have a tendency of being more pragmatic, deferents have more stringent ethical values, absolutists can be idealistic and achievers more relativistic.

Babakus et. ali [1, p.260], regarding the attitude towards unethical behaviour, have made a classification of the consumers, giving five different categories:

- Puritans
- Realists
- Indifferent
- Tolerant
- Cynics

The extremities are puritans and cynics and show the most clear segmentation. Puritans mostly young people (57%), mostly female (57%) and Anglo-Saxons. Cynics, although have a small overall percentage, include young people (89%), male (53%), the majority form the UK (73%).

In a study regarding similarities between the opinions towards ethical behaviour of countries from the North and South of the European Union, Polonsky et. ali [10, p. 119] remind about four categories of questionable behaviour:

- people who actively benefit on the behalf of the retailer;
- people who passively benefit on the behalf of the retailer;
- deceitful practices;
- no harm/no foul.

The first category is related to consumers who initiate this type of actions and who perceive the action as being illegal. In the second, the situations are determined by the seller's mistakes and the consumers don't do anything to correct them. The third category regards situations which are initiated by consumers who do not see the act as being illegal. Finally, the last category describes the situations in which consumers think that no harm is done to the seller.

Regarding possible causes that determine people to engage or tolerate unethical behaviour, Carrigan and Attalla [3] have identified the following:

- poor quality of information; in order to maintain an ethical behaviour, people must be constantly informed;
- there are too little constraints for companies to behave in an ethical manner;
- the gap between attitude and behaviour;
- the lack of personal impact.

Callen-Marchione and Ownbey [2] make a very interesting point by sustaining the idea that an unethical behaviour can determine supplementary costs for the consumers, as sellers increase prices to cover losses, an adverse shopping environment and many restrictive policies in stores.

#### 4. Conclusions. Further research

Although ethical behaviour is presented from different views in the marketing literature, its importance remains the same. Ethical

behaviour includes both consumers and companies behaviour and attitudes towards morality, honesty and environmental protection.

Ethical behaviour is seen from the environmental perspective (eco-buying, recycling, boycotting companies which have an unethical behaviour) and from the moral perspective (shoplifting, counterfeiting products, buying/selling pirated music, films and software).

This type of behaviour could not exist without the influence of such factors as: demographic factors (age, sex, education), cultural (the differences between nationalities) and situational factors.

Adopting a behaviour or simply having an opinion are not the only important elements. People are extremely diverse, but through some similar characteristics, different typologies have been conceived by specialists, in order to help international commerce and marketing.

Even though the causes that lead to unethical behaviour seem changeable, consumers along with companies put very little effort in making an importance change.

An interesting subject for further researches would be how countries from Europe differentiate from one another regarding ethical behaviour. For example, a study regarding the ethics in countries from Eastern Europe, especially in the economic crisis context, can be taken in account for the following researches.

## 5. References

- [1] Babakus E., Cornwell T.B., Mitchell V. and Schlegelmilch B., "Reactions to unethical consumer behaviour across six countries", *Journal of Consumer Marketing*, Emerald Group Publishing Ltd., vol. 21, no. 4, 2004, pp. 254-263.
- [2] Callen-Marchione S.K. and Ownbey F.S., "Associations of unethical consumer behaviour and social attitudes", *Journal of Fashion Marketing and Management*, Emerald Group Publishing Ltd., vol. 12, no. 3, 2008, pp. 365-383.
- [3] Carrigan M. and Attalla A., "The myth of the ethical consumer-do ethics matter in purchase behaviour?", *Journal of Consumer Marketing*, Emerald Group Publishing Ltd., vol. 18, no. 7, 2001, pp. 560-577.
- [4] Carrigan M., Szmigin I. and Wright J., "Shopping for a better world? An interpretative study of the potential for ethical consumption within the older market", *Journal of Consumer Marketing*, Emerald

Group Publishing Ltd., vol. 21, no. 6, 2004, pp. 401-417.

- [5] Coyle R.J., Gould J.S., Gupta P. and Gupta R., "To buy or to pirate: the matrix of music consumers' acquisition-mode decision-making", *Journal of Business Research*, Elsevier Inc., vol. 62, 2009, pp. 1031-1037.
- [6] Egan V. and Taylor D., "Shoplifting, unethical consumer behaviour and personality", *Personality and Individual Differences*, Elsevier Inc., vol. 48, 2010, pp. 878-883.
- [7] Ford W.C., Nonis A.S. and Hudson I.G., "A Cross-Cultural Comparison of Value Systems and Consumer Ethics", *Cross Cultural Management*, Emerald Group Publishing Ltd., vol. 12, nr. 4, 2005, pp. 36-50.
- [8] Foxall R.G., Goldsmith E.R. and Brown S., *Consumer Psychology for Marketing*, 2<sup>nd</sup> Edition, International Thomson Business Press, London, 1998.
- [9] Harrison R., Newholm T. and Shaw D., *The Ethical Consumer*, Sage publications Ltd., London, 2005.
- [10] Polonsky J.M., Brito Q.P., Pinto J. and Higgs-Klein N., "Consumer Ethics in the European Union: A Comparison of Northern and Southern Views", *Journal of Business Ethics*, Kluwer Academic Publishers, vol. 31, 2001, pp. 117-130.
- [11] Rawwas Y.A. Mohammed, "Culture, personality and morality. A typology of international consumers' ethical beliefs", *International Marketing Review*, MCB University Press, vol. 18, no. 2, 2001, pp. 188-209.
- [12] Shaw D. and Shiu E., "Ethics in consumer choice: a multivariate modeling approach", *European Journal of Marketing*, Emerald Group Publishing Ltd., vol. 37, no. 10, pp. 1485-1498.
- [13] Shoham A., Ruvio A. and Davidow M., "(Un)ethical consumer behaviour: Robin Hoods or plain hoods?", *Journal of Consumer Marketing*, Emerald Group Publishing Ltd., vol. 25, no. 4, 2008, pp. 200-210.
- [14] Starr A. Martha, "The social economics of ethical consumption: Theoretical considerations and empirical evidence", *The Journal of Socio-Economics*, Elsevier Inc., vol. 38, 2009, pp. 916-925.

## 6. Acknowledgements

Financing through the project  
POSDRU/88/1.5/S/47646.

# Ethical Behaviour in Business - Premise for Obtaining Performance under Crisis Conditions

Iuliana Talmaciu  
Mihaela Simona Mărăcine  
*Constantin Brâncoveanu University, Pitesti, Romania*  
*iuliana\_talmaciu@yahoo.com*  
*mihaela.maracine@yahoo.com*

## Abstract

In the current context of globalization of the economic, social and even spiritual life, the people's need for morality is increasingly becoming stronger. The accelerated economic progress and the global expansion of technologies led to the reaffirmation of the ethical considerations. Undoubtedly, the current financial crisis, doubled by the moral one, represents an obstacle in the development of companies that are forced to treat ethics as an issue that can no longer and should not be ignored anymore.

**Key words:** ethics, morality, ethical behaviour, crisis conditions

**JEL classification:** M14

## 1. Introduction

To begin with, we can consider *ethics* as being the science of the ethos (of morality), of good/evil (Socrates, Plato, Cicero), of happiness, of virtue (Aristotle), of pleasure (Aristip), of the social ideal. Ethics has emerged as a distinct branch of knowledge due to Socrates. As a scientific subject it has existed since the time of Aristotle, who raised ethics to the level of "the dignity of science." The role of ethics is to help people and institutions to decide what is best to do, on what criteria to choose, and which their moral obligations are in their actions. Ethics is a rational approach to morality. Some of the ethical norms are rooted in our past. Some ideas about what we should and should not do come from our parents, teachers or friends. The people who influence us give us ideas about what is right and what is wrong.

Ethics is also determined by the community where you live. The schools, the businesses and all the types of organizations have standards and they expect people to follow them. But our "ethics" also comes from our culture and traditions. We are surrounded by culture and traditions every day. Culture characterizes the group with which we identify ourselves (sometimes it is our generation). Sometimes it is the community in which we live. It may be our nation or our colleagues. But in every culture and even in every social group there are the behaviour's own peculiarities that concern: the way of shaking hands, the ability to look the interlocutor into the eyes during an important discussion, the speaking style, the obligation to fulfil big and small promises. [1]

**The ethical sense** represents a person's faculty to distinguish between right and wrong and to respect the moral order.

## 2. The perspectives of the business – ethics relationship

By their nature, businesses are competitive, but economic competition has its bases in the cooperation between shareholders, managers, employees, customers, suppliers and even between competitors. In other words, good and healthy businesses are governed by rules meant to ensure benefits for all partners. Some of these rules are the legal norms that most business people consider mandatory for everyone. But the law can not provide clear and indisputable solutions in all situations, sometimes very complex, which may occur in the commercial relationships.

Where the law has nothing to say, morality is the only guide that we can rely to make the best decisions. In theory and in practice business people must meet certain moral standards.

Which are the strongest, the most just and most effective moral rules that a successful business person should take into account? The answer to that question is not simple at all and widely accepted. Different people's concept on the moral and social responsibilities that a business person must take on decisively depends on how to understand and define the concept of business itself.

The business person only seeks to earn as much as possible on the long term; it is his/her "duty" as a business person. If it had been it in his interest to do so, within the limitations of the law, without caring for anybody else, everything would be perfect. Unfortunately, every business depends in its various activities on many other groups of people, each having their own interests. Ignoring or disregarding these interests of the different categories may sometimes be profitable in the short term, but in the long term it would prove disastrous. For this reason – and for this reason alone – a judicious business person, who knows and serves well and efficiently his own interest, has to take into account the interests of those who depend on his business as well. Businesses may be affected not only by the owners' reactions, but also by the reactions of the employees and of the customers, suppliers or creditors. Their tastes and preferences, including the moral preferences will influence their willingness to do business with a particular firm, and that is why they should be considered in estimating the owners' long-term value. It is important to have an ethical behaviour both towards the suppliers and towards the shareholders, in dealing with the employees or with the customers. Fairness must be mutual between employers and employees, between producers and consumers or between creditors and debtors. That is why the basic idea of ethics in business is confirmed with theoretical arguments: "good ethics is good business" while "bad ethics is bad business".

Ethics in business is merely an application of the general moral rules in the specific field of business. The businessperson's duty is to maximize profits, as Aristotle would have said, it is one's "virtue" and eminently characteristic of a good businessperson. But this is not a robot, programmed not to pursue anything else, but he is primarily a human being like everyone else and, as such, he is subject to the universal moral values and standards, which must have priority

over the limited purpose of his professional activity. Whenever the businessperson's interest conflicts with the moral values and norms as such, the latter have priority, even if their compliance may be temporarily detrimental to his business.

From the theoretical point of view, we can talk about three perspectives regarding the relationship between ethics and business:

- the incompatibility between ethics and business (affairs have nothing to do with ethics);
- the compatibility between ethics and business;
- the primacy of ethics over business (in some cases, the business interests of companies should be subject to ethical considerations).

The three perspectives of the relationship between ethics and business materialize in the four distinct theories:

1. *The theory of incompatibility between the business and ethics* starts from the premise that ethics and business have nothing in common; there are no ethical responsibilities in business; there is no ethics in business. Albert Carr supports the idea that ethics belongs to the personal lives of individuals, and it should not be confused with the rules that business people follow in their professional field: "*When you are at work, do business, and when you are home, reflect upon the issue of loyalty towards friends or other ethical issues.*" [2]

Obviously, most people perceive the business environment in a less noble, ruthless manner, since it is related to profit. Besides the vices which, undoubtedly, some business people have, the typical arguments against the ethics-business combination are, essentially, *the following myths*:

- *Ethics in business is more a religion than a managerial science;*
- *Ethics in business is a good study subject for philosophers, scholars and theologians;*
- *Our employees have an ethical behaviour, so we do not need ethics in business;*
- *Our organization does not have trouble with the law, so it is ethical;*
- *Managerial ethics has little practical relevance.*

Such myths are not confirmed by reality because during the last two decades, the business world has become an academic subject; in the West superior schools have been set up in which

*business ethics* is a subject that enjoys great success, and businesspeople started to be respected for their honourable occupation. The continuous development of the needs and consumption has prompted the need for ethical regulations in business, the subject no longer being restricted to some negative connotations such as immorality of business on the grounds given by the fact that money is the common denominator of business.

2. *The theory of compatibility between business and ethics or the theory of single social responsibility of businesses to make profits.* This view is based on the minimalist approach expounded by Milton Friedman, one of the fervent defenders of the free market, including the ethical constraints that go beyond their own rules of business and especially the essential purpose: profit. Any involvement in charitable actions, in social projects which do not lead to the increase of the profit represents a theft from the shareholders' pocket because the corporate managers do not have to and neither do they have the power to initiate public policies. The government should protect the interests of the firms and to relieve them of "additional" obligations to society; profitable businesses serve society by creating jobs, by improving the living standards of the owners and employees, on the one hand, and on the other hand, companies pay taxes which support the social actions of the government.

Although it claims that the only purpose of businesses is to make profit, the theory justifies by *moral reasons* this one-dimensional nature of the businesses. Only the profitable (good) businesses are useful to society, they are ethical businesses that on long-term meet ethical fulfil moral and social objectives.

3. *The "stakeholders" theory* assumes that any business organization has a social responsibility and a moral duty towards all the groups that influence and are influenced by its economic and commercial activity, not only towards the owners (shareholders). Any business must fulfil a social role and the purpose of a business is not to make money for its owners, but to provide customers high quality goods and services at affordable prices, to create jobs for its employees, to protect the environment, to financially support sports, arts and technology advances, etc., finally obtaining a reasonable profit for its owners, as deserved reward for their services for the community. [3]

The businessperson is not a strategist concerned with the progress of the entire society and by the eradication of all evils from the world; his job is to run his business as well as possible, namely to obtain considerable profits, which requires compliance with the law and supply of products and services sought and valued by consumers. Before being a "businessperson", the capitalist is a person like any other, with his limits and moral aspirations of general human nature. There are business people with a high moral conscience, which determines them to act in business with maximum seriousness as well; there are also business people with a precarious moral conscience, which makes them act with fewer scruples in their professional activity. Furthermore, all business people must, by their very status, to make decisions that are profitable, which obliges them all to do some calculations and to act according to certain rules.

The important fact is that, regardless of motivation, one reaches the same practical conclusions: pursuing the long-term profit excludes a rapacious and irresponsible behaviour towards customers, employees, suppliers, creditors, competitors, etc. On the contrary, a good business person – that is to say one who earns well from what he/she does – is the one who never forgets, not for a moment, the interests of the many categories of stakeholders, striving to meet their requirements.

4. *The theory of corporate social responsibility* is the approach which assumes most of ethics in business, given that a corporation's obligations extend to the level of the entire community (regardless the reasons), not only to the level of the groups that contribute to the company's profits. The theory claims that the primary responsibility in business of firms is to make profit, but there are ethical limits or constraints on what can be done effectively in business; in other words, in terms of ethics, the right to obtain a profit is not unlimited.

A motivational factor of the companies' involvement in social activities (excluding the one strictly aimed at the economic performance and obtaining further gains from the advertising due to "charity" actions) is promoting what is called *value-based management*. In this case, managers act to promote shared values in the organization, including the moral ones, aiming mainly at two effects: improving the company's



image by associating the idea of worthiness to the one of performance; and creating and strengthening the team spirit within the company. [4]

At first glance, it is easy to understand that “ethics in business” is an area that seeks to clarify the moral issues which currently arise in the economic agents’ activities from a capitalist society. Business ethics is essential for the long-term success of the business.

Our moral standards relating, for example, to correctness, righteousness, justice, differ from one individual to another, because of the difference of values to which they relate. Therefore, nobody can say with certainty that a certain moral standard is either good or bad, but it may be shown if it expresses an obligation towards the others and not only a benefit towards ourselves.

Most times it is very difficult, even in the simplest cases, to distinguish between ourselves and the others, between benefits and obligations and, especially it is hard to make these distinctions in business, where a benefit to some may represent damage (or an unpleasant obligation) to others.

In solving ethical issues, the key questions are:

- Who would win and how much?
- Who will lose and how much?
- Is what we are doing legal?
- Who benefits from and who bears the consequences?
- Would we trade places with the customer who expects us to meet a particular need?

Peter Drucker states that the owner, the business person, managers must “consciously take on responsibility for the common good and to curb their own interest and authority when their carrying out harms them and the individual freedom” [5], a conservative, demanding vision, sprung from the idea of a social order based on a moral purpose in which accepting the responsibilities, the duties and the obligations justifies claiming the rights.

### **3. Ethics in the Romanian companies**

In Romania, there are currently two views on ethics in business. On the one hand, there are several supporters of the idea that Romanians, eager to emulate the Western model, have begun to study and to teach business ethics, even if the

national economic system is not yet one compatible with the market economy from the developed capitalist countries; thus it is considered that Romania, unnecessarily and ridiculously, is trying to incorporate modern features of the Western culture in a social reality weakly developed and outdated. On the other hand, the followers of the other position, more numerous and more logical in their arguments, believe that business ethics is a necessity in Romania, since the penetration and expansion on a wide scale and at high levels of corruption in the Romanian society is one of the main inhibitors in the way of attaining a functioning market economy, efficient and internationally competitive [2].

Ethics and ethical behaviour are very important for all business people. Unfortunately, many do not consider that an ethical code and a moral behaviour have such a great impact on the results they want to achieve as entrepreneurs or investors. Very few Romanian companies are interested in ethics and compliance. According to Smart Solutions & Support [6], Romanian companies leave, for the most part, the ethical issues into the hands of some departments poorly prepared to deal with them, such as the human resources departments. Thus, in almost two thirds of these cases, these issues remain unresolved. Companies and their employees could use more and more corruption and anti-ethics practices in the current period, in the attempt to survive the global economic crisis. Business people will focus less on the issues of corporate responsibility and integrity, in the context in which their companies are making efforts to themselves keep afloat and are faced with pressing problems, such as staff reductions.

A report from December of Transparency International shows that among the big exporting countries, the companies from Russia and China are the most prone to bribe when doing business abroad. No other country, however, is immune to the dubious practices. On the other hand, some companies might unintentionally encourage the corrupt practices among their employees through a wrong policy of bonuses. In such a climate, it is more important than it was before that companies ensure that their anticorruption systems are effective and that employees are aware of the standards.

The companies operating on the less regulated markets, from the emerging market economies,

where corruption is more widespread, must not use the local conditions as an excuse, and senior management must take on a firm conduct. According to Transparency International organization it is expected that as the financial crisis continues to expose fraud in the large corporations, such as the Madoff case or Satyam Computer Services from India, and to become clear that the corrupted activities are not only a consequence of the crisis, but have also played a role in its onset. [7]

Most issues of the Romanian business environment are born from the intersection area between politics and business: corruption, interest conflicts, ambiguities left in problems such as the control of assets, lobbying, and sponsorship of political parties. One can identify three major sources of ethical problems in the Romanian business environment:

- (1) state interventions on the market, consisting of facilities granted to certain economic agents (subsidies, debt relief and rescheduling), legal uncertainty, interventions on the financial market and on the price policies for utilities and some commodities;
- (2) in the producers-consumers relationship, disloyal corporate practices and to the limit of legality, quasi-monopolistic practices of some of the big companies and of the distributors of public utilities;
- (3) the practices from the employer-employee relationships (black market labour, wages below the minimum income, discrimination or other forms of abuse of employees).

To understand the nature of problems that entrepreneurs have to face, the Analysis and Surveys Department of the National Council of Private Small and Medium Enterprises (SMEs) from Romania (CNIPMMR) conducted a study on a sample of 1,399 SMEs considered representative nationwide. The study shows that 44.64% of the respondents considered that the economic environment is unfavourable for business development, while only 25.50% think that it is favourable to entrepreneurs.

Furthermore, the main obstacles in the activity of SMEs are generated by the state institutions which interact with the market. The survey reveals that three main factors that negatively affect this sector are excessive bureaucracy, the evolution of the legal framework and corruption. Entrepreneurs must

understand the importance of ethical codes, to know that their compliance determines the creation of long-term business relationships, as well as the increase of the companies' credibility.

#### 4. Conclusions

Currently, taking into consideration the globalization of the economic life and the growing demands of the society, ethics in business presents a practical interest to the business people who can use various tools and methods to enhance the moral component of the organizations they are working for and to enhance, thus the company's profits, also contributing to the general welfare of the society. Undoubtedly, an ethical, responsible and cooperating is advantageous and mutually beneficial for the partners of a long-term business relationship.

#### 5. References

1. Puiu, Al., *Managementul în Afacerile Economice Internaționale*, Independența Economică Publishing House, Bucharest, 1997;
2. Iamandi, Irina, Radu, Filip, *Etică și responsabilitate socială corporativă în afacerile internaționale*, Editura Economică, București, 2008;
3. Crăciun, D., *Curs de Etică în Afacerile Economice Internaționale*, Editura ASE, Bucuresti, 2004;
4. \Popa, I.; Radu, Filip, *Management Internațional (International Management)*, Editura Economică, București, 1999;
5. Drucker, P., *Realitățile lumii de mâine*, Editura Teora, Iași, 1999;
6. \*\*\*Alexandru Enache ; "Omul care vegheaza la binele companiei" ("The man who watches over the company's welfare"), [www.newschannel.ro](http://www.newschannel.ro), 19 dec. 2008;
7. \*\*\* [www.newschannel.ro](http://www.newschannel.ro)\*\*\*Bogdan Diaconu, "Etica made in Romania" ("Ethics made in Romania"), [www.revista22.ro](http://www.revista22.ro), 08.feb.2006;
8. \*\*\* [www.etica-in-afaceri.ro](http://www.etica-in-afaceri.ro)
9. \*\* [www.theinvestor.ro](http://www.theinvestor.ro)

## The Informational Component in Teaching the Language for Economics through an Authentic Material

Tamaş Cristina

*Ovidius University of Constanta*

*The Department of Foreign Languages for the Non-Philological Faculties*

*cristina\_tamas2003@yahoo.com*

### Abstract

Informatics, especially the Internet, represents a new approach for the teacher interested in new methods of teaching foreign languages. More and more attracted to the Internet, the students will combine what is necessary with what is pleasant in learning rapidly a language for special purposes. In this paper I have presented the objectives of teaching French language for the Economics starting from an authentic material on the Internet: Lafarge Group which is a multinational enterprise and a world leader in building materials, with a branch in Romania, Constanta County, Medgidia town.

**Key words:** internet, learning, enterprise, branch, communication.

**JEL classification:** D83

Information is an inevitable stake for the maintaining and developing control by the actors in the economic field. Without it, the management and the renewal of products and markets, the organization of their distribution and consumption worldwide would not be possible. The importance of information is essential in the economic field, since the great merit of unquestionable accomplishments rests with it. Economy is based on information in almost all its forms: techno-scientific, geographical and media. At the same time, information supremacy has succeeded in creating specialized fields from the viewpoint of the necessary language for understanding the main global problems. Morin states that: "Under the economic pressure, the tissue was cut into small pieces; hard to recompose the whole. Economy for the economists, demography for the demographers".

According to the requirements of today's society, there is a great necessity for the integration of the economic vocabulary into a

larger community, that of the university, on the one hand, and of the business environment, on the other hand. Thus, economy and its specific language, at the human being's service, should lead us towards the civilization of a modern society, able to favour the understanding of the specialized economic language as well as the mechanisms that influence it.

The informational component in economy is a social achievement. It sets up rules for the individual, taxes which ensure the control of the company, and regulations which prevent tax evasion.

Or, the new stakes of a global informational economy should deliver to the students who major in economics all those specialized terms belonging to the economic mechanisms. From a practical point of view, the students in economic sciences should take into account not only their qualities as individuals, but also their role of social actors who will have to face a multitude of communicative situations in their future workplace, and the accomplishment of the consequent requirements. In order to manage them well, the individuals make use of a series of skills which they already dispose of, and, acquire new ones permanently.

The defining of the communicative objectives imposes, as we have already seen, the taking into consideration of the target group's needs. Sophie Moirand conceives a functional scheme whose outcomes make the difference between the contextual and the communicative objectives – the movement of the contextual objectives towards the communicative ones will be made through the identification of various factors and their relationship with verbal and non-verbal elements of communication, as well as the analysis of verbal elements (or speech elements) produced in similar circumstances.

Among the general objectives, the teacher will focus on the following ones:

1. to initiate depending on the social, job relationships in an enterprise;

2. to train with a view to understanding the written and oral documents stipulating job relationships;

3. to help with the drafting of materials for experimenting FOS on the Internet, s/he must meet with the students' views to answer, in the best possible way, the question: what should learners know, and, above all, know what to do in order to manage the activities of communication found on a site. So, they will have to get accustomed to the different tasks among which:

a) knowing the communicational and job relationships within the enterprise;

b) controlling the discourse, that is knowing how to cope with one situation of communication: specific vocabulary, syntactic constructions, strategic aspects, patterns of behaviour;

c) having the ability of a good negotiator, capable of entertaining a business meeting.

4. to have an in-depth knowledge of the enterprise's business contents;

5. how will the assessment of these communication activities be made and according to what criteria?

The main *thematic objective* will be dictated to the students and this will make up for the framework within which the teacher will include the other objectives and speech acts. In our case, the thematic objective will be: an awareness of the various means of written and oral communication used in a multinational company which has its own site and wants to make a correct publicity for its normal run of things.

Regarding the *discursive objectives*, the teacher identifies the definitions and explains the difference between the written and the oral communication means (s/he will tell the students about the promotional movie that they will listen to several times).

Since we are in the situation in which the Internet becomes a partner for the student, the linguistic objectives will be identified together with the speech acts.

Therefore, in the assessment or self-assessment, students will be asked to identify sentence types in enterprise communication (affirmative, negative, passive, impersonal).

The teacher's explanation is necessary for such tasks: *When and in what context have we expressed obligation (interdiction, permission and so on)?*

Our students usually correspond to the *level BI+*, they succeed in understanding and using a number of words concerning the exchanged

quantity of information. They are able to explain a difficulty, provide the accurate information demanded for a business encounter, however with a limited precision; give their opinion on an article, a presentation, or a discussion; answer supplementary questions or summarize them; conclude a prepared encounter by checking and confirming information even if sometimes the interlocutor has to repeat it when his answer is too long or rapidly uttered; describe how certain things should be done and give detailed instructions; exchange with a great certainty a large quantity of factual information on questions from his domain. So, one can access the Internet address <http://www.france-entreprise.fr/> where one can find *the yearbook of the French enterprises on the Internet*. There, one can choose between *Alimentation et boissons*, *Antiquités* or *Économie* (Foreign trade exchanges, Consulting, Business Correspondence, Human Resources, Economic data and R&D, Services, Financial Services...). The yearbook improves the students' intercultural competence and offers an overall picture of the criteria on which enterprises can be classified. Thanks to this site one can view the list of the most important French enterprises quoted on exchange with the ratio Stoxx50.

The teacher presents the history of the *Lafarge* enterprise with a branch in Romania, Constanta County, Medgidia town. *Lafarge* Group is a multinational enterprise and a world leader in building materials followed by Holcim. It has three main activities: concrete and granules, cement, gypsum, and subsidiaries in 79 countries. In 2008, its turnover amounted to €19,033 bn., from which 57% in cement, 35% in concrete and granules, and 8% in gypsum. The group hires around 84,000 employees all over the world in 2,187 production areas. The Cement Company Lafarge has been developing special cement well-known for its quality. Lafarge is a world leader in building materials. The activity of the concreter Lafarge started in Ardèche, 1833, after the takeover of a family business launched in 1749 by the founder Léon Pavin, and whose factory exploits a stone pit in the mountain Saint-Victor dominating the river Rhône situated between Le Teil and Viviers. Since 1864 the pit has been supplying 11,000 tons of chalk for the Suez Channel; it is the first large-scale construction site of the enterprise. In 1919, the activity changed into a joint-limited company under the name *Société*

*anonyme des chaux et ciments de Lafarge et du Teil*, and since 1939 Lafarge has become the first French concrete company and one of the world leaders. In 1980, the merger with the Belgian company Coppée gave birth to Groupe Lafarge Coppée and, in 1997, it took over the British Redland which allowed Lafarge to enter the market of tiles. On 12th July 2001, the takeover of the British Group Blue Circle Industries Plc (BCI) allowed Lafarge to become the first global cement manufacturer before the Swiss Holcim. To fund this acquisition Lafarge resells under the form LBO its main branch of specialized building materials, renamed Materis. On 29<sup>th</sup> June 2004, Lafarge decided to double the capacity of its cement site from Dujiangyan, in China, to register 2,4 million tons, and signed a partnership agreement with Shui On Construction Materials Limited (SOCAM), a Chinese concrete company quoted on Hong-Kong exchange. In 2007, Lafarge SA announced the repurchase of the cement division from the Egyptian Group Orascom, Orascom Cement for € 8,8 bn., but, in the same year, it was sentenced together with Vicat enterprise for illegal agreement and abuse of dominant position on the wholesale market for cement supply in Corse.

On 2<sup>nd</sup> July 2008, *Lafarge Couverture* becomes Monier after the cessation of Toiture activity at PAI partners, and on 19th August 2008, on the occasion of cement nationalisation suggested by the Venezuelan president Hugo Chavez, Lafarge signed up a contract of transferring its Venezuelan branches.

On 28th July 2009, within the global framework of the Group's disinvestments, Lafarge announced the demise of its assets Cement and Granules & Concrete in Chile (Lafarge Chile SA and Immobiliaria San Patricio as well as the cement site La Calera) to the Peruvian Group Brescia for the amount of US \$ 555m.

The Group, which contains more than 1,240 enterprises holding the majority of shares and around 230 enterprises having a share of the benefit, is extremely decentralised. It is structured on three branches:

- cements, the headquarters and the French technical services are situated at Saint-Cloud, whereas the international technical services are located at L'Isle-d'Abeau.
- granules and concrete,
- gypsum.

Each branch regroups the total number of units from its field of activities all over the world. These units have a limited competence on a geographic area, generally a country, for a given activity. The head office of the group situated in Paris includes the headquarters, the executive board and the assembly of the functional directions.

If we click on Lafarge Enterprise, we will find the whole necessary vocabulary for the presentation and promotion of a company: the agenda, the stock list, lasting development, Research and Innovation, Clients and Activities, Shareholders and Investors, Journalists, Candidates etc.

For instance, in the 2010 news releases, we are likely to find out that *Lafarge* (world leader in building materials, which occupies a leading position in each of its activities: cement, granules & concrete and gypsum), exceeds its objectives to reduce CO2 emissions in the natural environment. In order to keep its promises, Lafarge invests considerable sums of money in durability: more than € 800 m have been invested in the last five years in industrial environmental imprint of the Group's cement sites.

*Ethique et gouvernance* offers the students the opportunity to watch the management strategies which are an integral part of the criteria for durable development. Lafarge *gouvernance* is characterised by strong ethical principles.

One can distinguish three aspects:

- the success of teamworking: the Group's main objective is to help everyone to succeed;
- the constant improvement in performance: Lafarge carefully supervises the optimization of its products and services.
- the <<multilocal>> organization: Lafarge activities are local, but they fit into a global logic.

The fact of listening to such a presentation can be considered as a very important oral comprehension factor in professional communication, and can be used as a supplementary material.

From the economic viewpoint, after the listening of the discourse, one should insist on the term *gouvernance* which the students can write down. Enterprise *gouvernance* is made up of the totality of orientational, control and evaluation mechanisms. More precisely, this term can equally refer to the executive board's functioning rules.

We can also indicate the *glossary* of the site [http://www.lafarge.fr/wps/portal/2\\_6Glossaire](http://www.lafarge.fr/wps/portal/2_6Glossaire)

where the students can find words and phrases specific to the activity of the enterprise (bauxite, photovoltaic cell, loose ash, co-incineration), as well as economic terms for the multinational group (The International Organization of Travel (IOT), The United Nations Programme for the Environment UNPE). However, it would be useful that the information offered by the site be enlarged upon through consolidation exercises grouped in a database. Evaluation is, in fact, based on a process designed as an open spiral where the teacher is always active and ready to adjust, readjust and rephrase the suggested activities. The student can learn to communicate with the group presenting the profile of Lafarge and its strategy.

The teacher, in his turn, can intervene by asking open questions about the student's future career prospects: *Would you be happy to work in a multinational like Lafarge? Why?* Teaching the students how to use the Internet site effectively both in the classroom and in their individual study is the first step towards their autonomy.

Nevertheless, the Projects <<Langues Vivantes>> under the aegis of the European Council have included in their fundamental objectives the research on the concept of autonomy and the methodological strategies liable to contribute to its application in the teaching and learning systems of the European languages.

## References

1. Bailly, D., *Pour une application de la linguistique théorique à l'enseignement des langues*, en *Langage*, 39, 1975.
2. Cilianu-Lascu, Corina, Coiculescu, Alexandra, Chițu, Livia, Făgurel, Otilia, *Franceza pentru economiști – Mots, expressions, discours en Economie*, Teora, București, 2005.
3. Cilianu-Lascu, Corina, *Communication d'entreprise: Concepts, stratégies, techniques, pratiques*, Editura InfoMega, 2004.
4. Constantinescu-Stefănelm R., *35 cas de négociation commerciale*, ASE, București, 2003.
5. Danillo, M., Penforis, J.L., *Le français de la communication professionnelle*, CLÉ International, 2003.
6. Ivanciu, N., *Le français des affaires en milieu interculturel*, Editura ASE București, 2006.
7. Lehmann, D., *Objectifs spécifiques en langue étrangère*, Hachette F.L.E. Paris, 1993.
8. Moirand, Sophie, *Approche globale des textes écrits en Etudes de Linguistique Appliquée*, n. 23, 1976.
9. Morin, Edgar, Naïr, Sami, *Politique de civilisation*, Ed. Arléa, Paris, 1997.
10. Noel-Jothy, Françoise, *L'évaluation comme enjeu pour la promotion du français*, *Le Français dans le monde*, no. 324, 1.11.2002, Hachette, Paris.
11. Stoean, Carmen-Ștefania, *Classe d'expérimentation en pédagogie du projet*, în *Dialogos – Sciences du langage et didactique des langues*, nr. 18/2008, Editura ASE București.
12. [http://fr.wikipedia.org/wiki/Lafarge\\_SA](http://fr.wikipedia.org/wiki/Lafarge_SA).

## Human Assets in the Social Control Management

Vărzaru Anca Antoaneta

*Economics-Accounting-Finance Department*

*E-mail: varzaruanca@yahoo.com*

Vărzaru Mihai

*Management - Marketing Department*

*E-mail: mihaivarzaru@yahoo.com*

*Faculty of Economics and Business Administration, University of Craiova, Craiova, Romania*

### Abstract

Attempts to quantify the human assets of an organization happened the first time in the US in 1960, when it was tried to end it in their balance sheet. This idea of quantification started to analyze the differences in value between similarities or changes made in time by the same organization and the premises had the decisive contribution of human activities. The practical consequences of the current research on human activities were not eloquent. In recent years the problems of quantification has been resumed by the focus on intangible elements of the organization, without accounting field to find a satisfactory solution to all parties. Construction of the strategic balanced scorecard refit problem in assessing the human factor concerns of managements' instrumentalization.

**Key words:** Human assets, human resources management, social pilotage.

**JEL classification:** M12, M40, M 41

### 1. Introduction

The combination of the three terms, accounting, assets, human have seemed until recently at least un-operational. The first term usually evokes techniques to evaluate transactions on products, materials; the third has a sacred character. The second term has several meanings, so it is not known whether to be understood as a group of people in work or as a set of constituent elements of a heritage. Ambiguous combination of

these terms increases the scope of investigation. In the broader sense it can be understood as a set of concerns, which aims to provide a balance-sheet translation in human resources evaluation in the organization and any initiative that aims to express the collective assessment on individuals in a situation of work.

Originally, human asset accounting aimed at entering a value in the balance sheets, a concern which reappears today with the intangible assets evaluation problem. Then, integrated to costs accounting, the evaluation of the human factor is performed in the center of construction for strategic board panels.

In the 1970s, in the US, an important current of research into assessment of human resources has been developed. The main idea is to give formal recognition to the importance to the human value of businesses' assets, including human resource asset in the balance sheet. In the face of many difficulties and criticisms, applications have remained relatively limited. Reflections related to the current accounting intangible assets provide the force of this current.

Human asset accounting issues underwent a fast period, on the conceptual plan in the 1970s, by the emergence of theoretical works, experimental applications in organizations, research on the impact of decisions and unexpected geographic distribution. In 1960, the US recorded a strong pressure for firms to improve the information system both for shareholders and to support internal decision. Researchers in accounting identify in this requirement a source of social legitimacy, which, for twenty years, fueled important current proposals aimed to take account

of “social performance” or socially responsible behavior of companies or to quantify the benefits of social achievements. Attempts which were booked to value human assets are increasingly being felt in this movement, causing the appearance of two theoretical currents:

- The human capital theme, developed at the initiative of economists Schultz (1971) and Becker (1964), according to whom human being is regarded as an asset that has a monetary value characterized by all its attitudes, knowledge and experience; as any capital, it must be the subject of investment and maintenance of costs, which brings benefits to enterprises that is engaged;
- Human relations school, animated by psychologists and specialized in the analysis of labor and psychologists, such as Rensis Likert (1967); for them, the arrangements for evaluating performance based exclusively on gains in the short term can cause the apparition of some management styles that are likely to alter relations human and ultimately be detrimental to profitability and long-term profitability of the organization.

The first method of accounting for human resources have been the object of an evaluation of human resource costs and, secondly, evaluation of human resource value. To assess human resource costs were proposed three ways: historical cost, replacement cost and opportunity cost.

Historical cost method, developed initially by Flamholtz and Main (1999) and Pyle, recognize and record the costs of staff as an investment, it is recruiting costs, with the selection, integration, with training. In the condition in which they are calculated, recorded and conveniently attached to an accounting year, they may be amortized over the useful life of human active. This term is derived from the age of retirement, the maturity of employment.

Replacement cost method was presented by Flamholtz and Main (1999) as an alternative or supplement to the previous method. Founded on the principle of historical cost upgrade, it is intended to record the expenses that should be employed to reconstruct the same human potential at its disposal at any time given.

Opportunity cost is defined as the use of human resources in the most favorable alternative. Hekimian and Jones (1967) have suggested a competitive auction in the company, where those

responsible for the division play the role of “buyers of personal”. In principle, the auction should allow to determine a situation of equilibrium that represents the “price” group of persons, assimilated to the incorporable economic value of business assets.

Attempts to measure the value of human resources were at their origin, exclusively monetary, but some models have integrated the economic variables and behavioral variables. Monetary approach of Hermanson (1986) proposes two techniques:

- The “goodwill” latent method, which takes into account a forecast of future earnings and human resources assigned any greater than normally expected earnings in a given sector;
- The method of updated value of labor flows, weighted by a factor measuring the relative effectiveness of human resources of an enterprise; Models combining non-monetary approach, behavioral with another monetary are based on Likert's (1967) work. Framholtz and Main (1999) defines an approach to the value of work product, offering an updated model of the future prices of services or, in other words, the human resource is the flow of revenue brought by the staff.

Publication of the financial statements which are elements of human asset accounting has been a first application of these tests, but it remained very limited. RG Barry Corp Company debuted in 1966 by applying the historical cost method, but no further than a few years experience.

Applicability of methods has been restricted to organizations or organizational sectors in which gray matter, competence and experience are determined for the product or service market.

These ideas were published until the 1980s by the accounting and financial success, but have not done it in human resource management magazines, where penetration has been slow and limited, marking specialists skeptical in regard to their usefulness. Criticisms made in these methods were many and various:

- The very specific nature of “human activity” raises the question of legitimacy of its accounting for the immobilization; the accounting model with patrimonial dominancy considers an asset that is not owned by the organization
- Various proposals of evaluation methods fowl difficulties of calculation making use of subjective estimates
- The concept of value is retained only in terms of cost to business or income for individuals, but not



in terms of advantages for the organization; the economic value of human resources appears particularly through their capabilities and skills, rather than cost

- The complexity of the models and its' application cost have also been a brake on their development
- The scientific validity of the models was considered unsafe, because of the concepts considered unclear or confusing
- Researches, based on a hypothesis of a simple addition, remained very focused on the intrinsic value of individuals, ignoring the collective and organizational context in which they operate and the synergy effects resulting from their cooperation

The accounting rules, both national and international, have not taken into account the concerns of human asset accounting.

The importance of activities that convey information, dematerialization of business activities and growing of intangible assets have re-launched the accounting debate carrying on their evaluation.

An increasing number of authors draw attention to the fact that in the post industrial age, firms depend on knowledge and information. Therefore, they should pay particular attention to developing human and intellectual capital. Even for economy companies called "traditional", exchange value is at least twice the book value of assets, which tends to show that there is an immaterial value "hidden", consisting of essential human knowledge, Bounfour (1998).

Researchers in accounting are now in favor of making active partial or total costs of certain human resource management, as recruitment and training, Martory and Pierrat (1996). After several years, the OECD has become an active supporter of these ideas.

The integration of these concerns in accounting approaches has not occurred because of conceptual difficulties (purpose of accounting information, the definition of asset) and practical (method of evaluation and quantification of problems).

In practice, human asset accounting would involve a reconsideration of the general objectives of accounting and taking into account economic activity as a source of jobs and income for employees or, more generally, the social responsibility of the company, which is not included in any of the existing conceptual frameworks.

Taking into account the human resources as assets refits design problem assets and what distinguishes it from an expense. French design, which privileges an optical property, do not record, in principle, as active rather than items that are owned enterprise, which means that they are identifiable and separable and may be subject to disposal authorities. This prohibits any possibility of active human resources costs. Anglo-Saxon conception and IASC believes that values human assets that may cause future revenue, offering the possibility of activation. In practice, the assessment methods in historical costs prohibit almost all of the registration of securities which have not been the subject of transactions, which considerably limits the field of human resources operations. Evaluation by the cost of replacement faces the low possibility of an intangible asset to be reproduced identically. Evaluation by future revenue involve identifying and quantifying specific revenue it generates, which is a hypothesis often difficult to sustain in the case of human resources and it is difficult to distinguish between what is apparent from the collective organization and which reveals individual contributions.

The only case in which activation may be admitted involves training expenses.

## **2. Social pilotage and organizational management**

The importance given to the evaluation of human capital has gradually dimmed in favor of research on "human cost". This interest overlaps growing attention from the organization lower costs, to search for new increases in productivity and increased staff training. Management focused on cost-oriented analysis / results, allowing decisions on improving human resources, taking into account the hidden costs generated by such measures. As a result, management has sought instrumentalization methods, allowing the articulation of strategic management and human resources.

After several years of research, interventions were concentrated on the socio-economic domain. Savall H. and ISEOR of Lyon (1979) developed the concept of "hidden cost/performance" in order to assess the costs of the organizations benefits of measures to improve social (staff turnover and quality).

In the US, the same type of approach has been put into practice by Spencer and Cascio in costs and behavior at work in the field of costs and selection procedures benefits, training programs and helping employees. In Sweden, companies like Ericsson and Telia have developed calculation methods that allow assessment of the cost of sickness leave and staff rotation.

Methods in supporting the decision making process are related to the management accounting and organizational control. They are often put into the methodology of management control and auditing business in areas like employment policy, the policy of recruitment and human resources development, organizational management type of work, evaluation of a profit training program.

At the level of global management, accounting methods can bring these original classifications for investment policies: integrating social costs among the criteria and calculations of investment choice, taking into account the human conditions of use in the examination of various possibilities of equipment. The construction of new tools for management control of employees favors, thus, the functions of organizational management and human resources.

A new approach has been made known for several years and it tends to link the operational performance of the strategy. The research of Kaplan and Norton (1998), "on the prospective balanced scorecard" allowed a better measuring of this procedure, which has been experienced for over 15 years. Linking strategic indicators and indicators of results, this model is special because it addresses the following four axes: customer, process and innovation, organizational experience and financial expertise.

### 3. Conclusion

Attempts in human assets accounting were multiple, but they had difficulty in accounting methodology, which is not compatible or prepared in this regard.

There is a favorable current, accepted by accounting researchers, to include in the asset some costs for human resources management, such as recruitment and training, with a partisan in OECD.

Management did not remember the results of previous research, thus it oriented towards "cost-

results" analysis, with immediate implications in the decision making process.

Quantify human assets strategic vision was promoted by the emergence of concepts of social control and social piloting, with the balanced scorecard and social balance.

This approach provides more information on human resources and their performance, on organizational behavior.

Quantifying human assets is still a goal that depends, among other things, on the accounting paradigm change.

### 4. References

- [1]. A. Bounfour, "Le Management des Ressources Immatérielles, Maîtriser les nouveaux leviers de l'avantage compétitif". Dunod, Paris, 1998, p.298
- [2]. E.G. Flamholtz and E.D. Main, "Current issues, recent advancements and future directions in human resource accounting". J. Hum. Resour. Cost. Account., vol 4, 1999, p. 11-20
- [3]. E.G. Flamholtz, "Human resource accounting: advances in concepts, methods and application", 3rd ed., Kluwer Academic Publishers, Boston, 1999, p.412
- [4]. J.S. Hekimian and C.H. Jones, "Put people on your balance sheet", Harvard Business Review, vol. 45, no. January/February, 1967, p.88-96
- [5]. R.H. Hermanson, "Accounting for human assets", Atlanta, Business Pub. Division, College of Business Administration, Georgia State University, 1986, p.62-69
- [6]. R.S. Kaplan, and D. Norton, "Le Tableau De Bord Prospectif", 2e édition, Les Éditions d'Organisation, Paris, 2003, p.312
- [7]. B. Martory and C. Pierrat, "La Gestion de L'immatériel". Nathan, Paris, 1996, p.286.
- [8]. C. Pierrat, "Immatériel et Comptabilité", Encyclopédie de Comptabilité, contrôle de gestion et audit, Economica, Colasse B. (Ed.). Paris, 2000, p: 793-807.
- [9]. H. Savall, and V. Zardet, "Mastering Hidden Costs and Socio-Economic Performance", Information Age Pub, 2008, p.346

## New Organizational Forms and their Influence on Human Resources Function

Vărzaru Mihai

*Management - Marketing Department*

*E-mail: mihaivarzaru@yahoo.com*

Vărzaru Anca Antoaneta

*Economics-Accounting-Finance Department*

*E-mail: varzaruanca@yahoo.com*

*Faculty of Economics and Business Administration, University of Craiova, Craiova, Romania*

### Abstract

Dynamics of organizational forms manifests to the enterprise level, and to its subsystems. Human resources function is subject of optical and content changes that are exacerbated by the emergence of NTIC. To be able to promote change, human resource function should adopt a structure best suited to strategic alignment requirements. The article highlights the need for consistency between enterprise organization and human resources function, which must be experiencing the strategic changes within the organization and NTIC influence and promote within the assembly. The issue of organizational resource function can be considered as the main vector in the reception and promoting the change and NTIC. Subject and object of change, the human resources function should be the managements' main partner in the process of change, being the first organization that consists also the structure of human resources functions, which greatly perceived NTIC influences. All these studies lead to the idea that human specific new organizational forms. The evolution of enterprise organization influenced according to company strategy. It must tend to an adocratic type structure, which should apply an important reference mark with those of Ford, Porter and Mintzberg and continuing with the

structure was the object of numerous studies as principles of value channel to its own activities. In this regard, emphasis should focus on the activity of knowledge management, cultural and organizational change, leadership, motivation and personnel achievement, and other activities to be only supervised.

**Key words:** New organizational forms, e-management, new techniques of information and communication, compatibility, human resources function.

**JEL classification:** M10, M12, M20, M21

### 1. Introduction

The degree of compatibility and correspondence between the internal characteristics of the organization, way of operation and type of environment the organization faces allow a configuration of a specific manner. This combination will inevitably influence the choices of the organization in matter of management, as previously interested several researchers in organizational design (Perrow, 1961) -a rational perspective; (Woodward, 1965; Burns and Stalker, 1961; Galbraith, 1973, Weick, 1979, Lawrence and Lorsch, 1989 -contingency

perspective; (Mintzberg, 1982; Lawrence and Lorsch, 1989; Giddens, 1979; Pettigrew, 1987;

Nizet and Pichault, 2000) with the political perspective).

In most cases, the types exposed by the researchers are found only partially in reality, they represent marks according to which the organization is placed, according to the models issued by different participants. It is important that they allow managers to be positioned thanks to these models proposed by different authors. However, these models of configuration described do not stand for long and then they should be updated.

The definition of organizational configuration given by Paillot emphasizes the need for enterprises to take account of multiple internal and external elements in their approach to effectively structure; it also states the fact that existing typologies are found only partially in reality, because they are only the main features of that reality.

The operational design of enterprise depends on two important restrictions:

- Internal constraints, developed by Mintzberg (2004), who wants to answer the question of how to organize enterprises.
- External constraints highlighted by Porter and Millar (1985), related to how enterprises are positioned.

Mintzberg (2004) undertakes the largest and most important synthesis ever made in scientific literature on the organizational phenomenon. As a result of intense research and synthesis, Mintzberg (2004) identifies various organizational configurations that can coexist with dynamic and its' transformations, configurations that organizations are facing along their evolution, such as the simple structure, mechanistic bureaucracy, professional bureaucracy, divisional structure and adhocracy. For Mintzberg (2004), the organization's structures may be included in one of the five basic categories listed above. He admits there are two types of adhocracy: Operational adhocracy (one unit of creation that evolves in a competitive market, such as an advertising agency or a producer of software) and administrative adhocracy (where work can be directed toward research, for example NASA).

Regarding their evolution, Mintzberg (1993) mentions that the models of simple structure and mechanistic bureaucracy correspond to the past;

professional bureaucracy and divisional structure are specific for today, while adhocracy represents the structure of tomorrow.

Aware of continuous change context in which organizations evolves, Mintzberg (1993) does not eliminate the perspective of further development of the structure according to different influences, already announcing two structural configurations: The missionary structure and political structure.

The two types occur after a thorough analysis of one of the contingency factors, respectively the power.

The above thematic approach allows the release of a central thesis, highlighting that any organization can be analyzed as a form more or less precise for these different poles, in other words and any concrete organizational form would necessarily be situated within these configurations. Political organization is characterized by the development of "illegitimate" power. When the enterprise is not able to install a stable system of authority, without a prevailing characteristic, conflicts evolve and get out of control, reaching the form of political enterprise, where each pursues its own interests. Some enterprises are just temporary policy, especially in difficult periods of transformation; others remain like this for long periods of time. The missionary organization is characterized by the harmony of veils and the beliefs of its members, which pays attention not only to internal powers, but also to common interests.

Each person can have a degree of latitude in the organization to which it belongs, indicating an almost pure form of decentralization.

To understand the manner in which enterprises formulate their strategy, Mintzberg (1993) is, thus, highly interested and he studies:

- The manner in which the enterprise is structured, as the structure is the basis for numerous organizational problems
- Factors of contingency, goals and authority system

Depending on the crucial variables-the conception of the structure, factors of contingency, goals and authority, the author defines five configurations. Each enterprise represents such a structure or a combination of them, being hybrid from this regard. During his research, Mintzberg

(1993) calls the rationalist theory, contingency and policy theory.

Actors build organizational context and then these structures are, in turn, restrictions on their action.

The second restriction in terms of structural configuration was developed by M. Porter (1998), who transferred discussions about enterprises' strategy to the marketplace, moving away from the idea of a theoretical concept that applies to different functions of organizations.

He also identifies the five factors that govern the competition and which are very useful to managers who try to analyze the conventional situation of their company:

- Rivalry between enterprises
- Threatening of new market entrants
- The threat of substitute products and services
- The bargaining power of suppliers
- The bargaining power of customers

These factors should be identified as clear, in order to define the best strategy to be adopted and, where possible, monitored their evolution. Based on these benchmarks, Porter and Millar (1985) defines five generic types of enterprise or structural environments: Dispersed, to come, maturity, decline and international scale. In terms of competitive advantage, the author considers that a company can have two types, through cost or differentiation. To estimate competitive position, Porter uses the method "value channel", which explores all the activities and their interactions, reveals the origin and influence costs, existing and potential sources of differentiation.

Channel value theory provides a framework for strategic analysis of the enterprises' activities and the cost evaluation for each of them and allows knowing the use of a possible differentiation among various activities. The profit of a company corresponds to the gap between the value of its activities and their cost, while the notion of value channel allows rigorous analysis of what is valuable for the buyer and makes him agree to pay a higher price than normal or even abandon a product or service in favor of another.

“Table 1: The specific characteristics of new organizational forms”

---

Groups of characteristics

---

**General attributes**

Globalization  
Hyper-flexibility, adaptability  
Continuous improvement, innovation,  
Orientation toward "stakeholders"  
Tolerance to uncertainty

**Structural features**

Payment structure  
The absence of internal borders  
Indistinctive external borders  
Compatibility between the structure and work process

Decentralization  
Network  
Self-organization  
Permeable borders

**Processing of information**

Integration of technology for telecommunications  
Organization "electronics"

**Conception of jobs**

Empowering individuals and work groups (auto-control, entrepreneurship)  
Continuous learning  
Interoperable work, on team

**Management**

Leadership without control: Less directive and evaluation, more facilitation, communication, work network  
Tolerance to ambiguity, trust in individuals

---

An enterprise strategy corresponds to a consistent configuration of its activities, which will allow a differentiation over competitors. Porter and Millar (1985) shows how the concept of valuable channel can serve as a privileged instrument to diagnose the competitive advantage. He describes the manner to decompose the enterprises' activities that are prior for this advantage and identifies the connections between them.

Porter and Millar (1985) suggest a valuable channel that takes into account New Techniques of Information and Communication (NTIC), which also make Roux and Soulier (1997). The introduction and development of NTIC contribute to the changing of the value creation process, to reduce restrictions regarding the location,

geographic position and transformation of the relationships with customers and suppliers.

Traditional forms of organization are based on a distribution of tasks and objectives, generating the notion of hierarchy and a report type of activity designed to ensure the systems' balance. This distribution may be more or less rigid and concerns an ideal and a high efficiency. Classical models of organization have a striking hierarchy feature, with defined roles and rigid compartment.

Currently, unchanging structure represented by organizations is not adapted to new requirements enterprises must fulfill. Butera highlights that this type of structure "remains essential for border demarcation between market and hierarchy, to maintain balance between strategy and structure to reallocate resources, but loses importance when it comes to defining the tasks and the manner of their address.

The review of the organization, reordering of roles and enrichment of missions of its component causes restructuring in order to get better efficacy. Today, from various reasons, many moves to restructure and change the organization can be seen, from which we can individualize the new organizational forms. Desreumaux (1996); Louart (1996); Miles and Snon (1992) have dealt with the concept NFO, highlighting specific characteristics (Table 1).

Comet mentions all aspects of organizational changes over time, which allows supporting the transition from standing bureaucratic organization to a procedural organization. She made several tables that illustrate the changes that have occurred in the division of labor, coordination mechanisms; change the systems of influence, the goals and values, environmental changes. To achieve the changes required by information and communication technologies, companies have adopted a vision through the process. Growing interest of companies for modeling processes may be referred by developing ERPs' and PGIs' (collaborative activity programs). Technological developments arising from the occurrences of Intranet, Internet determine enterprises to have a profound reconfiguration, often identified as a reconfiguration through the process or BPR.

Use of Intranet in the company trains changes in depth, both in the manner of work (rhythm and content of work) and organization. For example,

management of "virtual" companies is allowed by the development of these technologies. New technologies of information and communication allow the radical organization and (put in question) phasing result in functional organization, which seems misfit to economic environment and technological developments. Hammer and Champy suggest replacing the cut function in the activities around an aggregation processes occurring in the enterprise. The vision of the enterprise, where it is considered an aggregation of processes enables an effective and efficient change of organization in relation to its internal and external environments. With the support of NTIC, a specific form of virtual enterprise is developed. A new form of organization is now the network. Kiosur considers virtual organization as "an entity composed of members who perform the same work and communicate exclusively through electronics which suppress almost entirely physical meetings". Other authors refine their views, claiming that the organization may not be entirely virtual, this quality can be manifested at various levels: Local, organizational or inter-organizational. Scouarec and Yanat distinguish two cases of establishment of network organizations:

- The cross crews consisted to achieve a specific mission in an organization
- Grouping of separate entities to perform a certain task. This form of organization is opposed to functional enterprise, characterized by stiffness, especially in terms of reference of time and space. It shares mobile borders, is based and provides the appearance of new skills

These changes do not remain without consequences on management models, because, besides the change the structure, organization-network cannot operate independently of a review of management powers.

As enterprises are subjected to extensive changes, due to factors that influence their strategy and structure, their subsystems also, go through the same transformation. Since the 1980s, the human resources function has known a dynamic evolution, tending to decentralize, to reduce the vertical structure and to outsource tasks both inside and outside the enterprise. Literature study reveals some consistency between the configuration and policies of human resources management. Organizations with their structural configurations

are complex entities, various and multiform, such as their relationships with human resource management are manifold.

In terms of developments that have known human resource management from the beginning of the XX<sup>th</sup> century, Pichault (1996) offers a short, but interesting, history allowing specialists to form an overview of these changes, grouped into three stages:

- Human resources management focused on personal activities, defined by Belanger and Petit (1998) as "all activities of attraction, development and conservation of human resources, aiming to provide to working structures a productive labor, stable and satisfied"
- Systemic management of human resources, integrated gradually as a system in the enterprise. Human resources function interacts with other organizational variables to answer enterprise objectives and combine economic success with technical success and the social engineering
- Strategic management of human resources, through which function integrates to enterprise strategies and approaches to management

This presentation captures well the transition from a human resource management which manages its own activities independent of any other variable (Phase I), then, secondly, the emerging needs to integrate this function with other organizational components to make the overall process more efficient. The integration process lasts long enough, because only in the 1980s the function has its place in the establishment, while the prerogative in enterprises was to restore performance and competitiveness objectives.

“Table 2: Correlations between structural configurations, the dominant actors and models of human resource management”

Structural configuration	Dominant actors
Entrepreneurial management	Strategy Arbitrary
Bureaucratic techno-structure	Specialists from Objective

It also responds to managers who want to know their effects in improving human resources performance in enterprise and the effectiveness of

Emerging of strategy notion inside the function and the fact that with the organizational strategy, an important role is also held by the strategies of the organization' players, train human resources management to a political management.

Activities and practices of the function are widely redesigned under the influence of two phenomena:

- The development of new forms of organization, such as virtual enterprises and now network
- A significant increase of use the New Techniques of Information and Communication (NTIC) by enterprise staff

The first cause of deep changes that faced and are facing human resource function is the organizational change of the enterprise, started by NTIC. Huault (1998) considers that new forms of organization lead to a redefinition of roles and functions within the enterprise, reducing the level and power of hierarchy but also the emergence of new setting and a profound evolution of human resources function.

The second cause of mutations that occurred in the functions of human resources is an increasing use of NTIC within the enterprise activities. Function must deal with complex mechanisms and have an immediate responsiveness to management earnings, forecast of the effectives and skills, in management of work time.

From this point of view, NTIC participate and support services of human resources and make the necessary changes in anticipation of structuring and proper functioning of the office. Study of Matmata, regarding the place of human resources function towards these changes, answer to the will of understanding and analyzing the impact that NTIC has on it.

Professional operators	Qualified Conventionalist
Missionary officially designated actor	Without an Valuable
Adhocratic operators	Models of human resources management
individual/hierarchical line	Qualified Based on an

human resources function in its performance for operational structures.

Several research studies, but also the reality of today reveal that information technology will have

a strong impact on the activities, location and direction of human resources, because it amends individual and collective work situations, but also operational processes of the channel. This way, significant changes in the channel value of enterprise take place. The academic thinking ranks human resources function mutations at the evolution of the work structures level, its missions that can be decentralized, outsourced or kept in the same service, but also to the level of each roles in reaching the specific objectives.

Henriet (1999) considers that human resources function has gained new features which may be formulated as follows:

- A new configuration, characterized by decentralization and reduction of hierarchy, mainly to increase its reactivity
- A new strategic dimension, taken to obtain a competitive advantage by refocusing on the issue of competencies and outsourcing of activities not covered in this new feature of function
- New powers in the human resources function

Human resources function is in full transformation, characterized by processes of dispersal and delegation. The first process involved a large movement of decentralization and reduction of central services, simultaneously with research responsibility of actors closer to the field.

The second process was possible because of NTICs' influences, which authorized the emergence of an initial redistribution of the function, increasingly decentralized at the operational level, sometimes even relocated outside the organization borders.

Today enterprises are refocused on their base occupation and outsource some of the functional and administrative areas considered non-strategic. This follows a redeployment of forces and their professional resources to new roles, with lower costs and with high added value. As outsourced activities we can mention payment, selection of candidates (recruiting) and training.

New organizational forms that have appeared in the enterprise do not remain without consequences in terms of issues facing human resource management specialists in their role and mission, but also the structure and position functions as such. These developments do not have a radical character, since this is more than a change

in the context of action faced to the organizational changes. Many researchers urge caution regarding the influence of organizational structure movements on human resources management, considering the differences between what is said and what is actually done in the enterprises. It remains essential that between the organizational structure and human resource management there must be a compatibility, to provide the good functioning of the enterprise.

Interesting, are from this viewpoint, the proposals of Nizet and Pichault (1996) which based on the five structural configurations of Mintzberg (2004), identify five basic models of human resource management: arbitrary, objective, individualized, conventionalist and valuable. These models are, according to two researchers, dependent variables from structural configurations (Table 2).

The study of compatibility between organizational structures and human resource management was the object of several debates in the trade journals. Henriet (1999) tries to provide an answer concerning the implications that organizational transformations have on human resource management policies, but also on how human resources policies participate in making these changes. Human resources policies play a key role in facilitating the development of new cultures and successful launch of the new technologies of information and communication, being active elements in the process of change. Interactions between organizational changes and introduction of NTIC, in which human resource policies are active elements of change, are induced in the Figure 1.

“Figure. 1 Interactions between organizational changes and introduction of NTIC”

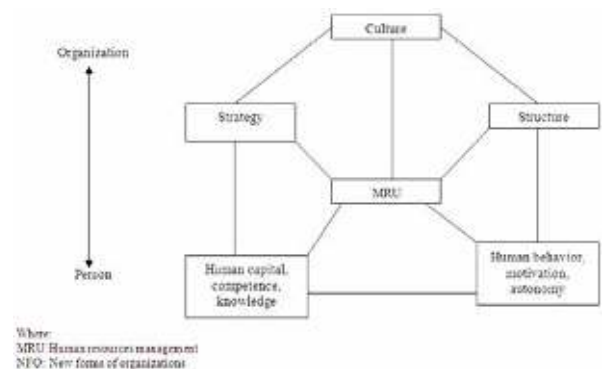
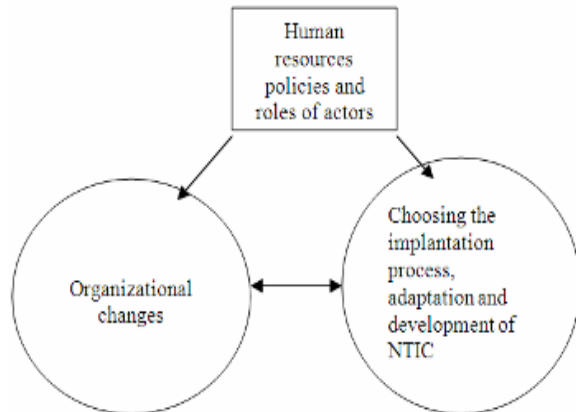




Figure. 2. The place of human resources management in the NFO”



Because of their role and position, human resources and organization actors are in the center of change, especially those caused by NTIC. From another perspective, it is possible that some changes motivated by different factors to claim NTICs' development. The role of human resources is fundamental here, considering the choices they must make in accordance with the organizations' objectives.

Louart (1995) considers that besides the impact of NTIC, human resource management depends on many factors:

Organizational contexts, especially the internal structures and their environments

The actors point out in the company, with their influences of power that they own;

Uncertainties about the desire that these actors work together

It is clear that human resource management changes depending on organizational developments, being consequential in the heart of change, but also their catalyst. The same is sustained by Chambrier, who noted that under the influence of organizational developments human resource management changes and realize change. "The relationship between human resource management (MRU) and organization in the New Organizational Forms (NFO), figure.2, are placed to the exigency level of a direct participation of human resources in new practices of work...passing from the logic of minimizing the influence of human variables on systems performance to a logics that seeks to integrate human variables to relentlessly improve enterprise performances".

Regarding the involvement of human resources function in technological changing, its organizational structure is most appropriate in assessing the interaction between technology and work organization. It is able to provide organizational and human constraints to support the introduction of new technologies, to judge organizational changes to be made to make suitable structures to facilitate optimal use of NTIC. Human resources direction is also the one who should construct appropriate training programs and foster a culture of continuous learning, Jacob and Ducharme (1998) conclude that the essential of such approach is to adapt to the context of single organizations and function and that there is no other form of success.

Regarding the position that the human resource function will have to take in the technological change, the two authors mention that the treasurer should adopt in this case the anthropocentric paradigm, because the development and use of knowledge are applicable to each individual.

## 2. Conclusion

Organizational changes required by enterprise strategy should have a direct and immediate correspondence with the structure of human resources function.

The paper points out that change in the organization and those of human resource functions overlap interact with each other, hence the need for compatibility between the two assemblies. Human resources function must be the first component subject/object of organizational change required by the environmental strategy and by NTICs' influences. It has to experience these changes and to extend them to the organization level. To truly be a promoter of change, the human resources function should use the "value channel" model, and focus on those activities that enhance its contribution to creating value for the enterprise, such as, knowledge management, culture and organizational change, leadership, motivation and involvement, etc., leaving others only in supervision state.

Privileged position and its new content gives to the function of human resources the potential to achieve the first an adocratic structure.

### 3. References

- [1]. L. Belanger and A. Petit, "Gestion Stratégique et Operationelle des Ressources Humaines". Boucherville, Gaëtan Morin, 1998, pp: 5.
- [2]. des Horts C.H. Besseyre, "Typologies des pratiques de gestion des ressources humaines". Revue Française De Gestion, No. 65-66, 1987.
- [3]. T. Burns, and G.M Stalker, "The management of innovation", Oxford University Press, Revised Edition, 1994
- [4]. A. Desreumax, "Nouvelles formes d'organisations et evolution de l'entreprise". Revue Francaise de gestion, Nr.107, janvier-février, Paris, 1996.
- [5]. J.K. Galbraith, "Economic and the Public Purpose", Houghton Mifflin, 1<sup>st</sup> Edition, 1973, p.334
- [6]. B. Gazier, "Les Stratégies des Ressources Humaines". La Découverte, Paris, 1993, p.117.
- [7]. A. Giddens, "Central Problems of Social Theory. Action, Structure and Contradiction in Social Analysis", University of California Press, 1979, p.294
- [8]. B. Henriët,"La gestion des ressources humaines face aux transformations organisationnelles". Revue Francaise de gestion. Juin-jouillet-août. Paris, 1999, pp. 82-93
- [9]. I. Huault, "Les nouvelles dimensions du management : la GRH dans les nouvelles organisations", Cahiers Français, nr.287, juillet-septembre, 1998, p.73-78.
- [10]. R. Jacob and J. Ducharme, "Changement technologique et gestion des ressources humaines", Gaetan Morin, 1998, p.344
- [11]. P. Lorens and J. Lorsch, "Adapter les structures de l'entreprise. Integration and differenciation", Paris, Les Editions d'Organisation, 1989, p.237
- [12]. P. Louart, "Succès de l'intervention en gestion des ressources humaines". Rueil-Malmaison (France), Editions Liaisons, 1995, p.314.
- [13]. P. Louart, "L'apparente revolution des formes organisationnelles". Revue Francaise de Gestion, nr.107, janvier-février, 1996, p.74-85.
- [14]. R.E. Milles, and C.C. Snow, "Causes of failure in networks organizations". California Management Review, Berkeley: Walter A. Haas School of Business, University of California, Los Angeles, 1992, p. 53-72.
- [15]. H. Mintzberg, "The structuring of organizations". Prentice Hall, 1<sup>st</sup> edition, 1979, p.512
- [16]. H. Mintzberg, "Structure in fives: Designing Effective Organizations". Prentice Hall, London, 1992, p 312.
- [17]. H. Mintzberg, " Le management. Voyage au centre des organisations", 2edition, Les Editions D'Organsation, Paris/Montréal, 2004, p.576.
- [18]. J. Nizet, and F. Pichault , "Les pratiques de Gestion des Ressources Humaines. Approche contingente et politique", Paris, Edition du Seuil, 2000, p.332
- [19]. J.M., Peretti, Dictionnaire des ressources humaines. Paris, Vuibert, 1999.
- [20]. C. Perrow, "The analysis of goals in complex organizations", American Sociological Review Publisher, no.26, 1961, p. 854-866
- [21]. A. Pettigrew, "The Awakening Giant: Continuity and Change in ICI", Wiley, John&Sons Incorporated, 1986, p.536
- [22]. F. Pichault, "Ressources humaines et changement stratégique. Vers un Management Politique", 2e Edition, De Boeck Université, Bruxelles, 1996, p.187
- [23]. M. Porter, "Competitive Strategy: techniques for Analyzing Industries and Competitors", Simon&Schuster Adult Publishing Group, 1998, p.432
- [24]. M. Porter, and V. Millar, "How information gives you competitive advantage". Harvard Business Review, volume 63, no.4, 1985, pp.149-160.
- [25]. D. Roux, and B. Soulier, "Nouvelles technologies de l'information et gestion de l'entreprise ". Encyclopedie de Gestion, Economica, Paris, 1997, p.1205.
- [26]. J. Weick, "The Social Psychology of Organizing", McGraw Hill Humanities, 1979, p.294
- [27]. J. Woodward, "Industrial organization: Theory and practice", Oxford, Oxford University Press, 1981, p.288

## Evaluating Online Destination Image by Analyzing Pictures Used in Presenting Romania on Websites

Oana Catalina VICOL  
Sinziana SPIRIDON

*Doctoral School of Economics, "Al. I. Cuza" University, Iasi, Romania*  
*oana.vicol@rembrand.ro*  
*sinziana.spiridon@rembrand.ro*

### Abstract

The purpose of the present paper is to evaluate the main elements transmitted through pictures used in developing Romania's image as a touristic destination with application in developing a more coherent and unitary strategy of online promotion. We evaluated a sample of 667 pictures collected from 15 Romanian and foreign websites. Results show a high percentage of what we call commercial elements as hotel exterior and interior images and a lack in promoting Romanian cultural and natural treasures.

**Key words:** Romania, tourist destination, Internet, website

**JEL classification:** L83, M39

### 1. Introduction

Starting from the more simple consideration of the tourist destination as a product, studies in this field have reached today to a much higher level of complexity. The analysis of tourist destination is presently approached from four different perspectives: economy geography-oriented, costumer-oriented, marketing management - oriented, and cultural [10].

Regarding the image literature, there are three ways accepted to think about it. The first one approaches image as a composite construct that means that the image is based on the attributes/perceptions/ associations/ impressions that an individual have on a tourist destination. The first definition accepted by researchers it has been given by Crompton in 1979 and defines the

tourist destination as "sum of beliefs, ideas and impressions held by people about the destination" [13]. The second is the attitudinal construct introduced by [4]. They consider the main part is the cognition, the physical traits, and affect [2], the emotional response. In the third concept - the societal concept- the focus is on the socially constructed consensus of reality.

Gartner (1993) classifies the sources of information received as base of the process of destination image formation is based in organic and/or induced sources. The organic sources include to news, movies books, school, movies, etc.– materials that don't have the objective of advertising a specific destination; the induced sources include videos, brochures, advertisements, posters, the Internet and other marketing and communication instruments used to promote a destination.

### 2. Internet influence on destination image formation

It is well known that the internet occupies today a major part of our lives. This way the internet has become an important channel of communication in the tourism field. Expressed in a marketing language we can say that the internet is a perfect channel for the tourism industry because of its intangibility, high perceived risk and high price.

Regarding the demand of touristic information on the internet, statistics show that an increased number of individuals are using the internet for information about the destination they want to visit. Here they find almost any information they need about a city, country, village or something else. The challenge is on

the offer-side to create and promote using the internet destinations that are on the top of the list of their potential clients [7].

### 3. Destination image online

In [12] there are compared materials regarding the presentation of Russia as a touristic destination existing on the Russian and US websites with the purpose of identifying the main differences between the most frequently mentioned places from Russia and the description of Russia as a travel destination. They analyzed the text of 212 US and Russian tour operators, official sources, and travel guides.

[11] analyzed the image representations of Macau on the Internet by using both qualitative (text mining and expert judgment) and quantitative approaches (correspondence analysis).

Among the studies dealing with content analysis of textual and/or pictorial materials are also [3], [5].

### 4. Content analyses of destination image

In the literature, the destination image is most approached as a three-dimensional continuum of destination image; functional-psychological, attributes-holistic and common-unique [4], [5], or composed by three components cognitive, affective and conative hierarchically interrelated [6].

In both situations, the measurement should contain unstructured and structured methodologies. A major part of the constructs used to analyze the destination image are using multivariate or bivariate structured techniques.

The combination of both quantitative and qualitative methods of collecting data has been recognized by the majority of researchers. The qualitative method is the preferred way to discover the holistic and psychological levels, that can't not be an easy approach by using the quantitative methods [4].

Qualitative content analysis includes manifest content and latent content [1]. The manifest content can be identified through the process of naming and translation, while analyzing images at a latent level involves the subjective

interpretation of “the structure and set of rules – the codes – that transform a picture’s compositional appearance into a shared and meaningful message” [1].

With the increasingly rich and readily available text data on the web, qualitative assessments such as content analysis of image formation and other tourism phenomena is gaining in popularity. [8] proposed that while visitor-determined images reflect individual differences in information processing and interpretation, destination determined images mirror the actuality of the destination. Therefore, it is important to test whether the images presented in promotional materials correspond to those held by visitors. Although image is formed through the subjective evaluation of external stimuli [6], it may be as important to discern what stimuli are delivered by destination marketers. The examination of the effects of projected images through various information channels could become an integral part of image formation research. Some previous studies have investigated the pictorial or verbal contents of promotional materials from the perspectives of the research subjects after exposure to the messages [8]. [9] argued that content analysis of written information, such as guidebooks and travel brochures, could provide a great deal of information about the images projected by a tourism destination. They conducted an exploratory study on the contents of Ireland’s promotional materials distributed in the French market and developed a master list of attributes measuring French residents’ perceptions of Ireland as a destination.

However, this study only examined the printed promotional materials provided by the Irish national tourism organization. Online information and other commercial information sources were not analyzed. Further, the destination attributes identified were based on the researchers’ subjective judgments. [12], however, examined the online content of tour operator websites about Russia. They found that within the 212 websites analyzed the US and Russian sites were portraying different images of Russia as a tourism destination.

## 5. Methodology

Using Google AdWords Keywords tool we generated 3187 keywords starting with a first seeding keyword “Romania tourism” and using at each step new seeding words from the list generated by the previous keyword until the new generated list had very few or no new relevant keywords.

This method of identifying websites from which to select images to analyze has been chosen due to the fact that the present paper has as purpose to evaluate the image transmitted by Internet not just created and posted on the Internet. We therefore chose to use a method of selecting the websites with the most exposure to Internet users.

In a second stage, from the 3187 keywords obtained we have selected 115 keywords on the following criteria: to contain the word “Romania” or “Romanian” and one or more of the following terms: “travel”, “tour”, “tourism”, “tourists”, “touristic attraction”, “travel agency”, “travel guide”, “touristic guide” – indicating an interest in the touristic aspects of our country.

Using these 115 keywords in Google search engine we generated a number of 2186 websites from which we have selected for analysis a number of 17 websites each of them representing more than one percent of the links offered by Google in the first two pages of results. We had eliminated 2 from these websites because of the lack of an English version of the site, analyzing therefore a final set of 15 websites:

*Tabel 1 – List of websites from which the pictures have been collected*

Website	Freq.	%
www.romaniatourism.com	98	4,5
www.wordtravels.com	48	2,2
www.deltatravel.ro	42	1,9
www.rotravel.com	39	1,8
www.infohub.com	38	1,7
wikitravel.org/	33	1,5
www.virtualtourist.com	30	1,4
www.lonelyplanet.com	29	1,3
www.romaniatravelcentre.com	28	1,3
www.goromaniatours.com	27	1,2
en.wikipedia.org	26	1,2
www.worldtravelguide.net	26	1,2
www.visittransilvania.ro	24	1,1
www.tripadvisor.com	23	1,1
romania-on-line.net	22	1,0

For the collection of pictures we used Extreme Picture Finder downloading pictures from pages within a 3 links depth in the website and more than 10 kilobytes in size (Govers, Go - 2005).

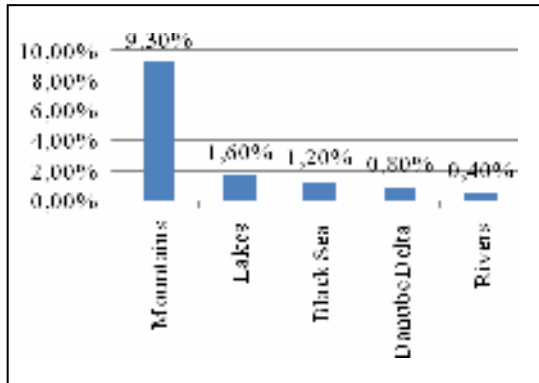
We analysed 667 pictures registering three main elements: objects or appearances in pictures, context and geographical localization of places represented in the pictures. We have defined 117 initial object or appearance categories.

## 6. Findings

The results show a high presence of pictures representing hotels. 24,7% of all pictures include exterior view of a hotel and 4,9% the interior view of a hotel.

The natural beauties of Romania are present in a lower percentage: mountains are the most present element of nature being included in 9,3% of the pictures, lakes in 1,6%, Black Sea in 1,2% Danube Delta in 0,8% and various rivers in 0,4% of the pictures.

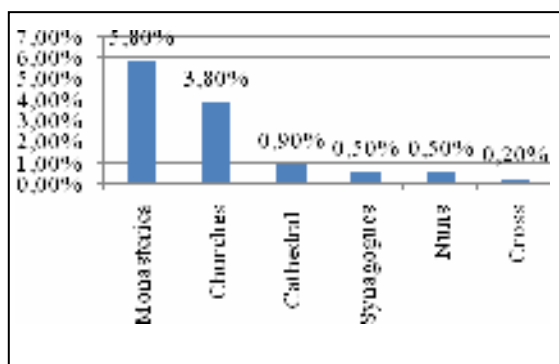
Figure 1 – Presence of natural elements in pictures



Various monuments are present in 9,1% of the pictures. Buildings are the most frequently present element starting with monasteries present in 4% of the pictures, and continuing with ordinary buildings, in 2,6% of the pictures, churches, in 2,6% of the pictures, castles and fortresses in 2,1% and respectively 1,9% of the pictures.

The religious symbols presented in pictures representing our country's image represent a total of 11,7% of all the elements encountered in the analyzed pictures representing monasteries, churches, cathedrals, synagogues and sisters.

Figure 2 – Percentage of elements with religious significance in total elements



Castles, fortresses and palaces have been observed in 4,7% of the pictures representing 7% of the elements.

Traditional elements as old wooden houses, traditional clothing, painted eggs and other elements are referred to in 3,5% of the analyzed pictures.

Symbols of culture as museums, opera, the Ateneu are present in only 0,9% of the analyzed pictures.

Transportation elements as boats, ships, cars and vans are included in a percentage of 2,4% of pictures.

## 7. Conclusions, limits and further research

The results indicate a stronger orientation towards the strictly commercial aspect of Romania destination image through the significantly higher percentage of hotels views in the pictures analyzed. We must mention that this direction is sustained only by the hotel element, because any other elements associated with the touristic infrastructure: air ports, cars, entertainment places are not included in a significant percentage.

The promotion direction to follow as suggested by the obtained results should pay more attention to our cultural and natural riches.

The main limits of the present research are determined by the small number of websites analyzed and their typology. From the current sample are missing blogs and forums, sources of information with particular characteristics that might influence significantly the image of Romania.

The second limit taken into consideration is the fact that in the generation and identification of the websites we only chose general keywords as "Romania travel" or "Romania travel agency". The initial set of 3187 keywords obtained contain very various keywords referring to certain geographical area of Romania, main attractions and monuments, famous Romanians and so on. For our next project we propose to classify the complete set of keywords on relevant categories and to use a larger and more various set for generating the websites for pictures collections. We think that this approach might reveal more focused websites (oriented on presenting only one area of our country and not all of it) and more distinctive in structure and approach.

We also have in mind combining the analysis of image destination in pictures with content analysis of the text.

## 8. References

- [1] P. Albers and W. James, "Travel photography: A methodological approach." *Annals of Tourism Research*, vol. 15 (1), pp. 134-158, 1988.
- [2] S. Baloglu and D. Brinberg, "Affective images of tourism destination". *Journal of Travel Research*, vol. 35 (4), pp.11-15, 1997.
- [3] G.M.S. Dann, The people of tourist brochures. In T. Selwyn (Ed.), *The tourist image: Myths and myth making in tourism*, 1996, pp. 61–81.
- [4] C.M. Echtner, J.B. Ritchie, „The Meaning and Measurement of Destination Image”, *The Journal of Tourism Studies*, vol. 2, no. 2, 1991, p.6.
- [5] C.M. Echtner, J.R.B. Ritchie, The measurement of Destination image: An empirical assessment. *Journal of Travel Research*, vol. 31(Spring), 1993, pp.3–13.
- [6] W. C. Gartner, „Image formation process. *Journal of Travel and Tourism Marketing*”, vol. 2, pp. 191-216, 1993.[7] R. Govers and F.M. Go, “Global Frameworks and Local Realities: Social and cultural identities in making and consuming tourism”. Paper presented at the conference “Global Frameworks and Local Realities”, Brighton, UK, September, 11-12 2003.
- [8] K. MacKay and D. R. Fesenmaier, „Travel Information Search and Tourist Behavior’, *Journal of Travel Research*, vol. 38(4), 2000, pp. 417 - 423.
- [9] O’Leary, S. and J. Deegan. “Ireland’s image as a tourism destination in France: attribute importance and performance.” *Journal of Travel Research*, vol. 43(3), pp. 47-256, 2005.
- [10] S. Saraniemi, “Destination branding in a country context. A Case study of Finland in the British Market.”, PhD thesis, University of Joensuu, 2009.
- [11] C. Soojin, Y.L. Xinran, A.M. Morrison – “Destination image representation on the web: Content analysis of Macau travel related websites”, *Tourism Management*, vol. 28, 2007, pp.118–129.
- [12] S. Stepchenkova, A.M. Morrison, “The destination image of Russia: From the online induced perspective”, *Tourism Management*, vol. 27, 2006, pp. 943–956.
- [13] A.D. Tasci, W.C. Gartner, & S.T. Cavusgil, “Conceptualization and Operationalization of Destination Image”, *Journal of Hospitality & Tourism Research*, vol. 31, no. 194, 2007, p. 196.

# Enhancement of Collectivities' Autonomy from Administrative-Territorial Units in the Management of Local Public Administration

Petronela Zaharia

Irina Bilouseac

“Stefan cel Mare” University of Suceava

*petronelaz@seap.usv.ro*

*irinab@seap.usv.ro*

## Abstract

With a distinct status in relation to the state administration, the collectivities in the local territorial-administrative units can manage themselves without the intervention of any other structures. Having local autonomy, the authorities of the local public administration have initiative and full responsibility in the administration, management and resolution of common affairs, towns, cities and counties, the latter being regarded as parts of the where autonomy is exploited.

In the light of the matters presented in our scientific approach, we can certainly support the idea that local autonomy, an essential factor in the organization and functioning of public administration in territorial-administrative units, is one of the most effective forms of self-administrative economy, allowing the rapid satisfaction of local interests.

**Key words:** public administration, local autonomy in administrative-territorial units

H83

## 1. Introduction

Under the condition of promoting local interests, we cannot ignore the principle of local autonomy, which is crucial to the functioning of local administrative-territorial units. In this regard, in the pages of this paper we are going to debate all the requirements whose existence guarantees the achievement and enhancement of local autonomy, in terms of its primary role in meeting the needs that arise in the village, town, municipality or county, constituent parts of the state.

Undoubtedly, we are in the presence of a genuine and strong governance structure when a structure does not retain complete jurisdiction and power to itself, but gives it to the governing bodies of administrative-territorial units, holders of local autonomy, which have the right to exercise that autonomy on behalf of citizens and for citizens.

## 2.Regulations and legal determinations in the current legal administrative context

Both the Romanian Constitution and the Local Public Administration Law no. 215/2001 regulates the basic principles of organization and functioning of public administration in territorial-administrative units, among which local autonomy is a part, which all other principles are subordinated to, that being regarded as a crucial element which should not be ignored in encouraging and strengthening local democracy.

According to the dispositions of article 120 paragraph 1 of the Fundamental Law, “public administration in territorial-administrative units is based on the principles of decentralization, *local autonomy*, and deconcentration of public services”. Therefore, local autonomy is a principle of constitutional status, governing local public administration and the activities of its authorities.

Besides the Constitution, Law no. 215/2001 places local autonomy in the organization and functioning of local government. Thus, according to article 2, paragraph 1, “public administration in territorial-administrative units is organized and operates under the principles of



decentralization, *local autonomy*, deconcentration of public services, the eligibility of local authorities, legality and consultation of citizens in solving local problems of special interest”.

As for the etymological meaning of the term 'autonomy', it is derived from Greek, in which the prefix 'auto' is translated by one, by itself, independent and 'nomos' means law. Thus, the concept of autonomy can be understood as the right or freedom to govern by own laws. Given the position of the various communities located within the state, they are autonomous only insofar as their power of self-management is recognized, in terms of independence from central government authority.

Article 3, paragraph 1 of Law no. 215/2001 defines local autonomy as “*the right and effective capacity of local authorities to resolve and manage, on behalf and interest of the local collectivities they represent, public affairs, under the law*”.

In a similar way that text can be found in the European Charter of Local Self-Government [5], which fundamentals the principles of democracy and decentralization of power, as the defining elements of local autonomy, assuming the existence of local government authorities endowed with decision-making bodies, established in a democratic manner and benefiting from an extended autonomy in terms of skills, how to exercise them and means to fulfill their mission [4]. Thus, following the creation of an administration, both effective and closer to citizens, the Charter recognizes the existence of local authorities, entrusted with actual responsibilities.

According to article, 3 section 1 of the Charter, “local autonomy means the right and effective capacity of local authorities to resolve and manage within the law on their behalf and in the interest of the local population, an important part of public affairs”.

We cannot overlook the fact that while the Local Government Law defines local autonomy as *the resolution and management of public affairs* and refers to all public affairs, the Charter refers only to *a substantial part* of them. *Resolution and management* entrusted to the local administrative authorities do not refer to all the needs of administrative-territorial units, but only to a part of them, respectively the *important part* of public affairs. Governing the scope of activity and competence of local authorities, the

law is the one which exhaustively states that part of public affairs.

In our case, local autonomy statute confers a distinct status to communities and local authorities in relation to state administration, representing *the recognized ability and freedom of local government to decide alone on how to address and meet their own problems and interests*.

Thus, authorities operating in territorial-administrative units remain responsible for managing local affairs, as distinct communities that should enjoy local power, i.e. local autonomy [3].

### **3. Conditions that guarantee the achievement and enhancement of local autonomy in administrative-territorial units**

To be in the presence of local autonomy, certain conditions have to be met whose existence would guarantee the legitimacy of this principle.

3.1. The first such requirement relates to *the existence of a local authority within an administrative-territorial entity*, i.e. a group of people in need and concern, distinct from national need and desire.

Exercise of local autonomy by public authorities, respectively local councils and mayors as well as county councils and their chairmen (article 3, paragraph 2 of Law no. 215/2001), is administered only in conjunction with local communities in the area of administrative-territorial units of the state. According to paragraph 3 and paragraph 4 of the Local Government Law, “local community means all residents of an administrative-territorial unit”.

Although local, city, municipal, or county collectivities viewed as separate components of the state and form an integral are part of the great social community, they raise specific issues and show their needs related to the local matters, such as water supply, construction, maintenance and upgrading of bridges, street lighting, etc. In such framework, local autonomy is based on the idea that people themselves in villages, towns, municipalities, counties are in the best position to observe the detailed requirements occurred in administrative-territorial entity

and therefore all these are the most interested and also the most entitled to act in order to meet them. Seen as a key factor in ensuring the smooth functioning of local government, local autonomy claims self-operative advertising decisions by the competent authorities to resolve and manage public affairs, decisions tailored to local circumstances and with full knowledge of the needs of the inhabitants in the administrative-territorial units under discussion.

3.2. Another requirement to be met in order to achieve local autonomy regards *the existence of appropriate means, material and financial, available to the local community, whose management is carried out under the responsibility of the collectivity* [1].

As local interest issues must be resolved by administrative authorities of municipalities, towns, cities and counties, so the latter must have material and financial resources that will be used for self-management. Specific needs of local management are regulated by Law no. 215/2001 on local public administration which states, according to article 4, paragraph 2, that the local autonomy equally regards “the management of the resources that belong to the village, city, municipality or county as appropriate”.

So, without being a simple theoretical principle, local autonomy is manifested in terms of management in the activity of social collectivities at the local level. Villages, towns, cities, counties have their own heritage and revenue which they use to solve their village, town, municipal and county problems. The material support of self-government is represented by the public property of administrative-territorial units, namely land, material resources, social institutions and cultural buildings, etc. as well as the revenue from local budgets, and non-budgetary revenues.

The management of affairs of the territorial-administrative units is the responsibility of local authorities which acts on behalf and in the interests of local communities they represent. In other words, the management of values and cash of administrative-territorial units is the job of local authorities who are concerned to obtain what is useful, favorable and necessary for the collectivities on whose behalf they act, seeking, thereby to promote their interests. But for local bodies to decide for the community, they must have the resources necessary and sufficient to ensure implementation of operational and practical courses of action and ways of achieving

them. We can talk about self-management only if the administrative-territorial units have enough revenue from the local budgets in order to cover the costs of achieving efficient management of local issues and good governance [3]. Moreover, increasing financial autonomy of territorial administrative units and their local budgets incomes makes up a separate section of the current government, thus being aimed at taking control of certain categories of income by the local authorities. (According to Chapter 19 - Public Administration Reform within the 2009-2012 government Program, the measures meant to increase financial autonomy of territorial administrative units and their local budget revenues are: granting local authorities the right to change the local taxes according to local needs and level of supportability of the population, calculating the taxable value of buildings and land in built-up settlements by reference to their market value, reviewing the income tax rates broken down according to the new powers transferred to local authorities in the decentralization process, and full allocation to the local budgets of the amounts collected from fines from legal persons, just as those fines received from physical persons.) Of course such measures are welcome, in the context of a specific self-government which meets the demands of local communities, viewed as beneficiaries of local autonomy, but only if based on financial support to be managed by local government.

3.3. An essential factor in ensuring local autonomy is *the eligibility of the management organs of administrative-territorial units*.

Intending to emphasize this requirement which highlights local autonomy, Local Public Administration Law expressly provides the eligibility principle of local authorities (article 2, paragraph 1), along with other principles which have already been mentioned earlier in this study. Community members should have the right to elect local government bodies, as representatives of territorial entities and not as representatives of the executive power at local level. In other words, to be in the presence of local autonomy it is necessary to hold local elections for the designation of specific governing bodies of the local power.

The fact that the voting population that resides in the territorial-administrative unit designates itself without the intervention of other structures, the authorities who should represent their interests highlights their autonomous nature.

An authority is autonomous only when elected, the elective system allowing the residents of the administrative-territorial units to self-manage through their own organs, thus having the opportunity to solve problems that concern them directly.

Local public administration authorities which local autonomy is manifested through are elected by universal, equal, direct, secret and freely expressed vote, in accordance with the Law for the Election of Local Public Authorities (article 1). The wording of paragraph 2, article 3 of Law no. 215/2001 results that authorities that have local autonomy are: local councils and mayors - at county level, county councils and their presidents - at county level. Deliberative authorities of public administration in territorial-administrative units, local councils and the county ones act for the benefit of communities and make decisions for better management of municipal, town and county respectively. Mayors and presidents of county councils, local executive authorities, bring out the decisions of deliberative bodies, having the mission to manage the affairs of administrative-territorial units in which were chosen, for the benefit of those who appointed them.

As an justification of local autonomy, among public bodies that manage local affairs there is no hierarchical relationship of obedience to some over others, situation which results without doubt from article 6, paragraph 2 of Law no. 215/2001, according to which "in the relations between local government authorities and county council, on the one hand, and between local council and mayor, on the other hand, there is no subordination".

By their election by community members, these bodies appear as expression of the will [2] of the local electorate, central state authorities taking part in no way in the elective process. These bodies are empowered by their very electors to act for a good administration of the community, and not by the central government.

But if the population residing in the administrative-territorial unit elect their governing bodies, the latter are likely to follow the achievement of their own personal interests. Often, the local elected representatives are

surrounded by suspicions regarding the honesty with which they fulfill their mission to ensure good governance of the community.

3.4. Another requirement which is of great importance in achieving local self-government regards *the independence for the exercise of the public authorities' powers in administrative-territorial units*.

To ensure a genuine local autonomy and to resolve issues of local interest it is necessary for autonomous local government bodies to enjoy the power to give them the right to self-government bodies in relation to the public administration central bodies.

Moreover, as we already stated above, local autonomy is based on the idea that those who best know their needs are the very local collectivities, the latter being therefore the most interested in satisfying their needs. The Public Administration Law provides in article 5, paragraph 2 that "local autonomy gives local authorities the right, within the law, to take initiatives in all areas except those which are expressly given in the jurisdiction of other public authorities".

Therefore, important in guaranteeing the independence of local authorities is a clear delineation of their powers. The functioning of public administration in territorial-administrative units is based on the plenitude of power country in solving problems of local interest.

The administrative-territorial units in which local authorities work enjoy legal personality distinct from that of the state, being parts of the state structure, therefore being recognized the autonomous situation of local self-government bodies in relation to central bodies. But the autonomy of these local authorities is not without limits, meaning that all their powers is established by the state, and their entire activity must be recognized by it. Thus, we should not consider this independence as isolation of the local public administration bodies from the governmental structures.

3.5. *Consultation with local people in addressing important local problems* gives substance to local autonomy, that principle ensuring the balance of governance [3] and also guaranteeing the cooperation between rulers and ruled to identify the best solutions to meet the needs of the latter.

The involvement of citizens in resolving issues of local interest appears as an element that we cannot dispense of in ensuring local autonomy, since in this way to give local communities the opportunity to participate in finding solutions to problems that arise locally.

Consultation is binding, since the legislature raised it to the level of principle, being stated both by Law no. 215/2001 and Law no. 3/2000 on the organization and holding of a referendum, which in article 14 provides that issues subject to local referendum are determined by local or county councils, as appropriate, at mayor's proposal, respectively at the county council president's proposal. We may interpret that those who have the right to decide which issues can be the object of a referendum are the local council and county councils. Therefore, local authorities have the right to assess the problems which citizens are called upon to decide and that decision to be adopted by local authorities must take into account citizens' views and comply with their needs.

The priorities are fixed by common agreement, through consultation, in this way citizens being able to intervene in the administration of community interests. Only asking citizens about matters that affect them closely, will identify their real needs and will be established the ways to act in order to ensure efficiency and effectiveness in serving local priorities arising at local level.

3.6. Local authorities have autonomous character, but their autonomy is not total independence, so authorities of villages, towns, counties are under a degree of *control exercised over them by the central power* or even by the local representatives of central power.

This control, named administrative trusteeship, is an indispensable element in ensuring local autonomy based on which central government authority and its local representatives have the right to control public administration authorities' activity in territorial-administrative units.

As mentioned above, local authority holders, democratically designated by the inhabitants of administrative-territorial units, have full responsibility in resolving local affairs, so they can issue administrative acts, but only after these measures have been approved by the central authority mentioned by law. The administrative trusteeship is nothing else but the right of tutelary authorities to approve, cancel or suspend

certain acts of the autonomous authority, for legality reasons.

Administrative supervision problem arises only in the case of those administrative authorities that do not have hierarchical subordination, between a subject within the executive power and one from outside. The tutelary control is exercised either by the central bodies of executive power, government or ministries over county councils, or the prefect on mayor's, municipal or county council's acts. So we cannot speak of administrative trusteeship between the central bodies of executive power – the Government, ministries – and those that exercise this power locally or at county level – the prefect and the decentralized services of ministries.

Absolutely necessary in autonomous administrative activity, tutelary control allows central authorities to ensure guardianship so that local interests shouldn't be achieved at the expense of central interests. Also, seeking to preserve state unity, the central authority must ensure, through this control, setting limits on recovery of local autonomy.

#### 4. Conclusions

Based on the matters dealt with in the present study, we can conclude that only by giving recognition to the autonomy of local collectivities within territorial-administrative units will improve the economical situation of the members of the community and will also lead to efficient use of their resources to address the local public affairs in an accelerated way. Investigating the conditions which bring value and by reference to which local autonomy is shaped allows us to underline its prominent role in building an autonomous administration, effective and democratic.

#### 5. References

- [1] Corneliu Manda, *Administrative Law. Basic Treaty*, Universul Juridic Publishing House, Bucharest, 2008
- [2] Mircea Preda, *Administrative Law, General Part*, Lumina Lex Publishing House, Bucharest, 2006

[3] Madalina Voican, *Framework Principles of Local Government*, Universul Juridic Publishing House, Bucharest, 2008

[4] \*\*\* Gabriela Cotigă, *Local Autonomy*, in *Review of Economics and Local Administration*, no. 4/2007, p. 8

[5] \*\*\* *European Charter of Local Autonomy*, ratified by the Romanian Parliament by Law no. 199/1997 for ratifying the European Charter of Local Self-Government, adopted in Strasbourg on October 15,

1985 (Official Gazette no. 331 of November 26, 1997) and edited at the initiative of the Standing Conference of Local and Regional Authorities of Europe

[6] \*\*\* Local Public Administration Law no. 215/2001

[7] \*\*\* Law. 67 of March 25, 2004 for the election of local public authorities

[8] \*\*\* Law. 3/2000 on the organization and holding of referendums

# Real Option Techniques in Project Management

Mihaela Mateescu

Gabriela Suba

*CEIS, Romanian Academy*

*E-mail: [mateescuadina@yahoo.com](mailto:mateescuadina@yahoo.com)*

*E-mail: [gabisuba@yahoo.com](mailto:gabisuba@yahoo.com)*

## Abstract

The paper deals with elements concerning the application of the new “real options” approach system in project management of small and medium sized companies. The real option approach has the advantage of a great flexibility when a high degree of uncertainty is present. Also, it suggests to estimate the maximal profit obtained by investing a certain amount of capital using: updated monetary flow methodology, Monte Carlo simulation method and other stochastic optimization techniques like those using minimum and imposed risk problems. Generally, this new approach was used in the project management of large companies.

**Keywords:** project management, real option, technologies, risk.

**JEL O16**

## 1. Basic elements concerning real options concept

The new real option system regards the strategic management and decision taking process as a process aiming at the same time, at the reduction of risks and enhancing of favourable opportunities. Real option approach takes into account the investment financial system (particularly shares) and also other fields concerning decision making in risk circumstances (e.g. project assessment in a market input-output organization restructuring and reintegration, taking over new technologies concerning climate change decision making, organization reintegration, biodiversity, etc).[2]

This approach is used in various activity fields of modern companies: market covering and developing finance, human resources management, technology and knowledge management, etc.[4] It represents an important change in strategic management but it is relatively almost unknown, despite the fact that it was adopted by many large trusts like: Airbus, HP, Intel, Toshiba, etc. At a macroeconomic

level financial system efficiency is based on a thorough assessment of risks and a good project management. Real options approach is a crucial analytical instrument for this assessment and is also the connection between the financial system and the project management sector for actual investments.[8]

## 2. Financial options connection – real options

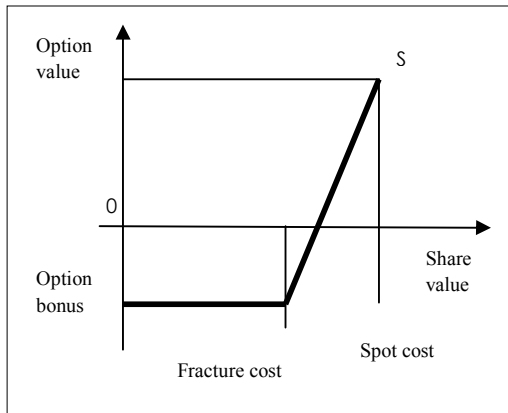
Real option approach is based on financial options working systems on Futures stock exchange. A financial share gives the owner the right but not the obligation to buy (or to sell) a given amount of shares in the future at a predetermined cost. The share owner will execute the option only if it is profitable. That is the cost on the market is high; otherwise the option is not executed and the bonus (the amount paid for the right of exercising the options) is lost (Fig.1).

In time it was found that some actual investments are correlated with financial options.[1],[11]

Let's consider the example of a plane ticket. A fixed date plane ticket is cheaper but the loss in case the owner is ill represents the whole cost of the ticket. In exchange of an additional bonus the ticket may be returned or another departure date may be chosen. In this case, if the flight is not possible the ticket can be returned and so the loss is limited to the additional bonus.

Similar options can be found for planning strategies in project management or in project financing.[7] So, project managers can forecast the possibilities of some reactions to various risks occurring during the ongoing project so that when costs are similar to option bonuses the losses are limited to this cost, the manager being able to choose another way or to give up the project when it becomes unprofitable.

Figure 1 Nonlinear Payment Function



### 3. Risk categories

The risk is regarded as an exposure to uncertainty for which most of the investors show some aversion, because investors are interested in obtaining maximum profit from a share, respectively from an invested capital. On this basis were defined a set of models dealing with risk and gain. In this models the risk is divided into two components:

- Systematic risk affecting all investments on the market;
- Specific risk affecting only specific investments.

According to some of these models the expected gain is proportional with the systematic risk associated to the investment. As the investments are practically different in a certain field, only the specific risk shows the benefits are proportional with the exposure to the systematic risk.[6]

Risk level can significantly change in various phases of the project (development, research, marketing).[3]

### 4. Assessment binomial model

Ordinarily every option is connected to the value of a share. So, the future value of the option directly depends of the future value of the share. For this reason the current cost of the share and its future development is most important information for the assessment of the share which can be considered as representing a part of the assets of the company.

The actual cost of a share  $S$  – represents the market value. After a given time interval the value of the share can evolve to two possible

limits. Let highest value be  $S^+$  and the lowest be  $S^-$ . The fraction  $S^+/S$  is called growth factor  $u$  and the fraction  $S^-/S$  is called reduction factor  $d$ . Actually the cost of a share can take an infinity of values after a certain time and taking into account several intervals one can obtain a most realistic distribution of the cost of a share.

Volatility  $\sigma$  is a measure of the total risk of the share and is used as a magnitude of the uncertainty concerning the cost variations of the share. For the binomial model a combination of factors  $u$  and  $d$  may be calculated as below:

$$u = e^{\sigma} \text{ and } d = \frac{1}{u} \Rightarrow S = \begin{cases} S^+ = u \cdot S \\ S^- = d \cdot S \end{cases}$$

At the end of the interval the net gain is given by the cost of the share minus the  $X$  fracture value. If the value of the net gain is negative the option is not executed and its value is zero. The future values will be noted  $C^+$ ,  $C^-$  and the actual value  $C$ .

$$C = \begin{cases} C^+ = \max(S^+ - X, 0) \\ C^- = \max(S^- - X, 0) \end{cases}$$

Eventually, the binomial model shows a computed equivalent of the real option similar to that of the model computed using the formula Black and Scholes for financial options.[10]

Table 1 Elements for the assessment of the options

$S$	Actual value of the share (of the investment)
$(S^+, S^-)$ or $(u, d)$ or $\sigma$	Assessment values for the future development of the investment
$X$	Fracture cost
$r$	Interest rate for zero risk (the interest rate for state bonds)

The actual value ( $S$ ) of a share can be observed in the market. The fracture cost  $X$  may be deliberately chosen so it may be known. The interest rate at zero risk is the interest rate for state bonds. So, the historical data may give enough information on volatility making possible the assessment of the share cost development from the beginning until the end of the considered time interval.

## 5. The similarity between financial option assessment

The assessment techniques of financial options can as well be used to the assessment of real options. While the financial options are based on the evolutions of some shares on the market, the real options are based on the evolution of some investment values on the market. The first example of real options is found when the value of some investments is very close to the market value. The financial shares are traded meaning that on the market appears a momentary cost called market cost.[2]

The financial markets prove that information concerning the future development of the share cost of is reflected in the market cost. Actual investments that have many common parts with financial investments are presented in the following examples:

- The right of drilling for crude oil (correlated with the future cost of the crude oil) and assets of the company. The crude oil is traded on the market so there is a cost called spot cost and also some information concerning the volatility of this cost. The cost of a company may be also transacted at a cost fixed by the market. The information concerning the future cost is included in the spot cost. The approach of cost evolution of an investment to the option system is obvious. In these circumstances the value of the optional investment can no more be calculated using the traditional system of the analysis of the updated value of DCF (discounted cash flow) in project management.[5],[8]
- The option to launch a new product is based on the market volume; if the demand is high, the product is launched, if the volume is not large that is the demand is low the product will not be made and launched on the market. Starting from such examples a new theory of actual options is developing based on ideas such as a new technology leads to the option to develop a new product. The new product leads to the option of trading it or not when the market is favourable or not. For a right modelling of the market updated value assessment of volume and volatility are necessary which sometimes are very difficult to obtain because it is not about elements transacted on the market.

## 6. Techniques used to assess volatility

- The **Correlation Technique** makes the correlation between a nontransactionable investment value and a similar transactionable share. It is about the rule of shares strongly correlated with the nature of the investment value. These shares are frequently called tracing shares because they trace the market volatility aimed at. As an example many western pharmaceutical companies use the shares of medical companies transacted on options market to compute updated values for projects concerning the launching of new products. Many other business opportunities especially projects based on new technologies are unique, so that finding new shares in similar areas is difficult and we can use the following technique.
  - The **Assessment technique** based on the assessment of the market potential for the respective product and then on the attempt to assess this potential and to use the assessment as a basis. The expected value of the investment may be found in the computing methodology for the updated monetary a flow computations made in traditional analyses found in investment projects, hence maximal and minimal estimated values may be determined using risk maximal and minimal values taken into account. In more complex cases the estimation may be performed using the Monte Carlo method for simulation by which the probabilistic distribution function of the gains generated by project completion is synthesized.[5] Then an evaluation of the interest rate on the market is necessary for a right determination of the risk, more exactly of its systematic component. Computing the updated net value, the values of S (and X) may be determined when using a right interest rate.[9]
- Maximal profit estimation for a certain amount of invested capital may be carried out using also stochastic optimization techniques. This may be approached in two different ways:
- Minimizing the risk of not obtaining for the objective function of the profit a value smaller than a given one (these are called minimal risk problems).



- The risk we take can be chosen and the decision resulting in the highest value of the profit function can be determined.

## 7. Conclusions

The use of real options is difficult and requires substantial know – how to perform the quantitative analysis. The difficulties in performing the quantitative analysis are a true barrier in the development and dissemination of that methodology. Another major difficulty is the access to confidential and protected data resulting from previous researches. This seems to be the hardest problem knowing that small and medium sized companies depend on the way they protect their research and technological information.

## 8. References

- [1] Kortner, S. „Real options in Small Technology Based Companies”, *Canada*, 2002
- [2] Black, Fischer and Scholes (1973) The Pricing of Options and Corporate Liabilities, *Journal of Political Economy*, 81, 637-659
- [3] Copeland, T., Koller, T. and Murrin, J. (1990) *Valuation: Measuring and Managing the Value of Companies*, John Wiley and Sons, NY
- [4] Baldwin, C. and Clark, H. (1994) *Modularity and Real Options*. Working paper, Harvard Business School, 1994
- [5] Baldwin, C. and Clark, K. (1999) *Design Rules: The Power of Modularity*, MIT Press, Cambridge
- [6] Bazerman, M. and Gillespie, J. (1999) Betting on the Future: The Virtues of Contingent Contracts, *Harvard Business Review*, vol.77 no. 5, 155-160
- [7] Benaroch, M. and Kauffman, R.J. (1999) A Case for Using Real Options Pricing Analysis to Evaluate Information Technology Project Investments, *Information Systems Research*, vol.10, no. 1, 70-86
- [8] Benaroch, M. and Kauffman, R.J. (2000) Justifying Electronic Banking Network Expansion
- [9] Using Real Options Analysis. *MIS Quarterly* Vol. 24 No. 2, 197-225
- [10] Berk, J., Green, R. and Naik, V. (1999) Valuation and Return Dynamics of New Ventures, *working paper*, <http://www.nber.org/papers/w6745.pdf>
- [11] Black, Fischer and Scholes (1973) The Pricing of Options and Corporate Liabilities, *Journal of Political Economy*, 81, 637-659

# Global Economical Strategy and the Romanian Reality

Madalina Matei (Nitoiu)  
PhD, The Academy of Economic Studies, Bucharest  
[madalina\\_nitoiu@yahoo.com](mailto:madalina_nitoiu@yahoo.com)

## Abstract

Building a coherent country branding program at international level requires a strong coordination between the government, the business sector, the decision makers from educational and cultural sector, the civil society and, the mass media representatives in any country. The paper presents the main efforts Romania has done to build a country image with a significant impact at international level. It focuses on the main policies and programs applied by Romania in the specific field of the national branding, offering a good analysis on the institutional framework and experience in promoting the country's image internationally. Corporate Social Responsibility (CSR) in Romania, as it is today, is the result of two distinct, yet converging, historical series. The first one is the emergence, in the late 90s, of the CSR as an important force for global multinational corporations based in the western world. The second one is the fall of the communism in 1989 and the opening of East European (including Romania) markets to the world. The result was that global multinational companies entering the Romanian market have brought their global CSR strategies to Romania. However, given the Romanian local realities (corruption, ineffective law enforcement and regulating agencies, an economy left in ruins) global CSR strategies have failed to address local needs.

**Keywords:** strategy, perspectives, behavior, environment.

**JEL O11**

## 1. Introduction

Corporate Social Responsibility in Romania is a new and diverse phenomenon. Multinational corporations entering the Romanian market, starting with early 90s, have bought with them

diverse forms of CSR. This, in conjunction with the specific Romanian conditions gave birth to specific CSR forms.

In this paper I analyze the emergence of a specific CSR in Romania and the two historical series that led to its current shape. In order to document this process and the current state of the Romanian CSR an empirical study, based on case studies was conducted.

## 2. CSR in Romania: Global and Local Perspectives

The collapse of the communism was the beginning of rapid and profound transformations in the Romanian society and its economy. The progressive opening of the Romanian market in the 90s has meant an increasing amount of foreign direct investment. The foreign investment was made, almost entirely, by western based multinational corporations. These global companies opened subsidiaries in Romania or bought out former state owned companies. These companies have introduced CSR to Romania. As a result, the actual CSR in Romania has emerged at the intersection between an evolving CSR definition and local Romanian realities.

In the late 90s the CSR was just emerging as mainstream concern for MNCs and they did not bring to Romania a single version of CSR, but instead various forms of it. The CSR has come not just in various forms but also as in a "work in progress" state. The meaning of the term was in a redefinition process. Various forces were shaping the meaning itself of the CSR. These forces included: increased environmental consciousness, increased NGO activity, government regulation and the beginning to use CSR as a marketing and differentiation tool.

However, as a result, in the last three decades CSR has become a more and more important concern for global multinational corporations.

Citing Boli [1] and Hartsuiker states that "by the end of 1990s, close to 90% of Fortune 500 firms embraced CSR as an essential element in their organizational goal, and actively promoted their CSR activities in annual reports. For comparison

in 1977, “less than half of the Fortune 500 firms even mentioned CSR in their annual reports” [5]. The 90s were the years when CSR became mainstream for the global multinational corporations.

In the 90s Romania was trying to emerge from communism and rebuild its institutions and economy. The Romanian reality means an emerging economy, with a great desire to grow, ineffective institutions and law enforcement agencies, corrupt officials, a public that is still not very aware of environmental problems, old production facilities left from communist times with very poor environmental records, a large rural population and an agriculture left in ruins, one of the highest emigration rates in the region which is beginning to have negative consequences on the economy.

From January 1<sup>st</sup> 2007 Romania is a full member of the European Union. One of the key economic accession conditions was the transformation of Romanian economy in a functional “market economy”. For this to be achieved, the transfer of big state companies to private investors had to be accomplished. As a consequence, the majority of state companies were sold to foreign based multinationals, a big chunk of these companies being based in EU. The privatization of the Romanian state owned companies began in the early 90s. Various methods were used, including the transfer of the company ownership to its employees. The process was not smooth and was marred by corruption scandals and the selling of state owned assets to connected individuals, often with the help of corrupt officials. In parallel former state companies began to be taken over by foreign multinationals, either directly from the state or from the new private owners of the companies.

This is way (and when) the two independent historical series have met on the Romanian soil. The result was that the global CSR policies did not work in the Romanian context. By definition, a global policy has to have a high degree of generality. It has to cover a plethora of situations and local realities. But being so general, a CSR policy cannot be effective. It has to be adapted to local realities and Romanian subsidiaries have to interpret these global policies according to local realities.

At the beginning, the local subsidiaries tried to apply the global CSR strategies by the book. However, with the time passing by they began to slightly modify the global CSR strategies to better answer local Romanian needs. In the next section I analyze the differences between global

and local CSR strategies and how the local strategies are actually implemented.

### **3. Corporate Social Responsibility in Romania: The OMV Case**

#### **Research Methodology**

In this section I will analyze the global and local strategies of OMV multinational corporation.

Global and local CSR strategies of the company were analyzed from official, global and local, company websites. Using websites for analyzing CSR strategies is an effective research methodology. The four main reasons for using official websites in CSR research are:

1) it provides an official viewpoint on the matter and also offers a standardized image, since various stakeholders within the company itself;

2) the website it is a company narrative and from it one can evaluate the role and importance of various subjects to the company;

3) using surveys or in depth interviews may result in biased responses since ethical subjects are sensitive and

4) it is better to use secondary data analysis when researching ethical subjects. In fact, the official website of a company is not just a company narrative that allows the researcher to assess the importance of various subjects present on the site. [2].

It is also the place to promote a sort of “corporate ideology”. It is the place to project a company image that is in line with global company strategy. Social relations are, in a sense, power relations and various social actors are promoting their particular interests in the social public space. Following this line of reasoning the official website is a tool for promoting the interests of the company in the public space. The company websites were accessed in February – May 2009. Global sales of the corporations are cited from company annual reports. Sales and market values for Romanian subsidiaries are cited from Ziarul Financiar, *Top 100. Most valuable Romanian Companies* [9].

#### **OMV/Petrom**

OMV is one of the leading oil and gas groups in Central Europe. The company is based in Vienna and had sales of over \$31,000m in

2007. OMV entered the Romanian market in 2004 by taking over Petrom, the former Romanian state oil and gas company. Petrom is now, according to Ziarul Financiar, the most valuable Romanian company with a market value of around \$13,000m (Ziarul Financiar, 2008) and sales in excess of \$5000m.

OMV states on its global corporate website that “the elements of CSR are enshrined in OMV’s strategy and balanced scorecard”. For OMV the global CSR strategy is constructed along the three responsibility “pillars”. These three pillars/dimensions are seen by OMV in terms of the “three dimensions of the triple bottom line – economic, environmental and social aspects”. As a consequence, OMV stresses out that these three pillars are incorporated into OMV’s business operations.

It is significant to note that OMV is making public, on its website, its objectives in adopting CSR. The aims of OMV’s CSR strategy are: “to gain competitive advantages, to promote innovation, to enhance our reputation and minimize risk, to strengthen corporate identity and culture and to mitigate the company’s impact”.

Petrom, the Romanian subsidiary of OMV, has put its entire CSR strategy under a unique umbrella: “Respect for the future”. Petrom emphasizes that this means it acts, in all its business operations having an eye to the future. As Petrom puts it “*Respect for the future*” [12] is a complex platform developed by Petrom through which we respond to the needs of the society and environment. The platform also includes internal campaigns for responsible behaviour, high ethical standards in business, health, work safety”. What exactly this means is not further explained. However, several specific CSR programs are presented on the site. One of these specific programs is the TV show “Respect for the future”.

The show was broadcasted by Realitatea TV. The show had 12 editions. In each edition two social projects were presented to the public and the public could vote for one or more of the 24 projects. The first two projects, ranked by the public votes will be financed by Petrom.

#### 4. Implications

We saw which the CSR agendas of global multinational corporations are globally and locally, in the Romanian market. We saw that the global and local CSR and development agendas of the large multinational corporations are fairly similar, even if some differences

might be discerned. Nonetheless some differences exist and they have the potential to grow in the future.

Let’s now turn to the CSR agenda of the Romanian society and see if they are overlapping with the MNCs’s agenda.

Several studies, cited by Peter Gross [4] have shown that in 1990 and the following years the main concerns for the Romanian public were: 1) prices and inflation; 2) unemployment and job safety; 3) agriculture and the aid for the rural population; 4) corruption; 5) social benefits for senior citizens; 6) youth and its problems.

It can be seen that the environment is not on the Romanians agenda. This was also confirmed by subsequent studies. For example, the early 2008 wave of the *Eurobarometer 3* [8] has shown that Romanians are less concerned about environmental problems than the European mean. For example, just 19% of the respondents were concerned by the running out natural resources, comparatively to the 26 European mean. The 2007 *Eurobarometer* [8] has shown that the Romanian public agenda is virtually unchanged from the early 90s, with the major concerns being:

- 1) Economy, 45%;
- 2) national health system, 25%;
- 3) prices and inflation 30%;
- 4) unemployment;
- 5) crime rate, 23%;
- 6) social benefits for senior citizens.

The environment is a concern for just 2% of the respondents. As the three analyzed cases have the MNCs are undertaking action in the CSR field.

Comparing the CSR strategies and programs of the three multinational corporations that were analyzed with the Romanian public agenda we can see that they do not overlap.

In the Romanian case it seems that the theory of CSR as risk management strategy is confirmed. James K. Rowe [7] has offered a modern and complete view of this subject.

The OMV company have global strategies which are slightly adapted to the Romanian market. I have to clarify a point here. I already said that the local CSR strategies are beginning to adapt to local Romanian conditions. This is true, but for the wrong reasons.

They are adapting to Romanian conditions not in the sense that they are trying to better respond to Romanian concerns. They are adapting their strategies to better handle the risks associated with operating in Romania and to better pursue the marketing and

differentiation strategies of their respective companies.

OMV was involved, since taking over Petrom in 2004, in various scandals. Allegations were made regarding the secret appendices to the contract that is prejudicing the Romanian state. Various bribery and corruption allegations involving OMV and high ranking government officials were made. These allegations even unproved are negatively affecting OMV's image. They are promoting a hypocritical image if OMV since the company is communicating a responsible image of itself while using alleged bribes to pursue its commercial and financial interests.

## 5. Conclusion

The paper presents also the results of a research conducted with different local authorities (based on personal interviews) involved in the construction and promotion of a national brand abroad. The findings of the study provide opinions on the implications of the role of Romania's country image in the European Integration process. A SWOT analysis on the Romania's policy for building a European country brand completes the conclusions and the perspective on this particular issue considered to be important for a European Union integrating country. Finally, the paper makes proposals for creating a positive country image for Romania, a country that is in the process of redefining its position and its image at international level. Romania's image will be considered from the perspective of the four dimensions defining a country image (tourism, exports, foreign direct investments and foreign policy), as well as from the perspective of building an integrated image abroad.

Without a clear understanding of the local conditions, the CSR strategies of large MNCs are likely to fail in the Romanian context. Often, the global CSR strategies are not sensitive to local conditions and the local strategies are merely just translations of the global ones. When they are not just the Romanian translations of the global CSR strategies, they are conceived as risk management strategies, or marketing and differentiation strategies.

Under these circumstances, multinational corporations with a real concern in respect to CSR, have to develop particular CSR policies that are adapted to local realities. In order to have a lasting and beneficial effect on

Romanian society and on the companies themselves, these CSR policies have to address local concerns and needs. The local CSR strategies of the global MNCs have to be anchored in the Romanian reality and not to blindly follow the global strategy. MNCs have to follow the Romanian public's agenda.

This is not yet the case as this paper tries to document. The CSR narrative of these companies is the expression of a corporate ideology that emphasizes CSR just as a response to social pressure.

If the MNCs do not connect their global CSR strategies to local realities they are likely to fail in creating value for the society as a whole and not just for some stakeholders on the expense of the others. If the CSR strategies of the global MNCs are to have a meaningful effect on the Romanian society they have to take into account the local realities and conditions.

## Bibliography

- [1]. Boli, J. and D. Hartsuiker. (2001). 'World Culture and Transnational Corporations: Sketch of a Project'. In (ed.), *International Conference on Effects of and Responses to Globalization*. Istanbul.
- [2]. Bondy, Krista; Matten, Dirk; Moon, Jeremy (2006) 'MNC Codes of Conduct: CSR or Corporate Governance?' ICCSR Research Paper Series, No. 40-2006
- [3]. Donnelly, S. Gamble, A. Jackson, G. and Parkinson, J. (2000) 'The Public Interest and the Company in Britain and Germany', Anglo-German Foundation for the Study of Industrial Society
- [4]. Gross, Peter (1999) *Colosul cu picioare de lut. Aspecte ale presei românești postcomuniste*, translated by Irene Joanescu, Iasi: Polirom.
- [5]. Lee, Min-Dong Paul (2008) "A Review of the Theories of Corporate Social Responsibility: Its Evolutionary Path and the Road Ahead" . *International Journal of Management Reviews*, Vol. 10, Issue 1, pp. 53-73, March 2008.
- [6]. Lydenberg, S. D. (2005) *Corporations and the public interest: guiding the invisible hand*. San Francisco, Calif.: Berrett-Koehler Publishers.
- [7]. Rowe, James K. (2006) *Corporate Social Responsibility as Business Strategy*, [www document] <http://currents.ucsc.edu/05-06/11-07/rowe.asp> (accessed March 20, 2010)
- [8]. [www.osf.ro](http://www.osf.ro) - European Commission (Comisia Europeana) (2007) *Eurobarometrul. Opinia publica in Uniunea Europeana*. Primavara 2007. Raport national: România
- [9]. [www.zf.ro](http://www.zf.ro) - Ziarul Financiar (2008), *Cele mai valoroase 100 companii din Romania*.
- [10]. <http://www.omv.com/>
- [11]. <http://www.petrom.com/>
- [12]. <http://www.respectviitorul.ro/>

## Analysis of the Segmentation Strategy – the Case of Elpreco Company

Meghisan Gheorghe  
University of Pitesti  
E-mail: *gheorghemeghisan@yahoo.fr*

Meghisan Georgeta-Madalina  
University of Craiova  
E-mail: *madalina\_meghisan@yahoo.com*

Dan Caprioara  
Elpreco Company  
E-mail: *office@elpreco.ro*

### Abstract

Till the last years, the product specialist or the marketing responsible could be glad of the classical analysis of their markets. Today, it becomes much more difficult to limit to this type of analysis. As a consequence, the markets become more tight, the competition acts more rapid, the potential clients are more and more exigent and their wishes more and more precisely. This paper analyzes several methods of segmentation, taking as an example the case of Elpreco Company.

**Key words:** segmentation strategy, Elpreco Company,

**JEL Classification:** M31;

### 1. Introduction

Wendel Smith [1], in the article published in 1956, describes the market segmentation as being the strategy with the accent on the precision with which the products of a company can satisfy the demands of one or more distinctive markets. He thus supposed that the market wasn't an anonymous and uniform mass, and that's why it was possible to find different consumers groups from the point of view of their compartment, needs and wishes.

Eight years later, Daniel Jankelovitch [2] extended this definition to "a systematical approach which allows the selection of the most important market segments from a strategically

point of view and the creation, around this brand segments, of products, packages and strategies of communication and marketing. This considerably simplifies the objective's fixation."

### 2. The segmentation depending on the client's importance/ the commercial relationship difficulty

The matrix of client's importance/ the commercial relationship difficulty can traverse two coordinates such as the client's strategic importance and the degree of easiness of the business relationship. It reveals four main types of clients [3]:

- *Difficult clients*: important clients for an enterprise (size, potential, strategic interest). But the relationship is not easy due to various factors: the long and complex buying process, the number of speakers to be convinced, important negotiation power etc.
- *Easy clients' accounts*: the type of dreamed client! It is important for a company whose relationship is simple.
- *Other easy accounts*: even if the relationship is easy, the strategic interest is reduced. The common sense indicates the attitude to be adopted: "While the relationship is simple, we have to continue that way."
- *Other difficult accounts*: a client type that the relationship is not at all easy and

offers less strategic interest for a company. For this type of client it is better not to insist, but with a detailed analysis, we can shade our strategies offering a diversity of alternatives.

*How can it be used?*

The first stage will consist in choosing the importance criterion of the client's and the difficulty of the business relationship:

**Table 1. Types of important/ difficult criteria**

The clients' importance	The commercial relationship's difficulty
The monthly and annual orders volume	The product's type: simple and complex
Potential turnover	The competition type (occasional or systemic)
The orders frequency	The needs and buying motivations
The client's position on the market	The buying process
The strategic attractiveness	The selling channels type
Current or potential profitability	The distance or geographical proximity
	The client demands the payment to a great number of days
	The client is a bad payer (sometimes)

*Source: Smadja A., 1988 [4]*

Sometimes a single criterion is not relevant enough to qualify the client's importance. It is recommended two or three examples: the annual volume of orders + potential sells + current client's profitability. Similarly, regarding the commercial difficulty evaluation, for instance, we can take the following examples: the product type (simple or complex) + the buying process + competition.

The second stage will consist in the assignment of a goal for every client following these criteria. If you chose to combine two or three criteria, it is recommended to make an average evaluation for all.

*Example*

*Take the case of your customer. A. If you assign a note from 1 to 5 for every criterion, 1 being considered the least important, 5 very important, and 3 the average for all the clients, you will obtain:*

*Client A: the annual order volume 2, potential turnovers 4.5, current profitability 2. The Client A receives an average of 2.83 for the importance.*

*To evaluate the commercial difficulty, if you assigned a note from 1 to 5, 1 being considered easy, 5 very difficult and 3 as the average of all your clients, you can obtain for the client A: product type 4, buying process 4, competition 1. The Client A receives a relationship average of 3.*

*The third stage will consist in the positioning of all the clients. You can consider "weak" all the notes from 1 to 2.99 and "high" all the notes from 3 to 5. Thus, your client is included within the category of "other difficult clients' accounts".*

*What do we recommend?*

It is understood that within the situation of the "easy client accounts", the accent will be to conserve and maintain your position as privileged provider. The following questions will be put:

- What strategies and loyalty actions we have to put in practice for this client?
- This type of client received signs that indicate our society's engagement?
- We have identified the strong points of our products and services by reporting to the needs and motivations of this type of client?

For the "difficult client accounts", your orientation will follow the direction of keeping, because it represents a key account, important for your business. The questions that will appear within this matter are the following:

- Has the difficulty of your relationship an effect over your profitability? How can

you exceed this situation (do you orient your client towards the commercial channels less expensive, if it is possible, within a relationship type of winner-winner?)?

- The relationship difficulty is within the last instance “remunerated”? In what manner can you make easier some aspects of this relationship (process, duration, preferred services)?
- Is the commercial administration and commercialization working in teams, so as to facilitate this relationship (knowledge exchange, marketing research, documentation etc.)?

For “other easy clients’ accounts”, your objective is to keep the most profitable clients. For this aspect, you will have to make use of the profitability segmentation matrix or to determine a single acceptable profitability level for your business:

- Have your clients a less score than 2?
- If yes, what are the solutions you propose for its improvement (selling channels and relationships, buying process ...)?

For other “difficult clients’ accounts”, the strategy would be more nuanced. You will need to define a typology, of many cases, following the average scores according to the criteria. Indeed, taking our client A: his importance note is 2.83, as a result, closer to the average of 3; his difficulty note is 3, so it doesn’t matter if it takes part within this account or within the “other easy accounts”. As a result, you will have to take into consideration:

- The average score for the clients: You can decide to assign a special attention to the clients from the accounts with importance notes of 2 or higher than 2,5 and less in difficulty than 3,5 or 4. You will determine the notes’ limits depending on the number of affected clients so as from the following criteria.
- The client’s profitability: in the case when the cost is too small (1 - 2, for instance) you should ask yourselves “can we improve this client’s profitability”?
- The client’s potential: taking our client A that you have assigned a potential of 4,5, it is not to be neglected and it is in his favor.
- The criteria that tend towards an easy relationship: your client doesn’t put you regularly in competition, but more within his favor.

We can observe that this matrix of client’s analysis is very interesting as we can combine several criteria and establish stages for our minimal and maximal scores. This is a directly operational application: it remains only to define the action ways due to its orientations

### 3. Profitability segmentation

In a powerful economical crisis situation, the client’s profitability concept trends to impose itself in the first plan of client’s analysis. In this way, the real/ potential profitability matrix is precious: it permits to take into consideration the current and potential profitability and, also to establish the objectives to reach the profitability, specific strategies and methods. [5]

Due to a single axis of profitability, there could be a more nuanced analysis for the “undesirable” clients.

#### *How it can be used?*

The first stage is to determinate the profitability criterion chosen by the company for the clients.

This matrix needs a client’s profitability analysis and all the companies are very well with this matter. If your company doesn’t have the possibility to precisely measure the profitability for each client, you have to use methods such as:

- The number of ordering lines;
- Grouped or displayed buying;
- The selling channel choice (on line selling is the less expensive, the face-to-face selling is the most expensive);
- Business type relationship;
- Reductions rate, rebates rate etc.;
- Type of acquired products.

The criteria you chose have to be relevant for your business, easy to be identified and easy to be measured for the client.

The second stage, in the case of a detailed analysis of the profitability for every client consists in establishing a grid in “profitability”/ “unprofitability”. To make such a thing, you can establish as objective to reach the profitability, for instance, a profitability rate higher than 0, or a profitability rate higher than 3, 5 or 10,



depending on the variables from your activity sector.

In the case in which this profitability analysis for every client is not already made within your company, assign a note to the clients based on one or more of the cited criteria. The clients' positioning within the matrix allows the view of four groups of clients and the action priorities considered for each one. Our example fits the client A, within the group of "unexplored clients" and the client B within the group of "wanted clients".

*What do we recommend?*

The considered priority action order within the first analysis of this segmentation for marketing and sales is as follows: A, B, C, D.

*The unexploited clients* from the frame A: They were forgotten, because their profitability was weak, but the potential margin was not taken into consideration. Here there is the highest profitability potential.

*The wanted clients* from the frame B: are those that already allow to the company to generate good return while they still have a possibility to develop themselves. The profitability potential is probably not as strong as the anterior frame, but not at all to be neglected.

*The cold clients* from the frame C: the company can not generate supplementary costs. They have to be made loyal.

*The undesirable clients* from the frame D: they are unwanted in terms of profitability. They are the clients for whom a profound analysis is needed to refine this profit based process, depending on the answer to the following questions: What is their strategic importance? What is their turnover potential? What is their accessibility? What is their trading history? Are they loyal? What is their activity sector growth?

This matrix is interesting to be used especially in periods of economical crisis, where there is competitive aggression, sudden lost of the activity. This allows the refocus on the profitability notion and taking into consideration of a new profit source.

#### 4. The Penetration/ Potential Matrix

This analysis instrument of the clients' portfolio offers an important criterion, consisting in the penetration rate. We are referring to the

turnover share generated by the society in relation to the turnover's potential offered by the client. This calculation supposes the knowledge of your clients' turnover. [6]

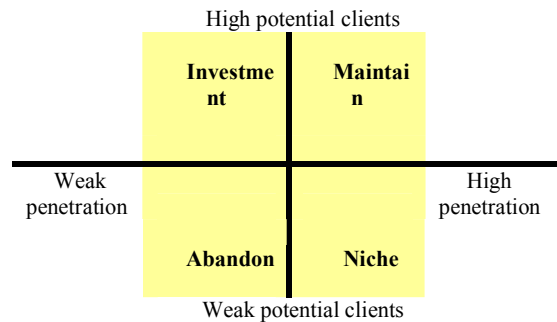


Figure 1. Penetration/ potential matrix

*How it can be used?*

*The first stage* is that to identify or evaluate the potential clients. If you didn't do that, there are several solutions. Depending on your activity sector, you can choose among:

- The employees number;
- The dimension of the vehicle fleet;
- The number of telephone lines;
- The observed average buying basket; etc.

*The second stage:* the defining of a potential limit after which you qualify your weak or strong potential. Generally, you choose the sector's average potential. In general, if your company has a higher potential than the average on the whole market, the reference potential will be the average potential of the target market or segment.

*The third stage:* the evaluation of the penetration degree within its clients. The penetration rate represent the percentage from the turnover within the total potential of the client. We can consider a penetration rate of 80%. A client can make a reservation from another provider for reasons regarding the security, the failure or regulation of the sector. There are several modalities to determinate the penetration average:

- The simplest modality is to establish an average of 50%. The disadvantage is that there is not the firm's representative average. Thus, this is not the recommended standard. Its advantage

consists in the fact that it offers a reasonable average, that can be used when the firm has no precise measure of the penetration degree.

- The most relevant is to take the global average of the penetration degree within the clients. Its advantage is that it permits a real benchmark, leaving from the enterprise's real position and its capacity. We start the comparison beginning from the real position of the company.

Finally, *the fourth* stage is to position within the matrix the clients depending on their potential and the company's penetration degree.

#### *What do we recommend?*

The question that we put is: what strategies we define for each frame?

- Maintain: Maintain the relationship and trust. Propose options to those clients that base on you and you, on their acquisitions.
- Investment: these clients' acquisitions bring development to your company. Analyze closely their expectations and their motivations and study the history of your relationship. You will avoid to develop "pro-competition" clients and you will found action ways for the clients that are ready to buy more.
- The niche strategy: profitability. But, pay attention to these clients' relationship conservation, that entrusts you with almost all their buying potential. This is a proof of trust and an important loyalty factor. We have to watch their profitability during time with RADAR matrix
- Abandon. It is always delicate to give up to a client.

## **5. The RADAR Strategic Matrix**

This matrix was created in 2003 by Nathalie Van Laethem to respond the growing needs of the enterprises and marketing directions, anxious to find new alternatives within crisis periods and, moreover to have a strategic vision of the relationship with the client. There are many companies that use it, either in B to B or B to C. It proposes a durable approach of the marketing client, being on one hand, a method to establish the relationship objectives throughout the target

segments and also an aid in decision taking regarding these target segments. [7]

#### *A method to establish relational objectives*

The goal of this method is to list the target markets and the marketing efforts within the dynamics of the clients' lifecycle throughout the establishment of target objectives relational to every target and very phase of the client's lifecycle:

- The reactivation of the ancient clients.
- The conquer of new clients and prospects.
- The development of the average turnover basket of the existing clients.
- Make the clients loyal throughout specific programs.
- Retain the great value targets or decrease the observed wear rate.

Its interest is to be an analysis method and preliminary formalization of the operational marketing plan: it reveals the objectives of the individualized clients' relationships throughout target segments where it can be discovered with precision the adapted actions and ways.

#### *How it can be used?*

The first step is to define the relational objectives, every moment of the client's relationship for the identified targets. The second step is to take into consideration these objectives and adequate marketing and commercial action types. The third stage represents the correlation in any other stage of the relationship of the most relevant offer, regarding every target.

**Table 2. Example of correspondence between the related objectives, targets, marketing actions and offers**

Related objectives	Targets	Marketing actions	Offers
Reactivation	Ancient clients that didn't contact us for at least three years  Clients that diminished the buying volume	Mailing or e-mailing  Sending of catalogues  Telephonic marketing	Promotional offers of re-buying  Promotional offers from important quantities
Conquer	Prospects on the target segment	Publicity  Mailing or e-mailing  Commercial visits	Trying offers for some products and services
Development Buying	Clients whose alimentati on rate is between 20 and 75%  With the highest potential  Possible targets  Loyal clients for several years	Commercial visits  Mailing or e-mailing  Catalog, invitations	Offers such as cross or up-selling  Associated services  Products or compleme ntary services

Loyalty	The that clients have to be made loyal are:  The common clients  The usual clients  The clients with a powerful potential	Commercial visits  Loyalty programs  Club  One-to-one actions	Global individuali zed offers  Personaliz ed services ranges
Don't forget	The clients with a real value for the enterprise are:  The prescribers clients  Strategic clients  Profitable clients	The following of the client's turnover  Telephonic marketing	Specific and selective offers

*What do we recommend?*

Make sure that your offers are according to the marketing and selling directions and, are directed to the segment or the clients' type. If it is necessary, rethink the clients' segmentation within the clients' satisfaction logic and an important coherence of your offers.

**6. Conclusion**

The diversity of methods and application data of the market segmentation is, one hand, dangerous and, on the other hand, very desirable. A segmentation strategy will have important consequences on the enterprise

at the level of the results and also at the level of the commercial administration, research and production sector. So, the company's results will be affected by all the supplementary costs. The justification of these costs bases on the hope of a better profitability.

## 7. References

- [1] W. Smith, "Product Differentiation and Market Segmentation as Alternative Marketing Strategies", *Journal of Marketing*, July 1956
- [2] D. Jankelovitch, "New Criteria for Market Segmentation", *Harvard Business Review*, Vol. 42-2, 1964
- [3] Kotler Ph., *Managementul Marketingului*, Teora, Bucharest, 1997;
- [4] Smadja A., *Segmenter ses marches*, Presses Polytechniques Romandes, Lausanne, 1988
- [5] I. Stancu, Gh. Meghișan, G.M. Meghișan, *Cercetări de Marketing*, Sitech, Craiova, 2008.
- [6] Philip Kotler, Gary Armstrong, *Principiile marketingului*, Teora, Bucharest, 2004;
- [7] Peter Fisk, *Geniu în marketing*, Meteor Press, Bucharesc, 2008;
- [8] Philip Kotler, *10 păcate de marketing. Semne și soluții*, Codecs, Bucharest, 2004;
- [9] Cătoiu I., Teodorescu N., *Comportamentul consumatorului*, Uranus, Bucharest, 2004;
- [10] Cătoiu I. Coord., *Cercetări de marketing*. Uranus, Bucharest, 2002;
- [11] Datculescu P., *Cercetarea de marketing*, Brandbuilders, Bucharest, 2006;
- [12] Sorina Gîrboveanu, Liviu Crăciun, Flaviu Meghișan, Cătălin Barbu, *Marketing internațional*, Universitaria, Craiova, 2008;

## Creativity - a Determinant of Business Success in the Context of Global Crisis

Manoela Popescu

*Christian University "Dimitrie Cantemir" Bucharest*

[manoela.popescu@yahoo.com](mailto:manoela.popescu@yahoo.com)

Cecilia Luminita Crenicean

*Christian University "Dimitrie Cantemir" Bucharest*

[lumi\\_cecilia@yahoo.com](mailto:lumi_cecilia@yahoo.com)

### Abstract

The globalization of business and the global economic crisis, companies are forced to face changes in their action. Solutions crisis lies in new ways of enhancement of human potential at individual, organizational and societal. People are creative beings by their very existence in the organizational and social context. So the difference between success and failure is determined by how companies and individuals develop their ability to generate new and used creativity in work.

Regardless of what perspective is discussed and defined, creativity is a key determinant of business success. Of course, creativity should be rewarded at the organizational level to ensure long-term success. How organizational success comes from successful individuals who compose that organization, business success is achieved by educating individual's ability to capitalize on the talents and skills of existing capital at the organizational level.

**Keywords:** creativity, success, business, crisis, Globalization

**JEL Classification:** M29

### 1. Introduction

Entry in the Age of the Internet and e-business, knowledge-based economy has *produced fundamental changes in terms of socio-economic structures, creating new models of organization and economic activity.* Known is that *ideas and knowledge-based economy* is an economy in which communications technology **creates global competition**, in which **rapid change is a constant**, in which innovation is more important than mass production, the investor buys new concepts or new means to create

them than he bought cars, prosperity of firms arising from the innovation, not from optimization.

The global economic crisis is a necessity to find new ways of enhancement of all human potential. This is because the global economic crisis is a challenge for every individual. Moreover, as one of mega-tendencies evolution of the economy is moving the focus from job creation, by creating your own job, it is necessary accountability for their presence in the labor market, which means improvement and individual development. Individual success is ensured on the organization, so it must be each individual's creative development, organizational membership.

### 2. Creativity and business success

#### 2.1. Creativity - conceptual issues

Known is that mental and social process involving the generation of ideas or concepts, or new associations of the creative mind between existing ideas or concepts is called creativity. Creativity is a difficult concept to define. No doubt the concept of creativity is something indeterminate in itself. When studied is essential a determination of and / or investigate what the content is. Otherwise, the issue remains vague, undefined concept. Everyone can understand what creativity wants. Besides, creativity is a multidimensional concept, which can appear in different areas. Therefore, the concept of creativity has been addressed, defined and developed from the perspective of several disciplines: sociology, psychology, economics, linguistics, management,

cognitive science, philosophy etc. So there are many definitions of creativity, without being there a generally accepted definition. Some definitions are contradictory and subjective; others are caused by the need for creative research.

About creativity Allport [4] said that "psychological substratum of creation is irreducible to a general provision requires skills and personality to the new organization of mental processes in the system personality." Creativity can be approached from the perspective of product created from the perspective of the creative process and creative person perspective. Atmosphere and the influence of environmental / socio-cultural system linked to the situation, can determine the level and frequency of creative behavior. Creative approach in terms of product made of particular importance as it constitutes the basis of any evaluation of performance and creativity in the real world could pave the way other aspects of creativity. The most common method used to measure product creativity ratings of experts in the field, *consensual assessment* technique (CAT) is an example of this approach.

Whatever is raised, creativity in organization is a cultural creativity, if only because any creative person is carrying culture. Also, the product created is a cultural creation of the organization.

However, the difficulty in defining creativity lies in the concept of private associations with the arts, the complex nature of creativity and variety of theories have been developed to explain it listed.

A simple definition of creativity is "action to combine previously unbundled elements" [6].

Thus, there are several theories on creativity [1], some in relation to technical developments (technical design, sociological theory, technicism theory, structuralism theory), and others in relation to the influence of psychological factors (associantist theory, configuration's theory, behavioral theory, features and factors, psychoanalytic theory).

According to technical design, creation is providing technical developments. Sociologic creativity theory focuses not on individual but on the socio-cultural context in which the individual creates. Technicism theory interested in technical structures in the

creation of new structures and structuralism theory focuses on the relationship between structure and intent, the creative process of each individual.

In associantist theory creativity lies in finding new combinations related items. In contrast, behavioral theory considers creativity as a result of stimulus and response is possible at any individual, and behavioral manifested.

Theory features and factors analyzed in terms of creativity traits, skills and creative thinking factors.

Naming psychoanalysts, creativity has its origins in the subconscious elements, and a supportive environment may lead to its manifestation. Creativity refers to the individual's ability to generate new, the "opportunity to reveal unknown aspects and relations of events to determine their own ways of solving problems"[4].

A particular problem is the creative process to stimulate creativity. There are many odes to stimulate creativity met individuals and communities[2], including: logical methods (Functional analysis, morphological analysis, and graphical analysis), heuristic methods (matrix finds, morphological, etc.) and imaginative methods (brainstorming, synectics, collective book, etc.).

Morphological analysis involves decomposition of a product into its existing form and seeking solutions. Use it to explore ways of human thinking allows morphological innovative ways to investigate possible solutions to a given problem. Analyses of morphological type are useful in future research possibilities of social organization, the achievement of technical performance and economic research *cultural creativity manifested in the form of technical creations, technological and social*.

Human activities, the nature of technological, economic, political or social are placed in order to achieve a goal. These activities are only effective if it is determined the types of operations and their execution order. Allow graphical analysis and policy research operations in time, starting with the ultimate goal, to achieve objectives. Operations and time moments are

represented by a graph which should see the sequence of operations. *For example*, the launch of new organizational rules can be ensured by a certain order of operations, specifying the number of days required for each operation.

Regulatory approach has wide applicability in the socio-political and economic. It is often used in business planning when a company seeks to change the philosophy and mission. Applying techniques and methods of regulations permits in an orderly manner addressing problems through creative and innovative development companies. They thought running disciplined without affecting the creative potential of individuals. Existence of bifurcations is a strong incentive to engage human creativity.

Groups known as creativity, the most common are brainstorming sessions and synectics[3]. Brainstorming sessions are a small group activity to stimulate individual creativity in the formulation of innovative solutions for the problem under discussion.

Major condition for ensuring success is to ensure a climate free of rigidity, enabling a free exchange of ideas. Proposed solutions are recorded, and the resulting list is subject to a rapid assessment by the group. Fostering creativity and offering limited group synectics training involves divergent participants who contribute to enhancing the ability to see the same problem from different angles. In practice synectics noted an important role, along with intuition, analogies and metaphors which, in turn, can trigger unexpected ideas.

## **2.2. Business success in the context of crisis**

Success seems to be rather a natural consequence of what someone is only a result of what makes that person or how we act. They say that business success is achieved by individuals who have natural resources, materials, information, etc. But explained that many people have seen success without resources? In fact, success is achieving steady all planned objectives are important for individual and organization. Individual and organizational success is not measured by success compared with other individuals or other organizations, but true success is the

exploitation of their potential, develop and enrich their personalities.

Is important to define the organization's mission, vision, goal and objective system and the way forward and effort throughout the "journey." Business success is achieved by educating individuals' ability to capitalize on the talents and skills of existing capital at the organizational level. It is unusually good conduct routine activities.

Authentic success is linked to the goals of each man. However, it is not achieving these goals, despite the general opinion that seeks to impose on us, but in striving to attain them. In the words of Oliver Wendell Holmes[5] important is not where we are, but where we are going. Success is over, the road trip, and has its source in attitudes and skills learned during this effort. He is determined not so unusual talents do not know why, but to educate our ability to harness the talents and skills capital. It is not unusual to do so, how do ordinary things exceptionally well. Once achieved objectives, individuals and organizations must aim to achieve more ambitious goals. Also, success means tackling new areas, territories, development models, actions, etc.

Reporting individuals and business organizations to the concept of success requires both a clear definition of success and its sources. Understanding of context of self is the first step in proving successful. So companies and individuals must understand the mechanisms of economic crisis and its effects, so that threats and opportunities arise. Success is given by overcoming conditionality and creating an enabling environment at individual and organizational. Companies need proactive strategies that lead them to success in the crisis, whether that means changing direction or guidance. In general, harsh conditions stimulate imagination and creativity, so firms that want to cope will be those who will try to identify hidden opportunities behind the crisis. But it is necessary to develop a strong personality, which is based on fundamental principles of life, behavior and positive attitude.

The secret of success is to use your intuitive mind and the rational part of her team together, and not against each other. People are able to achieve this harmonious complementarily.

### **3. Creativity in business success in the crisis**

The global crisis has caused changes in the environment of action of companies, which led to the need to change their personality, because organizational and personal success or failure depends on how companies consider obstacles as steps to success and their attitude towards changes. In this context, socio-economic individuals and companies based on creativity and innovation is a safe alternative. The company develops innovative technologies based on knowledge, essential changes in all fields, which causes a major trend focus on concrete results.

Moreover, in 2009, the actantial had to be creative to survive, leading to the stimulation of personal, social and organizational. Obviously, creativity and innovation are key factors for success in all fields, not only in business, why not by accident of 2009 was declared the European Year of Creativity and inventiveness, as in periods of crisis and conflicts that creativity is make the difference between success and failure. Moreover, experts believe that the Romanian economy is now the vanguard of creativity [7].

In fact, creativity is an essential component of any business, without it leading bankruptcy firm. In their effort to find solutions to social and economic problems, people become creative.

Successful businesses are both creative relationship with customers, suppliers and partners (state institutions, banking and financial institutions, outside, etc.), and the relationship with their employees. Successful companies hires creative people and innovative, constantly developing their creative spirit, as the products and services offered competitive market are the result of creative organizational members. Literature indicates that not all people must be creative in the organization, that some people feel better carrying out a routine activity. However, success is defined by creative individuals throughout their existence. At the

organizational level is not performing to classified employees in creative, less creative and lacked of creative spirit or to boost the creative side only to employees who have (of course, by hiring evaluation). Employees identified as being created must be positioned in key business and creativity, regardless of what occurs at the organizational level should be rewarded. And other individuals must be helped to develop their intuitive side, not only the rational. This is because the business world, and beyond, people are becoming increasingly aware of the major role in providing high performance that it plays an individual endowed with fine intuition and observation. In this respect it is interesting to note that steadily increased the number of female employees, because precisely these qualities: a sense of intuition and observation. Studies showing that the fair sex have more developed intuitive side. And can therefore be expected to grow in the next period the number of women in key positions in various companies.

The crisis is auto-limiting business through sales policies, pricing and product they practice trying to cope. They forget that many problems we have to overcome can be solved by ideas and concepts. People are in crisis solutions. Their talents and skills are in place through creativity.

### **4. Conclusions**

Success habit could be learned, as we learn to be creative, to communicate and develop our personal and professional. Old models, negative habits and conditioning can be overcome if given a chance to creativity. Of course, as long as individual and organizational objectives are achievable, stimulating, accessible but challenging. In fact, firms are established to make a profit, which is the default operating successfully in the market, and not to go bankrupt, regardless of the context in which it occurs.



## 5. References

- [1] Bâțlan I., „Introducere în istoria și filosofia culturii”, Editura Didactică și Pedagogică, R.A., București, 1993, pp. 31-32
- [2] Burduș E., Căprărescu G., Androniceanu A., Miles M., „Managementul schimbării organizaționale”, Editura Economică, București, 2000, pp. 554-557
- [3] Popescu M., Cultura afacerilor, Editura Economică, București, 2003
- [4] Tucicov-Bogdan A., „Psihologie generală și psihologie socială”, vol II, Editura Didactică și Pedagogică, București, 1973, p.56 -57
- [5] Turner C., ”Născut pentru succes”, Editura Teora, București, 2002
- [6] Encyclopedia Britannica.2009.Encyclopedia Britannica Online. 05 Jun. 2009, "Creativity"
- [7] [www.ghenea.ro](http://www.ghenea.ro)

## Researches Concerning Quality Management of Semi-manufactured Poultry Products During the Frozen Process

Steluta Radu

*University of Science Agriculture and Medicine Veterinary  
„Ion Ionescu de la Brad” from Iasi*

Luminița Pîrvulescu

*University of Science Agriculture and Medicine Veterinary of Banat  
from Timisoara*

*r\_stela\_222@yahoo.com*

### Abstract

At present, the action mentioned in CE documents for promoting the quality are considered priorities able to offer visibility and equilibrium. They are not enough also for development of the European economical competence, as they should be accompanied all the time by complementary activities concerning development of: innovation, research, education and instruction in quality management. Any type of politics that concerns the development of the European economical competence must be accompanied also by a revision of the legislative activities of institutions belonging to the countries members of the community, which must allow the permanent adjustment of legislation to the actual requests of the European Union market. The permanent changing and the necessity to assure the management of this changing based on a continuous improvement, generates the need that industry and public authority should make continuously adequate researches in the field of quality management methods, with the aim to gain and maintain the competitive advantage.

Through innovation and design, one can assure the competence of an alimentary product, both of them must be taken into consideration in elaboration of politics in the field of quality and for which is necessary the development of the collaboration relations between University of Agricultural Sciences and Veterinary Medicine from Iasi and production unit SC AVI-TOP SA Razboieni, and another production unities with the aim to create the synergy and of some communication real channels among activities, whose results depend one of another. This way it will be possible the solving of one major problem, the rapid transfer of the results obtained

as a consequence of the scientific research towards production current activities.

**Key words:** poultry products, quality management, correlations

**JEL classification:** L66, Q13

### 1. Introduction

Quality of the alimentary products represents an used modality in a certain scope, through which a company or a firm exists on the market and it can maintain itself competitive, in a continuous way, although it evolves in an environment found itself in a permanent changing [1]. The specific activity of the European Community, oriented towards promoting of quality is developed towards implementation of New approach and on consolidation of quality infrastructures, which are necessary in the context of final achievement of Integrated Market. Scientific research represents the filed in which quality has a major role, at which principles, techniques and the methods of the management quality must be applied. In the plan program no. 4 of E.C. for scientific research, technological development and demonstrative projects in EEC are foreseen specific programs for development of the standardized measures and of tests, with the aim of encouraging of research and of new methods of production management and also of measuring and inspection of products. Besides scientific research, innovation program contains a series of projects concerning promotion of innovative techniques of management, which needs also an integrated approach which should be adapted to the general strategy of organization. [11]

## 2. Material and method

Rational alimentation is now a problem of peoples' education. USA put into practice the nutritional education of persons in schools, in universities by holding up special nutritional courses and the state finance training campaigns for populations from a nutritional point of view. In this context, it is very important the nature of the nutritive components, of vegetal origin or of animal origin, according to their provenience, assuring also quicker or slower digestibility of those components. Thus, man prefers aliments that are able to insure the nourishing stage for a longer period of time, a fact that influences in a negative way the digestion process and also the metabolism of the nutritive substances, in generally, causing some affections such as: diabetes, obesity, hyper blood pressure, cancer.

As a consequence, the present research, has as its aim to find out a method in order to experiment alimentary products obtained from poultry meat which may become functional aliments, and reduce the risk of appearance of some affections, those aliments having a certain direction, such as: optimization of metabolism by controlling the obesity and diabetes, promoting of defending the organism against oxidative stress, promoting of healthy cardio-vascular system, on gastro- intestinal tract and of mental performance. Inside to the standardization stage of agro-alimentary products, respectively, of the semi-manufactured poultry products, it will be established the parameters of the product and production parameters, in order to achieve an efficient qualitative control of the developed activity.

A modern approach of the production process asks for development of specifications inside the company, which leads in fact, at personalization of poultry products that are to be obtained, generates their quality and assures the success of the finite products. Specifications of the company have to do with specifications of the raw materials, of the manufacturing processes, and of finite products. Conceiving of those specifications refers to: defining of quality of the products characteristics which must be measured and controlled, identification of the critical characteristics in order to accept the finite product, determination of methods through which critical characteristics can be measured, a fact that asks for correlation of the results of the

tests made with the help of laboratory equipment with the sensorial characteristics of the finite product, improvement and simplification of testing and researching methods, so that, these methods should increase their precision, verification of the efficiency of the measuring equipments used to obtain the desired information concerning the quality of the product. After repeated making of tests, there are developed the own specifications of the company. Specifications concerning raw materials used in order to obtain poultry products with added nutritive elements.

Thus, from a chemical point of view, presents an interest: acidity, solubility, fat content of the animal origin products, humidity, residual content and pesticide at cereals, fruits, vegetables, toxins and pathogenic bacterium, ashes content in cereals, fruits and vegetables, nitrogen content at meat products, elements that determines also the sensorial characteristics of finite products.

Human nutrition must satisfy more requests of the human body:[8] energetic request, the request of the tissues increasing and renewing, and also the one for insurance of the substances necessary to adjust the vital processes. Thus, from a biochemical and biological point of view raw materials have the most important nutritive elements, respectively: glucides that are to be found in fruits, vegetables, cereals, milk, and milk products, lipids that are to be found in sun flower oil, soya, rape, butter, peanuts, cocoa butter, proteins that are to be found in meat, meat products, milk products, cereals and vegetal oils, vitamins (fruits, vegetables, meat, cereals), mineral salts (milk, milk products, vegetables and fruits) and alimentary fibre (cereals, wheat seeds, vegetables and fruits). The last three categories of nutritive substances become today essential for an optimal nutrition of the man.[5]

Calculus of the qualitative depreciations of products stored by freezing.

The evolution of the depreciative qualities of the frozen products is stopped during all the storage period, owing to the decreased temperature. Still, the degradation is worthless, that is why frozen products may

be frozen only for a limited period of time.[14]

The researches establishes the following correlations, which may be used in calculus of the depreciative qualities:

-frozen products lose during storage some of their qualities, every day, according to the storage temperature;

-during keeping of frozen products, effects of temperature and time of storage are cumulative, the total decreasing of quality does not depend on the order of the temperature succession along time;

-the needed time for producing minimal losses of quality increases exponentially, according to temperature.

-keeping of some frozen products at temperature of - 4°C ...+1°C, for a day, has the same effect on degradation as storage at temperature of - 18°C for a year.[11]

The period in which the frozen products does not present any significant qualitative difference comparing with packed products, called “time of high quality”, after which the product may be consumed even after a time of 3-6 times higher.

$T = 1 / T \times D \times 100$ , in which:

D – is the number of days in which the products are stored at this temperature;

In order to make the transformations which the frozen products suffer during storage it was drawn the curve of the variable quality according to the time and known temperature[... ]:

$\Delta C_1, \dots, \Delta C_n$  - represents the partial losses in quality in each stage of the technological process, or:

$$\Delta C_{tot} = \sum \Delta C_1 + \Delta C_2 + \Delta C_3 + \dots + \Delta C_n$$

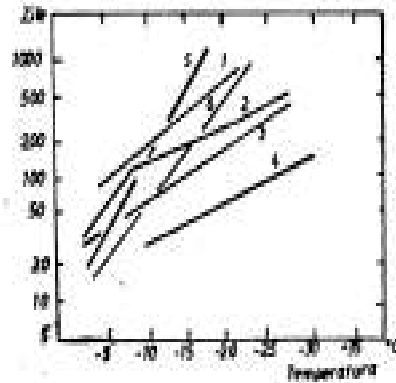
in which :

$\Delta C_1, \dots, \Delta C_n$  represent the partial quantity losses for each fases of technological process or :

$$\Delta C_{tot} = (1/\tau_1 \times t_1 + 1/\tau_2 \times t_2 + 1/\tau_3 \times t_3 + 1/\tau_4 \times t_4 + 1/\tau_5 \times t_5 + 1/\tau_6 \times t_6 + 1/\tau_7 \times t_7)$$

-  $\tau_1, \tau_2, \tau_3, \tau_4, \tau_5, \tau_6, \tau_7, t_n$  – time in which the acceptability limit is reached at the indicated temperature. In order to have a acceptable product from a qualitative point of view is necessary that, from a qualitative point of view, the losses should be smaller than 100%. Owing to this value a non-corresponding technological process is indicated.

Fig. 1 – Curves of the tolerant relation of time – temperature



### 3. Results and discussions

Using the same relation the qualitative losses that are registered in a certain stage of the technological process may be calculated:

We considered that semi-manufactured poultry products were kept in the following conditions during the frozen process(15):

- frigorific warehouse: -20°C, for three months;
- transport to the small gross storehouse: - 15°C, two days;
- transport for sale network: - 12°C;
- storage in store: -12°C, two days;

With the help of curves time tolerance – temperature, the length in days, in which the acceptable quality of the product is maintained and the partial losses in quality.

*The qualitative losses of semi-manufactured frozen poultry products according to the storage conditions*

Table no. 1

Fases	Tempe rature °C	Value of Ca, days	Time, days	Qualita Tive losses, $\Delta C$
Frigorific warehouse	- 20	105	90	$1/105 \times 90 = 0,857$
Transport	- 15	46	2	$1/46 \times 2 = 0,043$
Storage	- 18	90	30	$1/90 \times 30 =$

				0,33
Transport	- 12	40	1	1/40x1= 0,025
Delivery	- 12	40	2	1/40x 2= 0,050
			$\Delta C_{tot}$	<b>1,305</b>

$$\Delta C_{tot} = (\Delta C_1 + \Delta C_2 + \Delta C_3 + \Delta C_4 + \Delta C_5) \times 100 = 130,5 \%$$

#### 4. Conclusions

We noticed that in mentioned conditions of storage and manipulation of semi-manufactured poultry, the acceptable qualitative losses are surpassed, and as a consequence the product will not be accepted by the customer.

That is why, is necessary the decreasing of qualitative losses on their way, of storehouse. The storage period in storehouse must be reduced at maximum 60 days. This fact means that every manufacturer must assure a qualitative reserve, taking into consideration the transformations that take place at keeping of the product at customer.

Scientific argumentation of proteins consumption associated with other nutritive elements, which completes the nutritive value of poultry products.

Assurance of alimentary safety for the new types of poultry meat by: equilibrated usage of nutritive components, severe identification of raw materials and added materials from a nutritive point of view, which may be associated with poultry meat.

#### 5. References

- 1.Chavey, A., Muñoz de Chaves, M., Roldan, A., Bermejo, S., Avila, A., and Madrigal, H. 1993-La nutrición en México y la Transición Epidemiológica. Instituto Nacional de la Nutrición, México, DF;
- 2.De Wit, J.N., and Klarenbeek, G 1984- Effects of various heat treatments on structure and solubility of whey proteins. J. Dairy Sci. 67:2701-2710;
- 3.Eskin, I. 1977- Bio- chemistry of food, Academic press, New York 1977;
- 4.Farr, D 1990-High pressure technology in food industry. Trends Food Science. Technol. 1:14-16;
- 5.Mincu, I., Segal, B., Popa, E., Segal, R.1989 – Actually directions in the nutrition science , Medical Publishing House, Bucharest ;
- 6.Nagy, K., 1999.- The role of Food Fortification in combating Micronutrient Deficiencies, F. Hoffm
- 7.Neamțu, G.,1997 – Bio- chemistry of food, Ceres Publishing House , Bucharest;
- 8.Niac, C., 2004 – Alimentation, nutrition and food, Publishing House EMIA, Deva ;
- 9.Roger, C. -2000- La qualité et la sécurité sanitaire des produits alimentaires : un des enjeux du Milleunium Round de l'OMC, www. inra. Fr. ;
- 10.Rogoz, Maria-Silvia 2005– The hygiene and security of food in the context of integration of Romanian in the Union Europe;
- 11.Segal, B., Balint, C. 1982- Procceds of developing of quality and stability of food, Technique Publishing House , Bucharest;
- 12.Segal, B., ș.a., 1987- Modern Methods concerning enriched the nutritive value of food, Publishing House Ceres, Bucharest;
- 13.Segal, R., 2002- The Principles of Nutrition, Academica Publishing House, Galați, pg. 49-182;
- 14.Segal, R., Segal, B., Gheorghe, V., Vitalie, T. 1983- Nutritive value of agroalimentary products, Ceres Publishing House, Bucharest;
- 15.\*\*\* Solutions for meat, poultry & vegetarian products, Cosucra Groupe Warcoing, Belgium.

# Researches Concerning the Optimization of Quality of Semi-manufactured Poultry Products with Nutritive Addition Functioning as New Food on the Iasi Market

Steluta Radu  
Aurel Chiran  
Elena Gîndu

*University of Science Agriculture and Medicine Veterinary  
„Ion Ionescu de la Brad” from Iasi  
r\_stela\_222@yahoo.com*

## Abstract

The research method used for obtaining some functional poultry aliments will be made of: identification of sources for raw materials and additional, which can offer the quality of functional aliments for finite poultry products, determination of sensorial, physics and chemistry, micro-biological and nutritive characteristics, making of new technological recipes which should contain nutritive elements with a determinative role in controlling the human metabolism, testing the new products on variable periods of time, at refrigeration and frozen temperatures, in order to be stored and kept in proper conditions, testing the recipes from a sensorial point of view by comparing with the qualitative standards valid for the presented qualitative characteristics and watching of qualitative losses according to the storage conditions of products stored by freezing, analyze and their interpretation. In order to measure and evaluate the qualitative characteristics of raw materials and of finite products we will develop our own processes of testing in research activity.

**Key words:** poultry products, quality, nutritive addition

**JEL:** L66, Q13

## 1. Introduction

The study tries to find out a method in order to experience some semi-manufactured poultry products functioning as functional aliments, which has to assure an optimal equilibrium from a nutritive point of view, easy digestion, and decrease the risk of appearance of some diseases, those aliments having a special target

point such as: the optimization of metabolism by controlling the obesity and diabetes, promoting the protection of body against the oxidative stress, promoting the health of cardio-vascular system, of gastro-intestinal tract, and of mental health.

## 2. Material and method

During the standardized stage of the semi-manufactured poultry products production parameters will be established so as to realize an efficient quality control of the activity carried on.[6]

The finished product specifications refer to the way the raw materials have been included in that product, to the consumers' requirements and the requirements of the existing laws/regulations. Some of the qualitative specifications of the finished product are: the sensorial characteristics (appearance, shape, color, texture, flaws, fragrance, smell, taste), the physico-chemical characteristics of quality, the use of the food additives, microbiological characteristics of quality,[15]strange bodies, the wrapping/package integrity, label aspect, product lifespan.[1]

The methods used to measure the quality characteristics can fall into two categories: measuring methods for physical characteristics, which are definite and refer to color, taste, texture and viscosity;[9]measuring methods for the "hidden" characteristics which cannot be seen or felt; they can be measured only by chemical and microbiological standard procedures (nutritive substances, dyestuff/coloring agents, additives, pesticides, toxicsubstances).[13]

So that, the methods used to measure the contents of mineral nutrients of poultry meat as the initial sample and semi-manufactured poultry products which are obtaining with the recipes proposes was calcined with calciner systems and the finally results was monitoring with the atomic spectroscopy.[4]

The recipes proposes for the research are the following: 1. MEAT POULTRY WITH - Poultry meat 400 g, onion 50 g, orange juice 30 ml, apricot 60 g, raisins 50 g, curry 5 g, oil 20 ml, salt 20 g, pepper 5 g and 2. MEAT POULTRY ROLES WITH VEGETABLES – Flour 500 g, water 300 ml, salt 3g, eggs 300 g which formed pancakes added minced meat poultry 200 g, peppers 50 g, onion 20 g, brocoly 50 g, cheese 100 g, mushrooms 100 g 3.MEAT POULTRY WITH RAISINS – Poultry meat 500 g, sugar 5 g, starch 10 g, raisins 250 g, flour 10 g, rusk 20 g, savory 5 g, 4. POULTRY MEAT WITH GREEN BEANS poultry meat fine paste 300 g, parmesan 100g, garlic 5 g, savory 5 g, white wine 10 ml, green beans 100g, eggs 100 g, vegetable marrow 300g. Analyzing the elements of recipes into the external factor such as: the cooling conditions we are established that the mineral nutrients especially, have an important increasing.[16]

### 3. Results and discussions

Increasing of temperature at refrigeration inducts losses of mineral nutrients for any semi-manufactured poultry products. Though, it is to observe that the amplitude of the losses (variation) is higher when the refrigeration is made around the values of 0-2°C. Even if, at the value level, the losses are more important around the refrigeration temperature of 8°C at this level of refrigeration, the amplitude of losses (variation) is lower. These aspects indicate a linear correlation with lack of intensity between the series of experimental data (temperature – losses of mineral salts). In this direction, the cubic function was used,  $y = b_0 + b_1x + b_2x^2 + b_3x^3$  which, for the field of studied definition, (0-2°C), follows closely the studied phenomenon.

Losses quantity of mineral nutrients in refrigeration of the semi-manufactured poultry products for a day

Table no. 1

losses of mineral nutrients	poultry meat,	semi-manufactured	semi-manufactured	semi-manufactured	semi-manufactured

	mg	1, mg	2,mg	3, mg	4, mg
mineral nutrients	445	970,419	323, 206	427,693	1026,81
losses of mineral nutrients at 0°C	4,45	31,05	6,46	11,33	39,53
losses of mineral nutrients at 2°C	4,97	31,56	6,87	11,57	40,23
losses of mineral nutrients at 4°C	5,07	32,30	7,68	11,98	40,63
losses of mineral nutrients at 6°C	5,13	32,54	7,94	12,36	40,97
losses of mineral nutrients 8°C	5,16	32,86	8,04	12,57	41,03

Coefficients of regressive cubic function  $y = b_0 + b_1x + b_2x^2 + b_3x^3$  (losses quantity - temperature)

Table no. 2

	r <sup>2</sup>	Sig f	bo	b1	b2	b4
Poultry meat	0,994	0,09	4,45	0,36	-0,06	0,004
Sp1	0,989	0,13	31,03	0,30	0,003	-0,0016
Sp2	0,987	0,14	6,44	0,17	0,04	-0,0058
Sp3	1	0,009	11,32	0,05	0,04	-0,0035
Sp4	0,998	0,05	39,53	0,38	-0,02	-0,0002

Fig 1 – The quantity of mineral nutrients at the fresh products – poultry meat and semi-manufactured poultry products

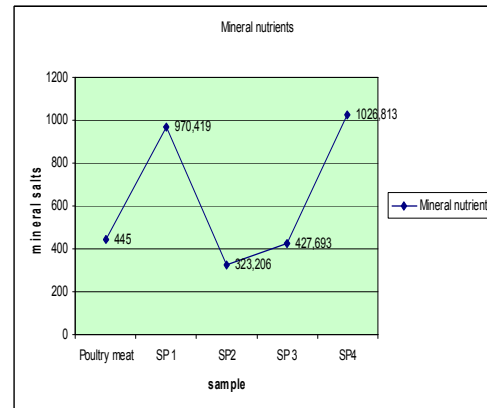
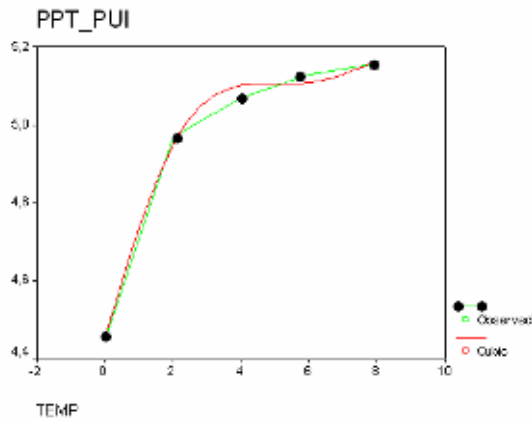
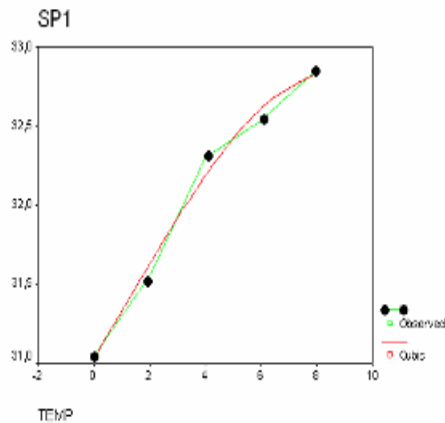


Fig. 2 – The dynamic of losses quantity of mineral nutrients at the poultry meat between of 0 - 10°C



The losses of quantity of mineral nutrients monitoring through the refrigeration at the poultry meat without vegetables or fruits was increasing between 4,45 mg at the 5,16 mg / 100 g of product, (0,07%) means a decreasing of quantity of mineral salts just at 1,1% ( table 1).

Fig. 3 – The dynamic of losses quantity of mineral nutrients at the semi- manufactured poultry product (SP1) between of 0 - 10°C



The decreasing of mineral nutrients registered of the refrigeration of semi-manufactured poultry products with added of vegetables of fruits variety after the following conditions :

-At the semi-manufactured poultry products SP1 from 31,5 mg of 0°C at 32,86 mg of 8°C(0,18% comparative with 0°C and 3,38 % comparative with fresh product).

-At the semi-manufactured poultry products SP2 from 6,46 mg of 0°C at 8,04 mg of 8°C(0,15% comparative with 0°C and 2,48 % comparative with fresh product).

Fig. 4 – The dynamic of losses quantity of mineral nutrients at the semi- manufactured poultry product (SP2) between of 0 - 10°C

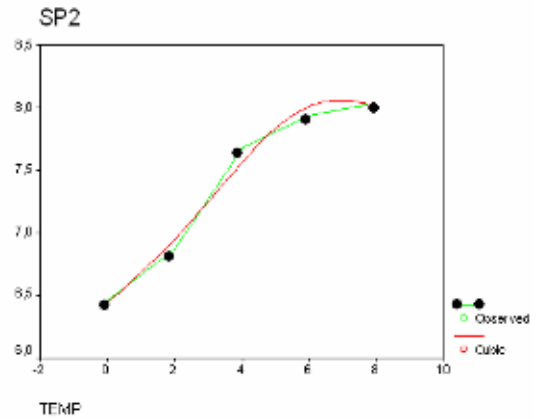
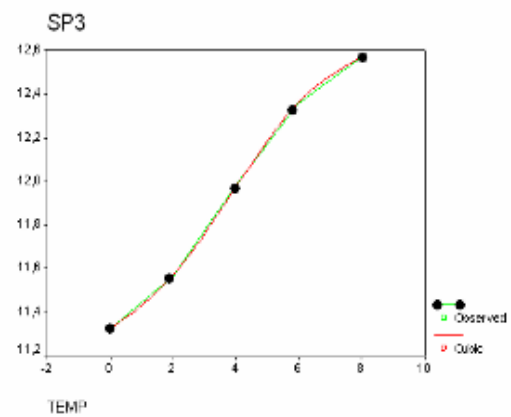


Fig. 5 – The dynamic of losses quantity of mineral nutrients at the semi- manufactured poultry product (SP3) between of 0 - 10°C

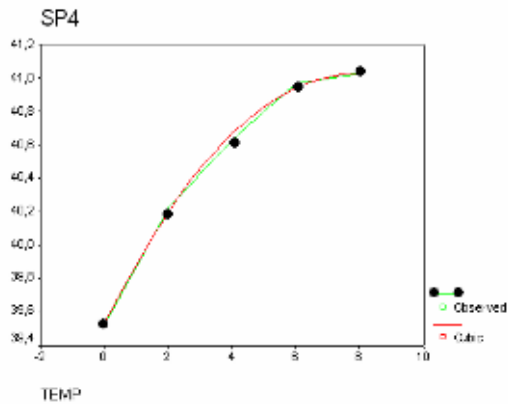


-At the semi-manufactured poultry products SP3 from 11,33 mg of 0°C at 12,57 mg of 8°C(0,11% comparative with 0°C and 2,94 % comparative with fresh product).

-At the semi-manufactured poultry products SP4 from 39,53 mg of 0°C at 41,03 mg of 8°C(0,15% comparative with 0°C and 3,99 % comparative with fresh product).



Fig. 6 – The dynamic of losses quantity of mineral nutrients at the semi- manufactured poultry product (SP4) between of 0 - 10°C



#### 4. Conclusions

The values of the correlation coefficients (losses quantity of mineral nutrients - temperature) for each semi-manufactured product are situated around the superior value, thus indicating a superior correlation between the two series, so the increasing of the temperature at which the refrigeration is made implies a variation of losses following the model described above.

For each case in particular it was calculated also the risk limit (*sig. f*) which has generally lower values, indicating so a higher level of trust in the obtained results.

Analyzing the elements of recipes into the external factor such as the cooling conditions we are established that the mineral nutrients especially, have an decreasing, but that don't influenced the mineral nutrients quantity of semi-manufactured poultry products because the level of them are important increased using the vegetable and fruits ( figure 1 – by the 445 mg at the meat poultry at the 970, 419 mg at the semi-manufactured poultry product (SP 1), 323, 206 mg at the semi-manufactured poultry product (SP 2), 427,693 mg at the semi-manufactured poultry product (SP 3) and 1026, 813 mg at the semi-manufactured poultry product (SP 4).

So that, the decreasing of mineral nutrients at the refrigeration was between 0,07 % and 0,18%, decreases which couldn't paste about the increasing of level nutrients which became

54,14% - 56,66 % more largest then the meat poultry without vegetables or fruits.

#### 5. References

1. Banu, c., Butu, N., Sahleanu, V., Răsmăriță, D., Stoicescu, A., Hopulele, T.- 2000. Biotechnologies in food industry, Technique Publishing House , Bucharest;
2. Chavey, A., Muñoz de Chaves, M., Roldan, A., Bermejo, S., Avila, A., and Madrigal, H. 1993-La nutrición en México y la Transición Epidemiológica. Instituto Nacional de la Nutrición, México, DF;
3. De Wit, J.N., and Klarenbeek, G 1984- Effects of various heat treatments on structure and solubility of whey proteins. J. Dairy Sci. 67:2701-2710;
4. Eskin, I. 1977-\_ Bio- chemistry of food, Academic press, New York 1977;
5. Farr, D 1990-High pressure technology in food industry. Trends Food Science. Technol. 1:14-16;
6. Mincu, I., Segal, B., Popa, E., Segal, R.1989 – Actualy directions in the nutrition science , Medical Publishing House, Bucharest ;
7. Nagy, K., 1999.- The role of Food Fortification in combating Micronutrient Deficiencies, F. Hoffmann – La Roche Basle – Switzerland;
8. Neamțu, G.,1997 – Bio- chemistry of food, Ceres Publishing House , Bucharest;
9. Niac, C., 2004 – Alimentation, nutrition and food, Publishing House EMIA, Deva ;
10. Roger, C. -2000- La qualité et la securité sanitaire des produits alimentaires : un des enjeux din Milleunium Round de l'OMC, www. inra. Fr.;
11. Rogoz, Maria-Silvia 2005– The hygiene and security of food in the context of integration of Romanian in the Union Europe;
12. Segal, B., Balint, C. 1982- Procceds of developing of quality and stability of food, Technique Publishing House , Bucharest;
13. Segal, B., ș.a., 1987- Modern Methods concerning enriched the nutritive value of food, Ceres publishing house, Bucharest;

14. Segal, R., 2002- The Principles of Nutrition, Academica Publishing House, Galați, pg. 49-182;
15. Segal, R., Segal, B., Gheorghe, V., Vitalie, T. 1983- Nutritive value of agroalimentary products, Ceres Publishing House, Bucharest;
16. Vasiliu, F.- The modern Control of quality products, Publishing House Ceres, Bucharest 1985, p.36
- 17.\*\*\* Solutions for meat, poultry & vegetarian products, Cosucra Groupe Warcoing, Belgium;

**SECTION TWO**

**ECONOMICS AND BUSINESS  
ADMINISTRATION**

**SUBSECTION**

**Finance and Accounting**

## The business plan – A Business Tool of Attraction of Sources of Financing

Achimescu Georgeta

*Spiru Haret University – The faculty of Financial and Accounting Management Constanta*  
[georgeta.achimescu@spiruharet.ro](mailto:georgeta.achimescu@spiruharet.ro)

Verisan Cristina Alina

*Spiru Haret University – The faculty of Financial and Accounting Management Constanta*  
[cristina.verisan@spiruharet.ro](mailto:cristina.verisan@spiruharet.ro)

### Abstract

*The strategy conceived for a certain type of business takes shape in the form of the business plan. The business plan represents a complex system based on interdependence and which reflects in an accessible manner the idea of business and the evolution of this one in the time. This is a work tool used for the beginning and the development of a business that needs material, financial and human resources. By the instrumentality of the business plan are improved the experience and the realizations of the past with the intention to project the future through the most appropriate methods of estimation and approximation. It serves as an element of convincing in the process of negotiation of some credits and of attraction of some potential paymasters. A business plan can be compared with a road map: it shows where we are and where we want to arrive. It contains points of mark and other helping elements for the orientation in the economical environment, preparing at the same time the traders for the more ore less predictable modifications of the “crossing”. A good based business plan should be capable to determinate the necessity of additional capital and the moment to realize the infusion of this one, convincing on the capacity of the inquirer to manage the business. The paymasters want to be sure that it was made a responsible analysis of the strong and weak points of the business, of the rescues and the associate opportunities. They also must be convinced that a lot of rescues indissoluble related to that businesses were identified and some methods of decreasing of these ones were found on acceptable levels.*

**Key words:** the bank financing; the capital investment; the alliance; the relations with the clients and with the distributors; external sources of financing.

**JEL classification:** M13, G21

### 1. Introduction

The business plan – an indispensable tool of the entrepreneurs which builds a business or seeking partners, of the managers proposing new projects to other persons or financing institutions, of the institutions of financing, of the institutions which administrate the funds for the investment projects, of the administrators of projects in the background of the so appointed “hatchery of business” etc.[1]

The business plan reflects the projects of investment from all the branches of activity, projects which are tending to become today more and more important and complex, many times being of international stature. The projects of international investment must advance the information in a system and language accessible to all the aimed parts. From this point of view, the most sensible part is in fact the translation of the financial previsions of the Romanian system in the Anglo-Saxon system.

The business plan is not represented by a form to be completed at the demand of a credit inspector, a bureaucratic element to be realized in order to obtain a certain sum from a paymaster, but a complex system based on interdependence and which reflects in an accessible manner the idea of business and its evolution in the time.

## 2. The Business Plan – A Tool of Attraction of the Sources of Financing.”

Its role is not only to demonstrate that the business worth to be financed, but also to guide the entrepreneur beginning with the first year of operation of the business. Its deployment means control and adaptation in function of the real evolution. This control exerted aboard the rollback of the business will aim at all the critical elements of the economic entity, elements concerning the strategy of the prices, of the distribution, of the sales, of the competitive strategies, etc.[2]

The business plan is this way a written document that describes the nature of the business, the point market, and the advantages, which the business will have on the competitors, as well as the resources, and the aptitudes that are disposing the owners of the business.

In order to draw up the plan it is necessary to analyze with attention the products/the services offered, the competition, the necessary financial resources and other operational details.

At the same time, the business plan is a work tool used to begin and develop a business that needs material, financial and human resources. By the instrumentality of the business plan are improved the experience and the realizations of the past with the intention to project the future through the most appropriate methods of estimation and approximation. In the speciality literature it is attempted a definition of the business plan as follows: “The business plan is a tool of the present, elaborated through successive approximations, using the experience and the past realizations of the enterprise in order to project in a realistically the way to the future. It has as purpose the most advantageous and realizable compromise between what the enterprise want and what it can do”[3].

The preparation of a business plan is a dynamic phenomenon, emerged in a permanent improvement, some potential sources of financing wish to see improvements of the plan, new ideas or letter day figures – in the case the enterprise already has business. Any business plan supposes a certain sequence of operations. For the drawing up of this one we need to scan the following three points:

- The collection of the necessary information (prices, competitors, contractors, technical data, juridical data etc.);
- The effective planning of the respective activity – the choice of the adequate strategy and the find of the path to reach the established objectives;
- The editing of the plan (the stage of choice of the optimal form of presentation to the addressee of the result of the foregoing stage).

At the basis of the planning of the business and of the realization of the business plan is an entire process, made of five stages (A, B, C, D, E), and systematized this way:

*A. The fixation of the objectives, which supposes to establish the following points:*

- Where do you want to arrive
- The efficiency of the investment
- Products/Markets
- Productivity
- Expansion/Consolidation

*B. The Diagnostic of the actual situation:*

- Where you are situated
- Products/Markets
- Production
- Resources: human, material and financial
- Organization
- Results

*C. Analysis of the economical medium of evolution:*

- The demand of the market
- The clients
- The competitors
- The existent technologies
- The work force
- Other influences

*D. The SWOT analysis:*

- Strong points
- Weak points
- Opportunities

*E. The establishment of the strategy concerning the choice of the best way to come to (B) The diagnosis of the present situation to (A) The fixation of the objectives considering (C) The analysis of the economical medium of evolution and (D) The SWOT analysis: strategies; necessary resources; responsibilities of implementation and motivation.*

The concept of a business represents an intangible idea, and when the business takes shape in a written business plan, the ideas, the concepts, the forecasts and the researches become tangible, they can be seen and examined.

The business plan approaches the idea of business to the reality – a fact which represents a very big psychological advantage. That's why the business plan has four functions:

*a. The function to realize a retrospective evaluation of the real performances of a business through the time* – it supposes the identification of the causes, of the directions and the amplitude of the digressions from the plan, as well as the modalities of action of the company in the future. The entrepreneurs will ameliorate their professional experience and the knowledge, they will be less exposed to the unexpected dangers, they will oversee and control the performances of the company and they will be able to take corrective measures in a good time when the realization of the objectives is menaced.

*b. The function of crystallization and development of the ideas regarding the manner to manage the business* supposes that the business plan defines clearly the purposes and the objectives of the business, to establish the methods to reach these ones and to identify the rescues involved. This way, the allocation of the resources will be done after criteria of maximization of the efficiency, the strategies are chiselled, the business is examined from all the points of view (marketing, production, financial sustentation) and the mistakes are done rather on the documents as in the reality.

*c. The function of prospective evaluation of the business* – it derives from the capacity of the plan of business to analyze, to evaluate, to compare and to classify the projects of business. At the same time, this tool of work gives confidence in the own capacities, can compensate the failure of the capital and the experience in the case you have other advantages.

*d. The function of generator of financing* - the most creditors and paymasters will finance the business only after they will have studied the business plan, they will see the ability of the plan to generate necessary collections for the daily operations, for the payment of the debts

and the generation of the profit. The sources of the capital (credits, investment or grants) would like to know how much money is necessary, when it would be necessary and how it will be spent, if and when could be require the allocation of some funds. The paymasters could appreciate this way the capacity of the management to diagnose the current situation, to mark the future objectives and to choose the best strategy to obtain these facts.

The development of the business will be easier if it will be elaborate a business plan and the financing will be more accessible if through this document we convince the paymaster on the soundness of the business. When an entrepreneur presents an idea to a commercial paymaster, to a bank or to a potential paymaster without a business plan, they will demand to the paymaster to have one and then to come again. The necessity to obtain a financing constrains every company, which have already begun its activity to realize a competitive business plan, a stringent planning. The elaboration and the editing of the business plan will give competitive advantages in at least three areas:

- Marketing – it could be identified the clients, their necessities and expectations, the politics of prices, the techniques used in order to conquer the market area they wanted;
- Personal – it could be defined the rights and the attributions of the management and of the employees, the politics of hiring and lay-off, the daily operational process, etc;
- Financial (the pile of sustentation of the whole business) – the learning of preparing and the utilization of the cash-flow projection, of the account of settlement, of the analysis of critical points etc.

Therefore, the conceiving of a business plan is an excellent way to obtain credibility and to show that a success is very important for an entrepreneur. There is no unique prescription to elaborate a business plan, this is, in the long run, the expression of the competence, of the experience of the business man, but it cannot digress neither from the logic of the points it supposes the development of a business, nor from the necessity to contain indispensable information, for the one who realizes the

business plan, as well as for the people who develop the business.

### 3. The financial Objectives of the Business Plan.

Every business plan has well defined financial objectives. In the speciality literature, there are identified as financial objectives of the business plan: the reduction of the financial risks; the resolution of the unexpected situations; the procurement of external sources of financing.

*a. The reduction of the financial risks* – is realized through the anticipation of these ones and the establishment at time of the best measures to be taken in case of necessity. Between the most important risks can arrive we can mention the establishment of the following points:

- The default of liquidities
- Supersized credits
- Undersized credits

*b. The resolution of the unexpected situations* – of the unplanned, unexpected events (fortunate or unfortunate) consistent on the economic situation of the company. Some situations can be really unexpected. Here are some examples of unplanned situations:

- The interruption of the production
- The introduction of a superior product from a competitor
- The disappearance of a competitor.

*c. The reduction of the costs of financing* – the financing supposes a succession of costs, which set on the second place the entry of the cash, irrespective of the source of this one. In function of the nature of the paymaster and of his wishes, will come out a few categories of costs of the financing:

- The rates, or the cost of the taken capital, containing the rate of the debts of refinancing and the prime of risk (collected by the paymaster for the respective business and in interrelation with the proportion of the advanced sum);
- The dividends – the cost of the subscribed capital and incarnates in the payment of the dividends (with an effect on the flow of the cash).

*d. The procurement of external sources of financing* – the most attentively chased objective of the planner. The financial plan is in fact the “heavy artillery”[4] of the business plan, because to this component is oriented the biggest part of the financial interest of the examiner

### 4. The Utilization of the Business Plan in the Relations with the External and Internal Environment of the Company.

Because the number of the demands and offers of financing or other type of support from outside enlarges, the business plan becomes an indispensable instrument to every company in order to benefit of support from outside of the company.

*The bank financing* – The banks hadn't the tradition to demand business plans from the solicitors of credits, finding their confidence on the foregoing and actual reports regarding the economic-financial activity of the solicitors of credits. But the problems interceded through the collapse of some economic projects made the banks to become cautious and not willing to continue the politics of the credits according to the traditional procedures. A written business plan can help a medium company, setting it in a fortunate position in the endeavour to obtain the financing, in the conditions of the intensification of the competition, in the fight to obtain loans and credits.

The banks are demanding information not only on the dimension of the wished credit and for what purpose, but they demand also certainty on the reimbursement and on the debts, therefore when and how it will be made the reimbursement of the loaning.

*The capital investment* – the particular paymasters of capital and other – same companies will not considerate the adjustment of the financial support to a company, which not represent a written, and credible business plan. To the difference with the banks, which are interested especially in the re-entry at the date of payment in the possession of the borrowed capital and its debts, the paymasters want to be demonstrated the high benefits of the investment project purposed, which can admit the recuperation of the investment in an

accelerated rate. Extra, they want to know how they can recuperate the money they invested through the sale of the company and on other ways, in order to know about the probability of a corresponding benefit; the investors analyze very attentively the following facts:

- The records registered by the soliciting company, its outlet market, the persons who manage the business and their performances;
- The feasibility of the accomplishment of the foresights;
- The uniqueness of the product and its technology;
- The quality of the management.

When the banks are interested in the existence of some actions capable to be guarantees for not to lose the sum they borrowed and that the debt could be paid cash, the paymasters are very interested in the quality of the people who manages the company and in the durable profits of this one.

*The alliance* – Such engagements, which may refer to the common applicative scientific research on the problems of development of the product and of the marketing, generally and typically between big corporations and young companies, but in development, became more and more usual in the last years.

For the companies in development, the arrangement often includes a combination of financial assistance and access to the channels of distribution well stabilized. The common effort may subsist three years or more. The big companies, in a variable way, would like to examine the plan of business of a company of medium level before it engages in a long time engagement.

*The coalesces* – a company of a medium level searches more and more the way of the coalesce which can constitute a tool of expansion and that's because it needs more and more the business plan. A company of a medium level in the situation to take over another company or to find a company interested to take it over in a fusion needs always a business plan.

*The relations with the clients and with the distributors* – for the companies with a medium level, the gaining in quality of clients of a big company or an engagement from an important distributor can be events of equal importance.

The big and well-known organizations are always reticent to make engagements with companies of medium level, because they are not well known[5]. A good business plan can abolish the disbelief and the doubts.

In point of the utilization of the business plan in the relations with the internal medium of the company, we must say that the business plan is an important tool for the management. It gives the possibility to the management to plan the development of the company and to anticipate its structure changes.

The administration of the medium level enterprises argues sometimes that this is pointless to write a business plan because the situation of the market changes quickly and the plan play out.

It is obviously really that the changes are a layout but the process of the preparation for the realization of the business plan is at least such important as the real business plan. It constrains the management to think about the business in its details and to establish the objectives in which accomplishment to be piloted the activity of the company.

The most important thing is maybe that the business plan mobilizes and coerces the whole management in the accomplishment of the same desideratum.

The process of the elaboration of the objectives of the plan forces invariably the executive management to reconsider the opinions on the situation of the company and on the directions it is managed. This process may be painful but the realization of the common purpose is important for the company.

A written business plan can be an internal important document also for companies with multiple centres and activities. The

management can lead the elaboration of the business plan in order to certify the contiguity, on a long period of the purposes of the company concerning the market and the financial results.



## 5. Bibliography

- [1] Maria Moldoveanu, Emilian M. Dobrescu, *The science of the business*, Expert Edition, Bucharest, 1995, p.25;
- [2] Dan Voiculescu, *The praxis of the business in the humanistic society*, Intact Edition, Bucharest, 1995, p.42;

- [3] Dumitru Porojan, Cristian Bisa, *The business plan*, Irecson Edition, 2002, p.203;
- [4] Ion Sandulescu, *The business plan*, All Beck Edition, Bucharest, 1999, p 167;
- [5] Philip Kotler, *The management of the marketing*, Teora Edition, Bucharest, 1998, p.129.

## Common points and particularities between financial audit and internal audit

Alexandru Georgiana  
Universitatea Spiru Haret  
georgiana.alexandru@spiruharet.ro

### Abstract

This paper has as objective marking of a line between internal and financial auditing, in order to a better understanding of these two concepts. Giving the fact that we find ourselves in a world trapped in a continuous movement, it is well known that world communities tend to globalization. Our desires and always growing needs, along with the need of life improvement, bring the necessity of developing international directions, regarding various themes, including the auditing activity. Auditing activity is known as an activity which brings plus value, an activity with a short history, borned from our need of a high level of performance regarding all the activities developed in a company, especially in now-a-days economy when the word quality gains a much higher value. So, the auditing activity takes her well-earned place on the market, were we meet two concepts of auditing, such as internal auditing and financial (external) auditing.

**Key words:** audit, internal auditing, financial (external) auditing, financial statements.

**JEL classification:** M4; M42

### 1. Audit - brief history

The audit, the activity itself is a relatively new function, having a short known history, with not an existing record fine determined along time, being assigned for the first time early in the XVIII<sup>th</sup> century, but not specified the exact date or geographical location in a state.

Etymologically, the word *audit* has his origins in the Latin sound *audire*, which means *to listen*. However, the *expression audit* has been mentioned for the first time in French language and means *accounts listening*.

Broadly, the audit until the XVIII<sup>th</sup> century had as purpose thieves' punishment for fraud and prevention of such acts in order to protect their own heritage, entities being represented then by the state, church, and court. Since the XVIII<sup>th</sup> century and continuing with half of the Nineteenth Century, the audit function has become an end to fraud, to those who were producing fraud, and last but not least, tried to find solutions on the preservation of heritage integrity. End of the Nineteenth Century brings a new era in the history of auditing, a relationship between auditors and the entity taking shape, auditors who until now were elected from the priests and best accountants, now will be represented by professional accountants. Thus, the *basic objective of the audit becomes the certification of the reality of the financial statements, in order to avoid errors and fraud*.

The XX<sup>th</sup> century represents a top period in audit activity; in this century specialized organizations are developing, such as the International Institute of Internal Auditors (IIA - Institute of Internal Auditors) in the United States in the year 1941 and the French Institute of Auditors and Internal Consultants (IFACI), in the year 1965. With the emergence of these organizations, for approximately two decades (1970-1990) objectives are targeted to internal control certification, compliance with the conceptual

framework of accounting and auditing rules. Since then, standards and rules have been drawn up, to bring the audit work to an advanced form, a form that would confer an added value to the business of accounting.

Considering changes and the galloper rhythm that these changes take place all over the world, it is not a surprise that every type of activity is affected, the globalization tendency putting a profound mark on everything that means economical and financial life.

It's understandable that *audit does not mean an exception as it regards development and changeability*, keeping a close check in meeting necessities and demands, making a purpose from *work upgrade*, taking the auditing activity to a higher level, without the risk of a non perceptible or incomprehensible work.

## **2. The concept of internal and financial auditing**

The audit, in accordance with international rules of audit, but also in opinion of many authors, can be defined, in a simple form, as an examination of the situations, whose purpose is expressing a responsible and independent opinion, an opinion that means that the financial statements have been prepared according to the accounting identified references, named quality criteria.

According to ISO 8402, the audit can be defined as a methodic examination conducted to determine whether the activities and results relative to the subject are considered to satisfy the provisions of default and whether these provisions are put into opera in an apt and effective manner, in order to achieve the entity's objectives.

Concisely, we can say that the audit is used to evaluate the *difference between the actual situation and the default one*.

Auditing architecture is composed mainly by internal and external (financial) audit. International standards, guidelines, the recommendations issued by specialized organisms such as IFACI, are coming to help us

give auditing activity a definition, giving us a hand in understanding audit.

*The audit is a universal function.* Although, its best known face regards the financial function, the auditing activity spreads its arms among all functions retrievable in an entity, through internal audit, which covers all functions which contribute to a result determination. A limitation of audit activity to a single compartment, as accountancy, is not recommendable in the context of a globalized society, being preferable a complete verification and certification of the entity's activities.

Therefore, *internal auditing represents a function integrated in the company*, when the *external auditing represents an independent function* whose mission is to certify the accuracy of the accounts, results and financial situations, and more precisely to certify the sincerity and a truthful image of the financial situation and (if we retain the definition of the authorized accountants) to certify the regularization, ingenuity and fair picture of accounts and financial situation. The two types of auditing are now-a-days, net differentiated, their definition, especially the external audit one being universally accepted.

A deeper presentation of those two concepts of audit can be done, but we must mention an essential thing, the fact that those two functions do not compete, on the contrary we can affirm that they are complementary.

## **3. Differences between internal and external auditing**

The differences between the two concepts are presented in the next table.

Table 1  
Differences between internal and external auditing

Compared elements	Internal auditing	External (financial) auditing
Statute	Being an integrated function, dependent by the company, results that the internal auditor is an employee of the firm.	As an independent activity, the external auditor is represented by an authorized independent auditor or by a company which offers this kind of services.
Beneficiary	Through the perspective of his characteristics, internal auditing give information to the company's responsible, as managers and auditing committee.	External auditing works to obtain information in benefit of a large range of users, like shareholders, bankers, authorities, clients, suppliers.
Objectives	Internal auditing has as objective appreciation of an efficient development of the activities developed by the entity and recommendation of some directions regarding detected problems.	External auditing takes a look at the entity from outside, though it has as objective the certification of the honesty and a correct and fiddle representation of the results and the financial situation of the entity.
Application field	Internal audit it's applicable in all departments of the entity.	External audit is limited to observations and investigations regarding accountancy.
Fraud preventing	Internal audit approaches fraud referring to personal folders.	External audit is interested to any fraud that might affect the financial situation of the entity.
Independence	Internal auditor is an auditor employee of the entity, without juridical and statute independence.	External auditor, as we mentioned before, is an independent auditor, which pleads for a free profession.
Periodicity	Internal audit has a permanent character, being continuously present, solicited in permanence with the same intensity, any time of the year.	External audit has a temporary character, being solicited in some specific periods, in order to certify accounts.
Procedure	Internal audit has a specific and original method.	External auditors accomplish their work based on specific methods, like analyses, inventories.

#### 4. Common points between internal and external audit

As similarities between internal and external audit, we mention the following:

- Both are effectuated by specialists;
- Both functions help to a consolidated position of the entity on the market, assuring trust and respect from the
  - entity's partners, meaning clients, suppliers, investors, state and other institutions;
  - They both respect deontological principles;
  - In both cases, the annual financial statements are open to an audit work in a obligatorily;
  - The auditors are responsible with the

elaboration of the audit report, which will have to be signed by the auditor on each page;

- Objectivity, internal and external auditors must maintain their objectivity, so that they can give a correct and fiddle representation of the entity's situation;
- The auditors' responsibility is limited to the situation's control, they are not responsible for the preparation of financial statements;
- In their sphere of control accountancy is included, both functions appealing to the information given by accountancy through her support, like registries, documents, cd, dvd, programs;
- They are functions that overtake information, in order to analyze them and so be able to give, at their turn, new information to the beneficiary;
- Co-treatment, defined by IFACI as a constituent of a common team between internal auditors and external consultants, in order to complete a determined mission;
- External services, defined by IFACI as a punctual assistance of external specialized companies. In this point, it can appeal to multi-disciplinary specialists like technicians, computer-experts, jurists;
- Interdiction of any auditor's intervention in the management activity;
- Utilization of identical ways, even though there is a different methodology.

Although, there are some major differences, the main one consisting in their statute, we can take a conclusion from their similarities: that internal and external audit are not competitive functions, on the contrary they are complementary.

So, the internal audit is a complement of the external one because where is internal audit function, the external audit must appreciate in a different way the qualities of honesty and fiddle representation of the accounts. This aspect is mentioned in Direction 550-02: "access to the programs and work files of internal auditor must be

given to the external auditor, so that the last one can take as support internal auditor's work".

In the same time, external audit is a complement of the internal audit, an element of evaluating business.

These being said, we can affirm that internal and external audit must collaborate, as Direction 550 mentions:

- coordination of the work whose responsibility is the director of internal audit, and in this respect, avoid any duplication of assignments;
- the possibility left to the internal audit to perform work for external auditors, subject with the condition of respecting IIA rules;
- in consideration of what preceded it: the possibility of internal audit director to have an appreciation of the work of external auditors;
- reciprocal access to programs and files;
- mutual understanding techniques, methods and terminology. And this issue should not be missed in the formation of external auditors;
- the transmission of external audit reports to internal auditors and each other, of course under cover of confidentiality to those two functions;
- establishing joint plan interventions to minimize difficulties caused by audit

Collaboration may go even further and it is desirable to go to achieve internal and external audit in the same service at the same time, each with its questions and methods to its objectives, with periodic exchanges of information along mission.

- regular working meetings once or twice a year, each possessing its investigations, its findings and feedback which compares the two parties. It is often an opportunity to find faced convergences.

## **5. Advantages and disadvantages of internal and external audit**

Internal audits are part of a whole, represented by patrimonial entity, which has the power to assist the enterprise, assisting members to exercise effective management

of their responsibilities by providing analysis, feedback, comments and recommendations on relevant activities examined, presents certain advantages, resulting in precisely the status of this work.

Among these advantages are included:

- knowledge of the environment, an internal auditor will understand better the internal control through a permanence contact with the entity;
- a permanent action, internal audit is not a temporary action, exercising his functions throughout the existence of the entity;
- in-depth analysis, internal audit having regard to all its components, not only the accounts;
- can give the best answers to issues of privacy through the first advantage: a detailed knowledge of the environment in which they operate;
- internal audit brings a plus value, materialized in a general improvement of the entity's activity;
- internal audit contributes through its methods to loss stop.

Internal audit presents disadvantages too, namely:

- environment influence, an inconvenience which has its origins in the same advantage as environmental awareness, namely to be kept within the entity, having the risk to influence audit work;
- term routine.

External audit, aimed in expressing a motivated opinion on the regularity, honesty of the financial statement, being capable in giving a reliable picture of annual accounts which are submitted to its present, have, just as internal audit, both advantages and disadvantages.

The advantages of external audit include:

- expert competence;
- procedures experience;
- total independence;
- a new and neutral vision;

The inconvenience of external audit brings into question the following aspects:

- A punctual intercessory (mission);
- General recommendations are often superficial.

## 6. A personal approach of internal and external auditing

Some basic principles governance the internal and internal auditors work, those principles can be found in both internal and external audit standards, like Internal Audit Directions and the Ethic code of professional accountants.

To this purpose we are giving the following opinions:

- 1) An auditor must be proficient, must have an adequate qualification required to an efficient audit work;
- 2) The auditor should have in plan, constantly, a permanent training, he will have to be up-to-date with all directions, standards, a professional stagnation not being allowed to an expert in any field of activity;
- 3) The auditor must maintain and respect confidentiality regarding information they have access to, as a result of the audit work;
- 4) The auditor should not let any circumstances/emergencies to influence him, he should have an objective point of view, not a subjective one, regarding audit work, in the purpose of exercising a competent and professional work worthy of trust in front of the beneficiary;
- 5) An auditor must be impartial, right and honest in all his professional and business relations;
- 6) An auditor has the responsibility of an action according to mission requirements, with meticulousity and paying attention;
- 7) An auditor has the obligation to respect laws, directions, avoiding any kind of action that could be a reason of profession disparagement.

All these principles do not eliminate each other, they become complementary; from a principle derives another and so long.

The auditor cannot decline any of these principles, the work of audit and his acknowledge being done through those principles.

It can be observed that the 7<sup>th</sup> principles

mentioned above can be structured by their appurtenance in a category (figure 1).

From figure no.1 it can be observed that objectivity, integrity, confidentiality and consciousness fit into the personal characteristics category. These principles should be present in every field of activity, with a great importance in an expertise activity.

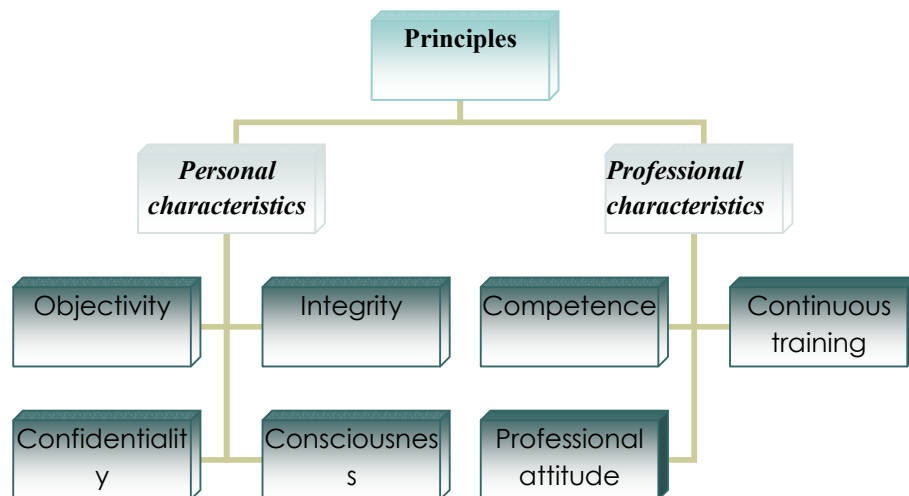
Competence, continuous improvement and professional attitude are principles that are included in the professional category features. As well as other principles included in the category of personal characteristics,

these principles should make the formation of any worker.

Both external and internal auditors must take in consideration some common basic directions, as it follows:

- auditors will respect principles and rules, regarding internal and external audit, by case;
- auditors must respect information confidentiality and will have to consider an open-eyed position with the possibility of information leaking;

Figure 1  
Principles appurtenance



- auditors will not use information obtained in their work of audit, as a result of professional or business relations, in their personal interest or in the interest of a third part;
- auditors must have knowledge, skills and other capabilities in order to complete their work of audit;
- auditors must have sufficient and relevant knowledge in order to identify fraud, but not meaning that they will have the competence of a person whose main responsibility is identifying and fraud investigation;
- auditors must develop their skills and proficiency, appealing to a continuous training, so that they could keep up with society's dynamism. A proficient service requires a permanent consciousness

and an understanding of relevant evolutions on professional plan. A continuous training develops and maintains abilities that allows auditor to do a work done competently;

- auditors must have a neutral and non-prejudgment attitude;
- auditors must avoid conflict of interests;
- auditors must avoid auditing some special operations that they were responsible of. An auditor's objectivity is considered affected when they accomplish an assuring mission for an activity they were responsible of.

All audit missions must be accomplished with maximum of consciousness and competence, including the responsibility to

action in conformity with the mission's requirements, with maximum of attentions and meticulousity, at the right time.

In an acceptance of free markets and a society in continuous development, audit gains values increasingly popular and higher, a certification that the activity of a company is in accordance with international standards, thus always an added value, representing an ace of the company. This will bring notoriety, will confer confidence and stability, notifying that the entity is an important player on the market and can face market demands.

## 7. Bibliography

- [1] Alvin A. Arens, James K. Loebbecke, Auditing. An integrated approach, Arc Publishing House, 2006.
- [2] Brezeanu P., Brasoveanu I., Audit and financial control, ASE Publishing House, 2001.
- [3] Drăgan, C.M., Post-graduate book, S.N.S.P.A site, 2007.
- [4] The 8<sup>th</sup> EU Directive, no. 84/253/EEC.
- [5] [www.cafr.ro](http://www.cafr.ro).
- [6] [www.ifaci.com](http://www.ifaci.com).



## Accounting Standards, Regulations and Herd Behavior

Anghel Flavia Gabriela

*Universitatea Româno-Americană*

*E-mail: flavia.anghel@gmail.com*

Avrigeanu Alina Florentina

*Universitatea Româno-Americană*

*E-mail: alina.avrigeanu@gmail.com*

Glavan Bogdan Nicolae

*Universitatea Româno-Americană*

*E-mail: bogdan.glavan@gmail.com*

### Abstract

*It is argued that the current accounting and risk assessment methods have played an important role in developing financial panic. Mark-to-market models and fair value accounting seem to stand as the basis a market failure and should be replaced by more conservative accounting methods. In this paper we reject this idea, emphasizing the weaknesses of historical cost accounting and mark-to-model financial model. We put the debate in a larger perspective, pointing to the relation between accounting methods and entrepreneurial economic calculation. Also, we criticize the association between fair-value accounting and the current crisis, arguing that the latter is more likely the result of risk regulation that determined herd behavior.*

**Key words:** financial assets, business cycle, entrepreneurial economic calculation, herd behavior

**JEL classification:** M4; M41

### 1. Introduction

Since the beginning of the financial crisis an important debate emerged on whether accounting principles should be reform in order to prevent market upswings and downturns. Many economists and officials expressed concerns that fair-value accounting method and resulting financial statements may unduly exacerbate profits during the growth phase of the business cycle and contribute to the spiraling

down of investments and profits during the recession.

This paper is structured as follows. The next section presents the case against market value accounting. Section 3 shows the disadvantages of historical cost accounting, arguing that it does not prevent economic distortions, especially in time of inflation. Section 4 extends the argument, approaching the issue historical cost-accounting/mark-to-model versus fair value/mark-to-market from the perspective of entrepreneurial economic calculation. Section 5 shows that it is not necessarily market value accounting which induce firms to invest in overvalued assets, but the regulation of risk.

### 2. The case against fair value accounting

As authors of one of the many papers on the subject explain, "The use of fair value seriously reduced the ability of the financial institutions to resist risk. When the market is active, financial products which are measured by the so-called fair value are always lucrative and managers usually tend to be unrealistically optimistic. Once the market shows a weaker tendency, the value of financial assets will be undervalued. According to IAS, financial institutions have to accrue to impairment according to the measurement attributes of the assets or reduce the owner's equity, which will affect the profitability of the corporate and the level of capital adequacy ratio. At this time, in order to evade the adverse effect, a large number of financial institutions will sell assets, causing a further decline in the value of the assets. So the

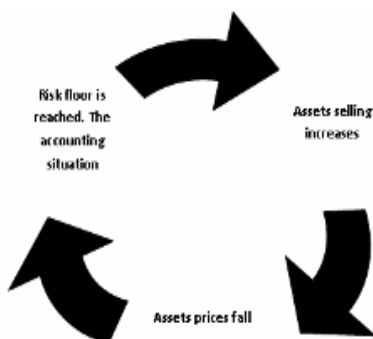
vicious circle won't stop until the bank is bankrupt.” [1]

It is argued that the current accounting and risk assessment methods have played an important role in developing financial panic. Many economists believe that using the market value of financial assets in investment risk assessment and, further, the minimum level of capital that a bank should possess, is likely to generate herd behavior and a vicious spiral, which lead to market collapse.

The reasoning is this: if the price of financial securities drops, the assets of institutional investors (who recorded the present value of financial instruments in their portfolio) is reduced as this fact pushes banks and investment funds to liquidate some assets - to quit assets which are depreciating, in turn, lowers the securities' quotations, consequently, worsening their accounts. The more the market falls, the market participants sell more, leading to market collapse. The procedure of recording the market value of assets (so-called *mark-to-market*) seems to stand as the basis a market failure and should be eliminated.

New accounting clarifications issued by the International Accounting Standards Board and the supervisors of capital markets (such as the U.S. Securities and Exchange Commission) approve the replacement of market price-based values with models-based values (*mark-to-model*), where the cost of assets - the price at which they were acquired - plays a larger role.

Figure 1. Mark-to-market model and market downturn



## 2. Historical cost accounting disadvantages

However, historical cost accounting has a number of severe weaknesses, and even if one appreciates the arguments against fair value accounting, it does not automatically result that past cost accounting would be better.

First of all, historical costs do not provide relevant information for the management or shareholders, because it ignores price signals. Past transaction prices are a poor guide to what is the current value of assets, and so accounting values are disrupted from economic realities. This lack of correlation between accounting values and actual business conditions induces inefficient decisions because the measurement regime does not reflect properly the effects of past decisions. “Under the historical cost regime, shortsighted firms find it optimal to sell assets that have recently appreciated in value, since booking them at historical cost understates their worth. Despite a possible discount in the secondary market, the inertia in accounting values gives these short horizon firms the incentives to sell. Thus, when asset values have appreciated, the historical cost regime leads to inefficient sales.” [2]

Second, the historical accounting method has been criticized mainly for its fault to address the problem of inflation. Leaving aside the issue of market change, the relevance of historic accounting is lost when the currency is devalued, that is when prices are strongly affected by monetary factors. Thus, inflation makes business to become over-optimistic about their profits, as past costs are compared to present inflated prices. For example, it encourages borrowing since with inflation the debtor gains at the expense of the lender as, in real terms, the value of the loan has decreased; the opposite is true in time of deflation. Inflation inflates accounting profits because as the value of the monetary unit shrinks depreciation will become lower and lower in real terms, so that asset consumption is not properly taken into account in financial statements.

Third, since inflation is mainly a form of taxation (redistribution), its effects are unequally spread across the market and historical cost accounting does no longer

provide relevant information for comparing corporate performance.

Fourth, although it is true that, at times, observed market prices deviate from fundamentals nobody knows exactly what these fundamentals are. Historical costs do not reflect the fundamental value of an asset just because they are historical. Past costs are still market costs, albeit past, so they may be infected too with the virus of overvaluation or undervaluation; what happens when past not present prices depart from the fundamentals?

Last, there is no empirical evidence that investors would be calmer if they use historical cost accounting. Nothing prevents investors to anticipate and recognize the imbalances on the market despite the situation resulting from the official financial statements. This anticipation is only more difficult, as companies lack the important instrument of accounting to evaluate investment's performance. Moreover, even if it were true that investors would react more calmly under historical cost accounting, this is irrelevant when it comes to judge the relative performance of accounting standards; investors may be more calmly, but they may be so in realizing the malinvestment – overvaluation of certain assets. Thus, “to make a case against fair value accounting, it is important to consider not only the costs of it, but also the costs of the alternative(s), including their incentive effects during normal or boom times. Otherwise, we fall victim to an accounting version of the Nirvana fallacy”. [3]

### **3. Historical cost accounting and entrepreneurial economic calculation problem**

The debate between supporters of both risk assessment procedures recalls the theory of economic calculation and similar dispute between advocates of socialism and its critics. Theory of economic calculation, developed by Ludwig von Mises<sup>1</sup> states that the allocation of resources is based on economic calculation. [4] The possibility of economic calculation, i.e comparing profitability of different investments, is an essential instrument for entrepreneurs who need to allocate resources efficiently. Economic calculation cannot proceed without money prices that allow bringing to a common denominator

both anticipated costs and revenues associated with each investment alternatives. Discussing the importance of economic calculation, Mises said that socialism is impossible, meaning that without monetary prices to disclose consumers' needs and scarcity intensity factors of production, socialist planners can not reasonably determine which direction to focus resources. They may, for example, if urgent (from the perspective of end users) that iron is used to produce or to manufacture cars rails, have no means of discovering which of the two methods of transport, rail car and is more profitable. In such case, the scheduler is forced to "groping" in an attempt to produce the goods in such quantity and quality demanded by consumers.

Money prices arising naturally on the market allows us to calculate and to discover which businesses are profitable and which are not. From a broader perspective, free prices accomplish the role of coordinating economic activities because the system gains / losses "says" where market participants to focus.

Impossibility of economic calculation under socialism definitively discredited this ideology. Some economists' attempts to revitalize this economic doctrine by proposing a calculation of prices based on complicated mathematical models or market game mimicking the directors of state factories have only demonstrated the meaningless of socialism. But as we said, this debate, forgotten by more than half a century ago, becomes very relevant in our days.

Now, there is no doubt that reduced interest for a financial title in a certain way causes loss for the people who continue to hold in their portfolio. But as well, a reduced demand for pretzels is causing losses of those who hold stocks of pretzels. Nobody came up with the idea to save the bankrupt producers of pretzels because, allegedly, pretzels price does not represent its real value. But there are many economists arguing that the price of bonds backed by mortgages do not express their real value.

Market price indicates the intensity of preferences of purchasers. It offers a signal not only to purchasers but also to producers. A price increase shows that it is effective for society to dedicate a larger share of inputs to the booming industry. On this basis of a whole chain of

producers and subcontractors decide to increase production. Conversely, a lower price shows that it is better to quit and seek alternative business, more important for consumers.

To ignore this is to deny the importance of economic calculation for efficient resource allocation. There are many criteria by which goods produced in society can be allocated: the basis of race, color, political affiliation, sex, nationality, the subjective preferences of political authority, the lottery or, why not, by developing mathematical models based on quantitative relationships between various elements determined arbitrarily selected. We can employ wizards to tell us which way to invest. But one criterion only can tell us how to allocate resources to enhance the general welfare - economic calculation based on market prices.

#### **4. Accounting standards, the regulation of risk and herd behavior**

It is true, of course, that the accounting of assets using market prices creates problems once quotations fall down. However, the collapse of financial markets has its foundation not in the use of market prices themselves, but in the herd behavior determined by the decisions of regulatory authorities.

It is wrong to blame for the crisis the ignorance of market participants, to consider asymmetric information as a fundamental weakness of the financial system. Only those cut off from reality can live with the impression that they have a better knowledge of the situation than those actually involved in that situation. Chair economists have no incentives to acquire this knowledge. Players from companies (and investors in general) are eminently interested in obtaining information necessary for accurate prediction of economic development, because their money is at stake.

The problem is to understand why there is such a large fluctuation on the market. What causes market participants to act at once, what factors are responsible for herd behavior in financial markets before? The answer needs to consider the effects of regulatory policy. As Avinash Persaud (one of the old market participants) confesses, "risk management systems and increase transparency in fact

determined markets to be less stable, increasing the chance of occurrence of a crisis." [5]

A host of regulations issued by the national and international agreements such as Basel I and II, have constrained banks to abandon their independent policies and adopt standard models of quantitative risk assessment. A century ago, banks were run in entrepreneurship (in the economic sense). They were concerned to identify profitable investment projects, and provide them with necessary funding. Since the economic environment is uncertain and the crowd of possible investments highly heterogeneous, analysis of each funding proposals has a strong entrepreneurial feature, is speculative. Banks tried to discover, how to use their own and attracted capital so as to achieve the highest profit possible. Their mission was, from this perspective, different from any other entrepreneurial mission, knowing that only by identifying business opportunities still untapped, by innovation, they can survive in the market. At the present, as a direct consequence of regulatory policy risk, entrepreneurial dimension of banking is replaced more and more, with typical bureaucratic work. Investment opportunities (assets) are divided by the public authority on risk categories and risk will be calculated according to models and methodologies approved by the regulators. Uncertainty is excluded from mathematical models. Banks are strongly encouraged (read forced) to comply with technical standards issued by the banking supervisory authority. Is increasingly less room for the exercise of entrepreneurial ability, because financial institutions can no longer run their businesses after their entrepreneurial talent, but as the regulators dictate. Banking is less speculative and more bureaucratic. The uncertainty disappears. Everything is done on the basis of calculations in predetermined patterns.

Now, if a number of students have to solve an equation, they will reach the same solution. There is another option. Ex post, students are featuring herd behavior because they all have traveled along similar reasoning to reach the equation's solution. The same is happening with financial institutions, which facing market data and the requirement for prudential capital must calculate the optimal portfolio. We cannot expect that from these

calculations will result very different portfolios. On the contrary. If so, then it is reasonable to expect market participants to follow similar paths as dictated by the calculations.

Homogenization of risk assessment leads to a homogenization of portfolios and, further, to similar trading acts, so the herd behavior. The cause of herd behavior is not stupidity, ignorance, informational asymmetry, imitation or other factors, but that the resulting "identical knowledge" – the fact that all market participants assess the risk of various investments similarly, because of the legislation.

Herd behavior is reinforced by regulations that increase transparency. From a traditional perspective, each competitor is interested in maintaining his business confidential, because the danger of being imitated reduces his/her potential profit. Just like each chocolate manufacturer competes for public money, constantly striving to offer original varieties and scrupulously keeping secret their manufacture, so every investor is motivated to keep secret his "recipe for money." Removal of secrecy, disclosure of business virtually abolishes competition strategies. Why would anyone strive to find new profit opportunities, if his strategy will become visible to all? A good bank is investing in a project that its competitors have overlooked. If banking secrecy and "opacity" of various investment (much reviled today) are dismantled, how can we have good banks and bad banks? We'll have just ... banks - straight state agencies charged with lending, whose bureaucratic operation cannot be evaluated from a market perspective.

We are tempted to believe that the case for transparency has been fueled, incidentally, by the natural interest of taxpayers to know how the state distributes public funds. In the public sector, transparency is justified, because citizens are entitled to know how their money is being spent. But in the private sector, transparency - understood as public dissemination of what a company undertakes - is not justified. The company must give account only the owners (shareholders). To the extent that disclosure is imposed upon it, the ownership rights of the shareholders suffer. Thus, transparency is not a value in itself but only in relation to ownership right of businessmen.

Prudential regulation is inconsistent from another perspective. In order to discover this weakness we need to remember what is the reason cited for introducing regulations – "market failure". This failure is expressed essentially by the inability of prices to provide relevant information for acting agents. But the risk modeling procedure that financial institutions are obliged to follow is based precisely on market prices. According to public authorities, market is malfunctioning and can transform today's boom in a crisis tomorrow, current prices of financial assets are meaningless because there are "multiple equilibria" etc. But then, if the legislation aims to do away with market failure, it should not be based on prices but on other criteria. For example, the state could demand banks not to lend to people 1.70 m and taller. It would be an aberrant measure, probably inefficient, but clear. Instead, the imposition of risk assessment methodologies using market data in order to correct the market values is inconsistent. As Persaud concludes, "any system in which market participants have the same preferences (to reduce risk and the capital) and use the same information (descriptions provided by rating agencies, pricing, pricing model) will lead banks to adopt a similar behavior, entering and exiting the market at once, eventually causing the system to collapse. "

Basically, regulatory policy, far from saving us from an alleged market failure, put the economy into a trap. The elimination of prudential regulations would mark an important step towards eliminating panic episodes that occurred in recent decades in the financial markets, to avoid situations in which asset prices are tumbling to the stupefaction of many qualified observers who cannot understand why at a level so low, nobody buys. So in past and present crises, some market analysts have noted that risk assessment models to dictate "to go with the herd" and continued to sell, while anticipating entrepreneurial economic assessment based on the value of various assets would justify the investment. Thus, we come to another paradox of intervention by: while the speculators who bet on lower quotations (*short-selling*) are accused for the market collapse and many of the institutions of market surveillance

would like to know disappear, we notice how regulations destroy the incentive to invest.

## 5. References

- [1] Y.-y. Zhou, J. Ding, "The defects of fair value under global financial crisis", *Journal of Modern Accounting and Auditing*, Vol.5, No.7, 2009
- [2] G. Plantin, H. Saprà, H. S. S. "Fair Value Accounting and Financial Stability", University of Chicago GSB Research Paper No. 08-15 July 2008.

- [3] C. Laux, C. Leuz, "The Crisis of Fair Value Accounting: Making Sense of the Recent Debate". University of Chicago Working Paper No. 33, April 2009.
- [4] L. von Mises, *Economic Calculation in the Socialist Commonwealth*, Ludwig von Mises Institute Auburn 1990
- [5] A. Persaud, "Sending the herd off the cliff edge", <http://www.erisk.com/ResourceCenter/ERM/persaud.pdf>. 2008.

## Monetary Policy Strategies in Romania. Historical overview and challenges for the future

Apostoaie Marius Constantin

*Faculty of Economics and Business Administration, "Al. I. Cuza" University of Iasi*  
[apostoaie\\_marius@yahoo.com](mailto:apostoaie_marius@yahoo.com)

Manta Alina

*Faculty of Economics and Business Administration, University of Craiova*  
[iacobescu\\_a@yahoo.com](mailto:iacobescu_a@yahoo.com)

### Abstract

*This paper looks back at two decades of monetary policy in Romania focusing upon the analytical framework (the so called strategy or regime of monetary policy), which helped to order, analyse and interpret monetary policy relevant data and present and announce policy decisions made by the National Bank of Romania (NBR) to the outside world.*

*In theory as in practice there is an ongoing debate concerning the optimal monetary policy strategy. As we look into the past decades we draw a line and conclude that inflation targeting (IT) eventually emerged as the preferred solution to the complex economical, political and social issues regarding present times for many industrial countries and emerging markets alike.*

*Romania is not an exception. The policy framework has changed throughout the transition period, from broad money targeting (from 1990 till 1996) to high-powered money targeting (from 1997 till 2005), and then to inflation targeting (starting August 2005).*

*The purpose of this paper is to make a critical analysis of the past monetary policy regimes in Romania and highlight what went wrong. Also, the paper reviews some distinguishing features of Romania's IT monetary policy framework identifying possible challenges that the future holds, including the perspective of joining the Exchange Rate Mechanism (ERM II).*

**Key words:** strategies, monetary policy, National Bank, transition period, high-inflation

**JEL classification:**G3, G38

### 1. Introduction

After the failure of money targeting in the mid-1980's and the collapse of fixed exchange-rate-pegs in the early 1990's a new monetary policy framework was needed. Monetary targeting regimes have been abandoned, primarily due to the inability of central banks to reach targets set for money stock growth. In this context, inflation targeting (IT) with floating exchange rates emerged as the new monetary regime of choice for many countries.

According to the Bank of England report from January 2010 [8], at this moment there is a number of 27 central banks considered fully fledged inflation targeters, and many others in the process of establishing a full IT.

In Romania, the monetary policy framework has changed throughout the transition period, from broad money targeting (1990–1996) to high-powered money targeting (1997–2005), and then to IT (2005).

Since 1990's (when the transition process to a market-driven system started) Romanian's monetary policy had to carry the burden of too slow a restructuring of the economy. Price stability, considered to be the prime aim of monetary policy, was frequently sacrificed, thus causing Romania to build up an image as a high-inflation country. In order to lower the inflation rate, and thus "putting the country back on a path of sustainable economic growth" [7, p.7], the NBR adopted monetary anchors. These monetary policy frameworks "preserve the independence of the monetary policy and are suitable for an economy facing both money demand shocks and external competitiveness difficulties" [12, 1998, p. 257].

The Romanian high-powered money targeting regime (1997–2005) failed to provide monetary authorities with a predictable control of either the intermediary target or prices, thus presenting to NBR the necessary arguments to shift its framework from monetary targeting to IT.

The NBR introduced IT as a monetary policy strategy in August 2005. This regime was taken into consideration because it brings a series of benefits for a central bank, including a clear *policy focus on inflation*. More than that, in the context of a disinflation process in which Romania is engaged since 2000, IT came as a mean to unburden NBR's monetary policy to achieve further descending inflation rates.

The paper is organized as follows. The first part of the paper consists in a survey of the literature regarding the monetary policy strategy. In Part 2, the paper summarizes the main distinguishing features of the four distinct subperiods of Romania's monetary policy framework since the 1990's. Part 3 examines the current status of IT in Romania and possible mutations that might appear in the near future. Conclusions highlight the most important aspects of the paper and some lessons to be learned.

## 2. General overview regarding the main monetary policy strategies

According to the European Central Bank [4], in order to build up *reputation capital* and *credibility*, elements which are necessary for implementing monetary policy effectively and successfully, a monetary policy strategy has to satisfy a number of additional criteria:

- a strategy must be *understandable* from the viewpoint of the public at large and financial market participants in particular.
- a strategy must be *transparent*, thus the public must be presented *ex ante* with information about how monetary policy decisions are being made by the central bank and the economic rationale on which they are based.
- a strategy is typically formulated with the view of providing the central bank with some *discretion (escape clause)*. This is necessary because delivering low inflation can be achieved over the medium-term.

- a strategy must be consistent with the independent status granted to monetary policy and should support it as far as possible.
- a strategy must ensure that the central bank decision makers are accountable both for policy actions and the performance in achieving the policy goal.

There are four basic types of monetary policy strategies adopted by modern central banks and that comply with the above criteria, each of which uses a different nominal anchor: 1) exchange-rate targeting, 2) monetary targeting, 3) inflation targeting and 4) interest rate targeting.

### Exchange-rate targeting

Targeting the exchange-rate is a monetary policy regime with a long history. It can take the form of fixing the value of the domestic currency to a commodity such as gold. More recently, fixed exchange-rate regimes have involved fixing the value of the domestic currency to that of a large, low-inflation country like the United States or Germany (called the anchor-country). Another alternative is to adopt a crawling target or peg, in which a currency is allowed to depreciate at a steady rate so that the inflation rate in the pegging country can be higher than that of the anchor country.

As a strategy for the conduct of monetary policy exchange-rate targeting has several advantages [11]: 1) directly ties down inflation of internationally traded goods; 2) automatic rule for conduct of monetary policy; 3) simplicity and clarity of target. However it does have some disadvantages too: 1) loss of independent monetary policy; 2) open to speculative attacks; 3) loss of exchange-rate signal.

### Monetary targeting

In the 1970's, monetary targeting was adopted by several countries, notably Switzerland, Germany, Canada, the United Kingdom, and Japan, as well as in the United States. This strategy involves using monetary aggregates as an intermediate target to achieve an ultimate goal such as *price stability*. Associated with an interpretation of inflation as a consequence of excess aggregate demand, monetary targeting theories developed within the monetarist tradition rely on the assumption that inflation is a demand phenomenon, with the demand pressures



yielding from excessive money stock expansion [5].

Monetary targeting has two main advantages [11]: 1) it enables a central bank to adjust its monetary policy to cope with domestic considerations, and 2) information on whether the central bank is achieving its target is known almost immediately. On the other hand, this strategy suffers from the disadvantage that it works well only if there is a reliable relationship between the monetary aggregate and the goal variable, inflation, a relationship that has often not held in different countries.

### **Inflation targeting**

In broad terms, according to Setterfield [16] the IT framework involves “the public announcement of inflation targets, coupled with a credible and accountable commitment on the part of government policy authorities to the achievement of these targets”. To other authors [1] IT normally involves delegation of responsibility for medium term control over inflation to an independent central bank using interest rates as its primary instrument to influence inflationary pressure.

As a strategy for the conduct of monetary policy IT has several advantages [11]: 1) enables monetary policy to focus on domestic considerations; 2) stability in the relationship between money and inflation is not critical to its success; 3) it is readily understood by the public and is highly transparent; 4) it increases accountability of the central bank; and 5) it appears to ameliorate the effects of inflationary shocks. However it does have some disadvantages too: 1) inflation is not easily controlled by the monetary authorities, so that an IT is unable to send immediate signals to both the public and markets; 2) it might impose a rigid rule on policymakers, although this has not been the case in practice; and 3) a sole focus on inflation may lead to larger output fluctuations, although this has also not been the case in practice.

### **Interest rate targeting**

Under an interest rate targeting regime, a central bank would set the real (short-term) interest rate at the neutral level, at which inflation is low and stable, and output is equal to potential [10]. Over the medium- to long term, it can be assumed that a successful monetary

policy sets the real interest rate close to the natural rate. In the short-term, however, a lack of knowledge on the part of policy makers about the exact level of the neutral interest rate may cause unfavourable policy results in terms of deviations of actual inflation and output from their desired levels [2].

Some disadvantages that this monetary policy framework present are: 1) the possibility of blockage of the transmission process; 2) the volatility of the interest rate and 3) the incompatibility of the objectives.

Much of the existing financial literature as well as the experience of policy makers lead towards the idea that IT is the new orthodoxy of mainstream macroeconomic thought. According to the Bank of England report from January 2010 [8], at this moment there is a number of 27 central banks considered fully fledged inflation targeters, and many others in the process of establishing a full IT. The spread of inflation targeting has often been spurred by exchange rate crises. Figure 1a and 1b shows exchange rate pegs of various kinds accounted for two-thirds of monetary policy regimes in industrial countries in 1989. Among the crises the most important is considered to be the ERM crisis in 1992 which served as a major spur to the adoption of IT in Europe

Figure 1a. *Evolution of Monetary Policy Regimes in Industrial Countries, 1989-2008*

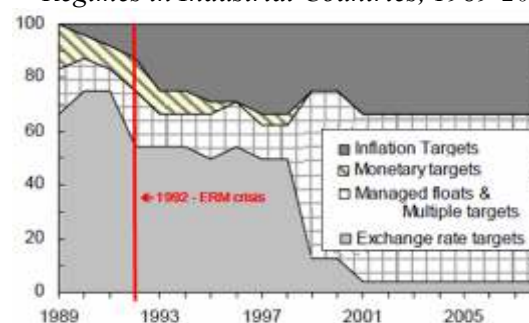
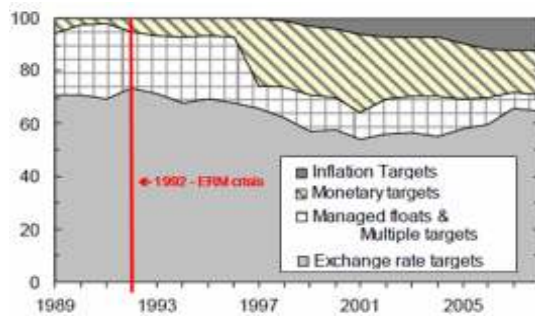


Figure 1b. *Evolution of Monetary Policy Regimes in Non-industrial Countries, 1989-2008*



Source: Roger, 2009

As we can see in Figure 1, after the failure of money targeting in the mid-1980's and the collapse of fixed exchange-rate-pegs in the early 1990's IT with floating exchange rates emerged as the new monetary regime of choice.

### 3. Historical review of Romania's monetary policy strategies

In Romania, the monetary policy regime has changed throughout the transition period, from broad money targeting to high-powered money targeting, and then to IT.

The various assessment of the shifts in macroeconomic policy stance in the transition period in Romania allows the identification of four distinct sub-periods [6]. Although the main focus has been inflation stabilisation, policy practice differed markedly throughout these four periods. The four distinct sub-periods are:

- *The period 1990-1993.* In this period the NBR adopted a policy of targeting the broad money stock taking into consideration that the high and variable inflation rates in Romania are due to excessive liquidity in the system. The strategy implied a tight monetary policy by means of setting contractionary targets for both broad money stock growth and domestic credit. Also, a floating exchange rate regime was adopted [9]. Despite all the efforts made by the NBR the anti-inflationary policies were by no means successful. The economy was characterised by: consumer and producer prices hovering around 150%-200%, GDP fell by an average annual of 6.45% while current account deficits expanded.

- *The period 1994-1996.* The NBR changed the policy stance to targeting the nominal exchange rate, kipping M2 as the official intermediate target. The macroeconomic situation of the economy improved patently, with an average annual GDP growth rate of 5% and inflation rates slowing down to 50%. Nevertheless, by the end of this sub-period, current account imbalances started pressuring again the NBR's foreign reserves position.
- *The period 1997-2005.* The difficult situation in which the Romanian economy was in this period led to signing a new IMF shock therapy in early 1997. The new stabilisation programme included a shift in the monetary policy stance to targeting the cash base of the system, a strategy move complemented however with a strongly managed float. In the OECD report its stated that "Officially, the NBR targets money base growth, but continues to be seen by the market as having an implicit exchange rate target" [14]. Thereby targeting implies smoothing short-term fluctuations with a view of the exchange rate as a nominal anchor in the anti-inflationary policy.
- *The period 2005 – present days.* In August 2005 the NBR officially adopted IT, with a short-term interest rate policy rule. According to the new policy strategy, monetary authorities abandoned direct interventions on the foreign exchange (forex) market starting with the last quarter of 2005. In spite of this fact, the official discourse attaches the word *flexible* to IT, by which the monetary authorities allow exchange rate considerations into the policy process [13].

### 4. Challenges for Romania's current monetary policy framework

According to Gabor [6], although the NBR shifted the monetary policy framework from monetary targeting to inflation targeting, in a policy environment where the trade-off between inflation and the external position retains its relevance, the new policy regime "has so far failed to strengthen the link between policy and money market rates". In this case, repeated attempts at modifying the structural conditions in

the money market have been constrained by and finally failed because of the dependency on foreign capital inflows and the inflationary consequences of depreciations. Thereby, it looks like partial sterilisations of liquidity through deposit-taking operations remain the main vehicle for policy interventions.

Another important aspect highlighted by the same author consists in the possibility that NBR is confronted with a policy *cul-de-sac*. She places the roots of the problem at the moment the new policy regime was adopted, i.e. in the context of the April 2005 phase in the capital account liberalisation. Initially monetary authorities' withdrawal from the forex market was designed to offset the inflationary implications of reducing the interest rate differential through real appreciations. The current policy regime has restricted the array of policy options available for moderating the impact of massive speculative inflows to cuts in the policy rate. This policy stance, constructed as expansionary in the inflation targeting conceptualisation of inflationary pressures (and despite the little predictability of the transmission mechanism) could potentially undermine the consolidation of the new policy regime by confusing market expectations and affecting policy credibility. To escape the policy *cul-de-sac*, the NBR should aim in a first instance at exploring innovative policy strategies and ultimately at designing an integrated approach to economic policy that takes into account the structural nature of the current account deficit and the desirability of imposing low inflation rates.

Another important challenge for the current IT regime is the adaptation, in the near future, of the euro.

In January 2007 Romania became a Member State of the European Union. In order to achieve its objective of full participation in the European Monetary Union (the adoption of the euro) it must set its monetary institutions and policy in line with the euro area; in other words, a set of nominal and real convergence criteria must be achieved. A criterion implies that Romania must spend at least two years in the Exchange Rate Mechanism (ERM II), keeping its exchange rate towards the euro stable, inside a band of  $\pm 15\%$ . What does this mean for the NBR? It must find

the proper instruments to assure a smooth transition from its current exchange rate regime to the irrevocable fixity of exchange rate against other Euro Area currencies. That is way NBR's attention will shift back from price stability to the exchange rate anchor, implying that the current form of IT will be maintained at least until the ERM II. Although IT, as the current national monetary policy, and an explicit exchange rate objective are not inconsistent, since in the medium run the international value of the currency can be stable only if its internal value is stable, the co-existence of these two goals could be quite problematic.

Several authors [3] argue that a *soft version* of inflation-targeting is feasible under the circumstances. This "soft" monetary framework would focus on inflation but, initially, it would consider shorter horizons (a period of two to four quarters) than the medium term, would not neglect exchange rate completely, would work closely with the government on budget policy and would further delay the full opening of capital account.

## 5. Conclusions

The paper shows as that over the last decades, in spite of the fact that there are various monetary policy strategies, many central banks moved towards IT and others are in the process of establishing a full IT or have moved towards regimes that have many of the attributes of IT. Thereby, both the existing financial literature as well as the experience of policy makers lead towards the idea that IT is the new orthodoxy of mainstream macroeconomic thought.

Romania is not an exception. The policy framework has changed throughout the transition period, from broad money targeting (from 1990 till 1996) to high-powered money targeting (from 1997 till 2005), and then to IT (starting August 2005). Despite various adjustments in the policy framework, base money targeting failed to provide monetary authorities with a predictable control of either the intermediary target or prices.

Nevertheless, the new policy framework carries on the tension between theorising and practice of monetary policy. On the one hand, the monetary authorities fail to overcome the

policy trade-offs of the monetary targeting years, whereas, on the other hand the same authorities are unable to alter the money markets' structural features in order to consolidate the relevance of the policy rate for spending decisions, as the new regime requires.

Regarding what the future holds for the IT strategy in the context of full participation of Romania in the EMU, IT as current monetary policy strategy is to be maintained at least until the ERM II entry. The paper shows that a soft version of inflation-targeting is more appropriate under the given circumstances.

## 6. Acknowledgements

(Marius Constantin Apostoaie)

I am grateful to "Al.I. Cuza" University of Iasi, for financial support as beneficiary of a grant POSDRU/88/1.5/S/47646, "Studii doctorale: portal spre o carieră de excelență în cercetare și societatea cunoașterii", cofinanced by the European Social Fund, within the Sectoral Operational Programme Human Resources Development 2007-2013, the project implementation period being from 2010 till 2013.

## 7. References

- [1] Allsopp, C., "Inflation targeting and Asset prices", *6th Norges Bank Monetary Policy Conference*, Norges Bank, 2009.
- [2] Cuaresma, J. C., Gnan, E. & Ritzberger-Gruenwald, D., "Searching for the Natural Rate of Interest: A Euro Area Perspective", *OeNB Working Paper No. 84*, 2003, Vienna Oesterreichische Nationalbank July.
- [3] Daianu, D. & Kallai, E., "Disinflation and Inflation Targeting in Romania", *Romanian Journal of Economic Forecasting*, vol. 9, issue 1, 2008, pp. 59-81.
- [4] ECB, "The stability-oriented monetary policy strategy of the eurosystem", *ECB Monthly Bulletin*, Frankfurt, January 1999, pp. 39-50.
- [5] Friedman, M., "The quantity theory of money: A restatement". In: Friedman, M (ed). *Studies in the Quantity Theory of Money*. University of Chicago Press, Chicago, 1956.
- [6] Gabor, D., "Inflation in postcommunist Romania". *Unpublished Master's Thesis*, Institute of Social Studies, Hague, 2003.
- [7] Government of Romania, "Technical memorandum of understanding", 1994, Bucharest.
- [8] Hammond, G., "Handbook - No.29. State of the art of inflation targeting", *Centre for Central Banking Studies*, Bank of England, 2010.

## Considerations of Performances in Tourism

Asaloş Nicoleta, Georgescu Cristina Elena, Trandafir Raluca Andreea  
 “Ovidius” University of Constanta, Faculty of Economic Sciences  
[nicoleta\\_asalos@yahoo.com](mailto:nicoleta_asalos@yahoo.com)

### Abstract

*Performance represent an economic category by which quality of the economic activity is appreciated by companies with indexes such as : turnover, added value ,profitability , labor productivity , gross and net profit, etc .The profit may not represent aim of the company but it is necessary in order to reach the targets . Generally the most powerful competitors :create value ;obtain competitive advantages and distribute optimally the created value ;improve the ratio efforts/effects .*

**Key words:** performances, profitability, tourism

**JEL Classification:** M21, M41

### Introduction

Beginning with the exigencies of economic processes and phenomena we appreciate that measurement of the expenses and returns of the company firstly implies true settlement of basic principles. Mainly this is referring to : consideration of the integral effort in all stages of the economic structure –it is a necessity generated by the fact that performance of every social -economic activity involves allotment, use and consumption of resources, reflection of effects complexity ; efforts and effects delimitation in time and space as well as their comparison , conversion of all efforts in economic effects ; compatibility of indexes that express the efforts and the effects ; consideration of a standard for profitability level appreciation , veracity of information regarding the costs and returns of the economic activity .

Within carrying on an economic activity, reflection of the integral effort as principle of efficiency measurement has to consider the primary elements of any economic deed : labor, natural resources, capital .

Efforts and effects are differentiated not only according to their nature and mode of transformation from allotted resources in consumed resources ,respectively according to content and express mode but according to the space and manifestation time ,too, thus appearing the necessity of delimitation of efforts and effects in time ad space and delimitation of the efforts from effects .

Basing on this delimitation of the effects and efforts in time and space there may be guaranteed the premises of comparison of the indexes that dimension these . Homogeneity aims to guarantee comparison of received and/or utilized resources with consumed ones this being determined by different categories of resources that have different functions in the economic activity ,by the different modality of transformation of received resources in used resources and by the mode they participate in formation of the integral effort.

### Aspects of performances

In order to compare the economic returns with done efforts at the level of economy, branches, economic units as well as of the correlation settled in time and space between effect and effort there are used some value categories : price, profit, credit ,interest these leading to producers’ stimulation for the achievement of maxim returns .

**Profitability** is a problem that concerns every economic company as the target of her activity is that of obtaining profit and carry out a profitable activity.

Process of the economic activity aiming to obtain a profit as high as possible has to be based on a coherent economic theory that has the task of orienting the material ,human and financial efforts of the company within the competition environment .

Obtainment of a growing profit may be guaranteed by reduction of uncertainty and risk assumed in the economic activity. If uncertainty should not exist all elements that lead to profit achievement are known, the economic companies will have the certainty that incomes are higher than expenses and it will be registered the offer increase in comparison with the demand, thus assuring an equilibrium between incomes and costs and profit will be null.

In reality the uncertainty generates profits and risk existence and they do not become null due to competition. As in a world without uncertainty profits and losses would not exist we may consider that profit or loss are a consequence of uncertainty.

Therefore profit is not a payment that has to be done in order to obtain a resource but it is a rest remained after total costs are covered from incomes, it is the result of future forecasting done with higher accuracy than the other competitors did. It is an unwitting income and not a forfeited one, this determining every economic company to achieve a better anticipation of the circumstances of her activity.

In conclusion it results from those above presented that the requirements of economic efficiency are regarding maximization of returns concomitantly with expenses' minimization as well as optimization of labor, material and money resources' use. In fact criteria of economic efficiency should govern any field of the human activity including the social one, too. On the other hand profitability represents activity efficiency at the microeconomic level by comparing the financial returns-the profit-with the expenses effectuated in order to obtain the returns. Economic efficiency has a more complex content, it reflects how much an activity produces positive economic effects per effort unit, achieved in the market by the ratio between demand-offer.

The profitability synthesizes the action of all production process factors, being a first-plan indicator in the indicators system of economic efficiency at micro-economic level, thing that conduces to the conclusion that what defines the result of activity from economy, *economic efficiency*, can be only the supplementary value remained over the spent one, plus product, comparatively with invested resources for the

realization of this value. *The profitability* is an economic category connected to the existence of goods production and monetary relations. In order to be profitability an economic unity, it must cover all the expenditures of production and circulation from personal incomes and to realize a profit. *The profitability represents the capacity of economic unities of obtaining profit, of which to dispose them and the society concerning the economic development.* It shows the efficiency with which are used the material and human resources in the sphere of material production, it is an organic component of economic efficiency that cannot be identified.

The profitability is a demanding of economic development. The obtaining of plus product is an objective necessity, a condition for the assurance of a sustained economic growth.

In order to research if an enterprise is viable is imposed the measuring of the profitability rate. Also, in this sense, it is used the profit rate, between these two indicators not being any essential differences, only nuances that not change the general conclusion, but offer more closed information of some certain enterpriser possibilities to use the capital in risk conditions.

In the conditions of concurential market, the maximizing of profit rate is the essential criterium of enterprises decisions to spend with the development, the maintaining or the restriction of some economic activities. Thus, the economic agent has the possibility to action in first place, over the production volume, in order to find those dimensions of economic goods quantity to maximize the total cashings, minimizing, in the same time, the total costs.

The profitability can be determined at product level, economic unity or branches level. At all these levels, it can be expressed in absolute size, but also in relative size with the help of profitability rates.

The importance of profitability rates is very special, because:

- it favours the orientation of production structure on products, branches, and sub-branches, in order to found to ones that assure the biggest advantage. The economic waves redirectionate permanently, putting on the economic activities an unequal

development because the economic agents will restrict or abandon the low profit activities in the favour of the ones with bigger profit;

- stimulates the administration through the rational utilization of resources;
- contributes to the strength of enterpriser's interest for the difference of the products, having in his centre the modernization of quality concept;
- it favourizes the market segmentation and the differentiation of concurential strategies.

Performance is qualitative appreciation of a company being measured by economic-financial indexes of liquidity, creditworthiness, activity( labor productivity, efficiency of assets use ,etc), profitability ( rate of profit , relative and absolute profitability).

Profitability may be defined as ‘ a state of competitiveness of the company reached by a level of efficacy and productivity that guarantee a durable presence in the market ‘.

Thus according to the definition above mentioned performance claims simultaneous and complementary presence of the two ‘ingredients’ but separately approached these are necessary but not sufficient conditions of performance .This is an important aspect as a global vision upon performance is possible only by correlation of the dynamic of the two indexes.

Efficacy defines the extent according to which the returns obtained by a company correspond to wanted performances. Therefore is measured by the comparison of the returns effectively obtained with the proposed returns.

Economic efficacy is referring to the level or degree of fulfillment of economic targets settled for a period of time in order to be achieved by the company . In case that the target was 100% reached it is about maxim efficacy and on the contrary when it is partially reached we may speak about partial degrees of efficacy .

In conclusion efficacy is a ratio between the effective effects and those proposed this showing the aptitude of a company to achieve successfully the proposed targets .

Productivity is the capacity of a production element of contributing to goods and services elaboration under the terms of

maintaining a constant perfection level of the others production elements . The basic form of productivity recognized by economic literature is labor productivity but productivity does not refer only to live labor . Michael Didier affirmed in his work “Economie.Les regles du jeu /Economy .Rule of the game “ that labor productivity is an important index but it is a partial one ‘.

Productivity is the result of the ensemble of the production elements and their combination and it is not only the result of labor. Considering this the global productivity that expresses “ the ensemble performance or global efficacy of the production elements” is determined at the microeconomic level as well as at macroeconomic level.

It may be asserted that a company characterized by performance is productive, too these being effects( results) .In the same time efficacy and productivity are causes that determine performance . If efficacy is intelligible by the level of satisfying the external exigencies –customers, state, suppliers, employees (on labor motivation and safety increase basis ) ,shareholders-, productivity is measurable by accomplishment of the expectations of the companies’ internal environment .The tight connection between the internal environment and the external one justifies this double approach and invokes the following technical aspect : coherent judgment of an index that may be quantified (productivity) and quantification of the other one that is subjectively too ( customers satisfaction degree) .

Data sources necessary for the analysis of the results and performances of a company are : business plan , incomes and expenses budget, commercial statistics, synthetic and analytical accounting , other operative records data . There are equally useful some external information that have as sources statistical year books ,laws and other normative documents , international statistics , market studies , etc.

In order to characterize the dimensions of the activity of the company ,to appreciate the returns and measure her commercial performances there are followed the above mentioned indexes and any evaluation begins with complex investigation of these indexes in dynamic and in comparison with settled targets , in total and for diverse specific structures . A



pertinent judgment capable to point out the real situation requires correlation of above mentioned indexes and especially of the turnover with three essential elements of a market economy : inflation rate , position of the company in the market , prices and tariffs policy .

### Conclusions

Performance of the company involves knowledge of :

a) targets, strategies and current policies of the company ;

b) fulfillment degree of economic targets established for a period of time in order to be achieved by the company this meaning the reached degree of economic efficacy ;

c) productivity level of production elements ,especially of labor productivity ;

d) obtained performances reflected in the main economic-financial indexes: profitability, liquidity, creditworthiness , profit/share , investments redeem , owned market share ,etc.

Obtainment of a superior performance claims fulfillment of all three conditions previously mentioned as it is possible that a company to carry out an efficient activity without obtaining any competitive advantage or

certain goods/services to have a certain competitive advantage even if they belong to and are produced by inefficient companies. Wording differently it means that a company may be efficient but not competitive in the market and in this case we can not mention the performance at a global level or we can state that it is competitiveness at the level of the company but not efficient this leading again to the absence of performance .

### References

- [1] Mironiuc M. – *Analiza performanțelor economico-financiare ale întreprinderilor*, Junimea, Iași, 1999
- [2] Vasilescu, Gh., Hurduzeu, M., Wagner, F., Aron, G.I., Zaharia, O., - *Analiza statistico-economică și metode de evaluare ale firmei*, EDP., București, 2002
- [3] Bărbulescu, C. – *Diagnosticarea întreprinderilor în dificultate economică – Strategii și politici de redresare și dinamizare a activității*, Ed. Economică, București, 2002
- [4] Stănciulescu, G. – *Managementul operațiunilor de turism*, Ed. All Beck, București, 2002



## Assigning Strategic Objectives and Managing Profitability Ratios

Ph D Professor Aslau Titus  
 “Aurel Vlaicu University”, Arad

[07titus@gmail.com](mailto:07titus@gmail.com)

Ph D Lecturer Cuc Lavinia Denisia

“Aurel Vlaicu University”, Arad

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

### Abstract

*Most often, profitability is attached to the performance concept, which, on an organizational level, is evaluated in connection with the reaching of strategic objectives and gaining expected results. That is why, assignment of strategic objectives and management of economic performance find themselves in a unitary structure based on common features of the complex process of supplying the decision taking factors with the information needed for the diagnosis and amelioration of profitability terms. Equally, the result, means, physical or quality indicators represent the support for the management instruments which come in hand to managers, by means of which they run the profitability influence ratios. This study starts from the fact that each decisional level may use as management control instrument, a board table comprising performance indicators and strategic objectives assigned to units or to sub-units invested with responsibilities arising from the contribution they have in reaching the expected results. The tendency to commission decision taking, more and more aimed at the persons responsible for hierarchic echelons, situated at the grounds of the managerial pyramid, is imposed by a series of complexities, but without neglecting the relevance of the department and global strategy coherence. Thus, the assignment-management tandem will be able to better fulfill its role in the process of assessment and analysis of enterprises' global performance and implicitly, of profitability. Moreover, this relationship represents an important moment*

*in distinguishing through strategy between enterprises within similar activity domains.*

**Key words:** management, strategic objectives, performance, profitability

**JEL Classification:** M1; M21

The study has been made on the grounds of researches conducted in several enterprises that have recorded remarkable results in applying concepts regarding strategy and performance, using adequate Romanian and foreign bibliography, treatises relevant for the investigated field. The research has also had in view the comparison with data and information reported by other organizational entities within the same field of activity and it has taken into consideration the perspective of the evolution of indicators that define performance. Current crisis economic and financial situation has been viewed from the study's perspective, as a plus for enterprises in the difficult step of attempts to control the evolution of the external context. Although considered a cyclic phenomenon, the crisis disorientated in many cases the profitability indicators of enterprises. Some of those, even very renowned and with remarkable contribution to the gross internal product have sunken or were forced to function on a minimum capacity. The turbulences have interrupted the evolution thought to be constant of enterprises' processes, being forced to adopt behavioral changes and re-evaluate their strategy.

If we have in mind these reasons, a short reference to the management issue is most

welcome. The management system of an enterprise allows its permanent adjustment with its environment and the clear hyphening of its management ability. The system, part of the organizational component having the purpose to ensure the allotment of resources for the fulfillment of the strategy, comprises management regulations that must be observed by all persons in charge, in order to be applied. Otherwise the strategy might fail. For this reason, the strategy management becomes a requirement that not only accompanies success, but it is also a condition for it to be guaranteed and amplified.

The management strategy implies that, on one hand, it is formalized by taking into account the expectations regarding profitability, capital output, perspectives on evolution, identification and cultivation of success key factors, finding the adequate managing formula, and on the other hand the strategy shall then be applied. But the application of the strategy is preceded, as shown before, by the prior formalization (Molho and Fernandez-Poisson, 2009).

Before pointing out some of the aspects in debate, it is proper to mention that these are not recently created concepts, but they are, one way or another, adjusted or shaped depending on the evolution of the economic context in which the enterprises function. It is relevant to enumerate among the dramatic changes in the economic and business environment, that took place in the latest years, those regarding the unprecedented rise of competition, the new options and attitudes of consumers, and, as a consequence, the organization's focus on the performance of internal processes and raised efficiency. Anticipation and reaction ability thus become high importance preoccupations in the management control area. The use of new instruments such as *balanced scorecard* or *cost calculation on activities method*, communication systems adapted to each enterprise's culture, responsibility commissioning or a more precise demarcation and grouping of indicators, brings closer the analysis frame to the operation realities.

Fast modifications and sometimes spectacular of the external environment

determines adequate reaction from enterprises. Reactivity exigency to changes also implies interventions in the assignment of strategic objectives of the enterprise, those having to be clearly defined in order to create the premises of a management that orientates and maintains the course of the enterprise towards profitability.

The management of profitability ratios, as a fundamental condition for the success of the strategy, implies permanent updating of the enterprise's strategic plan in its global dimension, but also in what concerns the revisions on whose levels they were assigned responsibilities. Thus, in order to ensure this coherence, in general this step aims at:

- Channeling actions towards acquaintanceship with clients, rising the quality of services supplied to them, a good control over costs and profitability of the enterprise's commercial function, synchronized with the consolidation of accountability to results;

- Identifying opportunities and sensitivities of the external context, improving the organization's image regarding technical abilities and the capacity to offer to the clients professional services;

- Filling in the objectives in the established strategic areas with new services, depending on the requirements of the business partners, in order to keep them in the active portfolio;

- Establishing a correct portfolio regarding the performance level of internal processes, that takes into account the technological update level, the need to invest, operation cost reduction in order to achieve competitiveness on the competition market, using a management formula observant enough to details that define profitability, including of the points on which the management control relies, that is means, actions, attitudes and procedures (Aslău, 2001);

- Pointing out success key factors on the grounds of recommendations and conclusion drawn from the diagnosis and the strategic orientations.

Certainly, depending on the characteristics of each organization, of the field of activity it belongs to, the shaping of strategic plans may vary and comprise adequate objectives. But the above

references, without being considered exhaustive, present a great importance for the strategic management option that the organization adopts.

Once the formalization process concluded, the strategy is put into practice and it has to aim at and find an answer to a series of issues that concern (Molho and Fernandez-Poisson, 2009):

- The allocation of resources according to the evolution of the strategic objectives;
- Managing profitability ratios;
- Increase of value for the clients;
- The contribution of operational and support processes at the competitive benefit;
- Developing professional and organizational proficiencies.

It may be noticed that the re-grouping of this issues corresponds to the *balanced scorecard* concept which places a board table in the equilibrium of four distinct axes or processes in the enterprise's activity: financial, internal, clients and formation, development, innovation.

It is not our goal to totally approach the issue in debate in such a short space. But, we will try to synthesize a few relevant aspects for the relation between the strategic objectives and the management of the profitability ratios.

As example, we have focused our attention in this study, on the assignment of strategic objectives at the Agro-Industrial compound CAI Arad - Curtici, an enterprise which for more than two decades ensures its raw material need for industrialization, relying on its private agricultural resources, obtained from cereal, technical, vegetable plant cultivation and the zootechnic sector. The industrialization activity consists of butchery activity, meat products fabrication and milk processing. The entire production achieved in the meat and dairy products factories is sold on the internal market through its own retail network, which at the end of the first trimester of 2010, consisted of 21 specialized stores, in Arad and Timis.

Some of the major strategic objectives of the compound regarding industrial production for the following 3-4 years are:

- Cost reduction for obtaining in-house primary resources that enter the industrial processing, also taking into account the efforts made on a regional level, respectively in Central-Eastern Europe, to obtain profits comparable to those in Western Europe;
- Increasing automation level and using new manufacturing technology, together with reducing the range of diversity for meat products for 55-60 products at the most, a limit which is considered to be on the optimum profitability level, adequate resources being allocated for investments in this sense in the future;
- Increasing profit margins through a better controlling of distribution costs;
- Improvement of manufacturing networks, encouraging collaboration with high education institutions in order to develop research and innovation, especially in the genetics field in order to reach quality requirements of European regulations, regarding pork stratification.

These strategic objectives have been defined and transposed in terms of performances on processes specific to industrialization, which are grouped into *operational* and *support*:

The first category comprises:

- Research – development – innovation;
- Marketing;
- Raw material entries from the integrated sector of animal and agricultural production;
- Exterior acquisitions;
- Sales;
- Expedition.

The support processes consist of:

- Accounting and treasury of the industrial sector;
- Management control;
- Supervision of storage rooms of the industrial production and of the retail network;
- Management of human resources.

In the following step, the strategic objectives have been turned into performance goals on each of the identified processes. Here are some of them:

- ✓ Reducing industrial production costs for meat products processing with 10%;
- ✓ Achieving a profitability plus between 3 and 4,5% based on the application of results to exciting innovation-research systems, which also lead to a time cut for products homologation and licensing;
- ✓ Re-orientation and flexibility of marketing policies, completion of the brand with the new products and increase of sales through acknowledged hypermarket networks, so that the profitability ratio is at least 1,7%;
- ✓ Increase of contribution to profitability with 1% of support functions through amortizing their organizational component.

A first observation may be pretty well notices. The management systems are visibly in full expansion, especially lately. Passing with the performances' analysis over the classical taking into consideration of a single product or of a small range of products, implies the introduction in the management equation of profitability of the elements that define the efficiency of the specialized processes, complying with the regulatory frame of those activities, emergent regional development, the unstoppable ascension of technologies and last but not least, increase of proficiencies.

Secondly, these exigencies are void of meaning if they do not have the ability to create value both for the client and for the enterprise. Defining operational and support objectives represents the grounds for success conditions and it creates the premises for answering the questions about what represents the value for the client, what does the enterprise have to do in this direction or which are the relational consequences and others.

Without drawing a conclusion, it is still necessary to point out that due to resource limitation, their profitable allocation must take into account a proper risk assessment, strategic options for each field, operational means, future development focused on clients' requirements and creating a facility that keeps a close look on the changes of the external environment.

### **Bibliography**

- [1] T. Aslău, 2001, Controlul de gestiune dincolo de aparențe, Ed. Economică, București
- [2] B. Doriath, C. Goujet, 2009, Gestion previsionelle et mesure de la performance, 4 edition Dunod, Paris;
- [3] D. Molho, D. Fernandez-Poission, 2009, Tableaux de bord, outils de performance, editions d, Organisation, Paris;
- [4] S. Separi, 2009, Management et controle de gestion, Dunod, Paris

# The Impact of the Economic and Financial Global Crisis on Public Indebtedness in Developed Economies

Bilan Irina

„Al. I. Cuza” University of Iași  
irina.bilan@uaic.ro

## Abstract

*In this paper we intend to briefly analyze the evolution of public debt in developed countries, on the background of the global economic and financial crisis, also highlighting the specific factors leading to its accumulation and the solutions possible to apply in order to reduce its level.*

*We find that developed countries' public debt, already very high before the crisis, has substantially increased over the past two years, mainly due to the sharp increase in budget deficits, both as a consequence of cyclical revenue and expenditure increases and of anti-cyclical budgetary policy measures, threatening to evolve into an unsustainable level. Although several strategies could be conceived to reduce public debt to a sound level, the most appropriate consists in adjusting budget balances so as to have a structural budget surplus on the medium-term.*

**Key words:** public debt, policy, crisis, global economic, budget deficit

**JEL Classification:** G3, G32, G01

## 1. Introduction

The global crisis that erupted in September 2008 has made a deep impression on the economies of countries all over the world. As signs of economic recovery are already being felt, it seems the worse is yet to come as new challenges appear on the horizon.

On the background of increasing budget deficits and public debts, debt sustainability is once again coming to the forefront of policy agenda in many countries, developed as well as developing, including from European Union. Although this problem is not specific to developed countries, it is of special importance

and urgency here because of the large budget deficits and public debts that they already faced in the period before the crisis, by comparison with developing countries.

## 2. The dynamics of public debt in developed economies in the context of the crisis

As some studies reveal, there is a direct link between financial crashes and the unsustainable increase in public indebtedness. Analysing data for seventy countries from all over the world, covering over two centuries, C.M. Reinhart and K.S. Rogoff [12] find that banking crises (both domestic ones and those emanating from international financial centers) often precede or accompany sovereign debt crisis. Some reasons for this temporal sequence may be that governments take on massive debts from private banks, the depreciation of the national currency (when the banking crises are followed by currency crashes and a large share of public debt is denominated in foreign-currency) or the collapse of revenues.

The above mentioned authors conclude in their paper that there is little evidence that „*debt cycles and their connection with economic crises have changed appreciably over time*” [12]. In consensus with these findings, the connection seems to reassert itself in the context of the current economic and financial crisis.

As the economies of some developed countries already show signs of recovery, a new issue comes to the forefront of public authorities concerns, namely the increase of public debt. Table 1 summarizes the evolution of gross public debt in some developed countries, comparing its pre-crisis and anticipated post-crisis level.

*Table 1. General government gross public debt in selected developed economies*

<i>Country</i>	2007	2008	2009*	2010	2011
Australia	15,3	14,3	15,9	20,3	23,4
Belgium	88,1	93,5	101,2	105,2	108,5
Canada	65,0	69,7	82,8	85,7	88,9
Denmark	31,6	39,8	45,3	48,8	52,9
Finland	41,5	40,7	43,7	52,6	61,9
France	69,9	75,7	84,5	92,5	99,2
Germany	65,3	68,8	77,4	82,0	85,5
Greece	103,9	102,6	114,9	123,3	130,2
Iceland	53,6	96,3	117,6	142,5	145,8
Ireland	28,3	48,5	65,8	81,3	92,5
Italy	112,5	114,4	123,6	127,0	129,7
Japan	167,1	172,1	189,3	197,2	204,3
Korea	25,7	26,8	33,2	36,8	40,7
Luxembourg	10,9	16,3	18,2	25,0	31,3
Netherlands	52,1	65,8	71,4	77,1	81,6
Norway	58,4	56,0	59,9	59,0	61,2
Portugal	71,1	75,2	83,8	90,9	97,2
Spain	42,1	47,0	59,3	67,5	74,3
United Kingdom	46,9	56,8	71,0	83,1	94,1
United States	61,8	70,0	83,9	92,4	99,5
Euro area	70,9	73,2	81,8	88,3	93,2

\* preliminary data for 2009 and provisional for 2010-2011

Source: OECD Economic Outlook no. 86 database

As shown in table 1, between 2007 and 2011 public debt is expected to substantially increase in all developed countries, in some cases (as in Iceland, Ireland, Luxembourg or United Kingdom) reaching twice the size of its pre-crisis level. According to OECD estimates, public debt will grow in developed countries, on average, by approximately 30% of GDP, with an above average level registered in Ireland, Iceland, Japan, United Kingdom and United States.

This trend is not unusual in times of crisis, similar situations were encountered in the history of developed economies. However, the scale of the problem is unprecedented in times of peace, due to already very high pre-crisis public debt levels.

IMF's reports indicate similar findings. Under IMF's current projections [7], public debt in the advanced economies will rise, on average, by about 35% of GDP between 2007 and 2014, from 73% at end-2007 to 109% at end-2014, with most increase up front. By 2014, public

debt to GDP ratio will be close to or exceed 85% in all G-7 economies.

In this respect, there is a general concern that the public debt to GDP ratios projected over the next years will raise to an unsustainable level in developed economies.

However, there are exceptions to this situation. Some developed countries, although few in number (such as Australia, Korea or Luxembourg), with low public indebtedness and healthy budget balances in the pre-crisis period, could cope with the crisis without causing an unsustainable growth of their public debt.

An excessively high, unsustainable level of public debt could jeopardise the economy on the long run, as it leads to higher real interest rates and affects GDP growth rate and employment (thus resulting in possible worse economic crises and unemployment in the future). It would also reduce the ability of budgetary policy to respond to future imbalances. For the euro area member states, the problem is particularly important as the high debt level registered by one country would also be particularly damaging for other member states.

Therefore, numerous studies conducted by international institutions or organizations such as IMF or OCDE highlight the urgency of designing strategies aimed at ensuring the reduction and stabilization of government indebtedness at prudent levels. This is also a central preoccupation at European level, considering the importance of public finance soundness for the achievement of European goals. At its meeting of March 2010, the European Council underlined the importance of restoring macroeconomic stability and returning public finances on a sustainable path, as prerequisites for growth and jobs.

### **3. Factors contributing to public debt accumulation in developed economies in the context of the crisis**

According to IMF's estimates [7], the contribution of financial support operations to public debt growth, in developed countries, could account for about 3% of DGP (of the total 35% projected increase in average public debt ratios by 2014). Therefore, the increase in public debt ratios in developed countries is considered to mainly result from the sharp increase in budget deficits.

Table 2. General government budget balance in selected developed economies\*  
(as % of GDP)

Country	2007	2008	2009**	2010	2011
Australia	1,8	1,0	-4,0	-3,5	-2,6
Belgium	-0,2	-1,2	-5,7	-5,6	-5,2
Canada	1,6	0,1	-4,8	-5,6	-5,2
Denmark	4,5	3,4	-2,5	-5,4	-4,0
France	-2,7	-3,4	-8,2	-8,6	-8,0
Finland	5,2	4,4	-2,3	-4,8	-5,2
Germany	0,2	0,0	-3,2	-5,3	-4,6
Greece	-4,0	-7,8	-12,7	-9,8	-10,0
Iceland	5,4	-13,6	-5,7	-10,1	-5,8
Ireland	0,2	-7,2	-12,2	-12,2	-11,6
Italy	-1,5	-2,7	-5,5	-5,4	-5,1
Japan	-2,5	-2,7	-7,4	-8,2	-9,4
Korea	4,7	3,3	-1,8	0,4	1,1
Luxembourg	3,7	2,5	-2,3	-4,3	-3,6
Netherlands	0,2	0,7	-4,5	-5,9	-5,3
Norway	17,7	18,8	9,6	9,9	10,8
Portugal	-2,7	-2,8	-6,7	-7,6	-7,8
Spain	1,9	-4,1	-9,6	-8,5	-7,7
United Kingdom	-2,7	-5,3	-12,6	-13,3	-12,5
United States	-2,8	-6,5	-11,2	-10,7	-9,4
Euro area	-0,6	-2,0	-6,1	-6,7	-6,2

\* (+) indicates a surplus and (-) a deficit

\*\* preliminary data for 2009 and provisional for 2010-2011

Source: OECD Economic Outlook no. 86 database

As shown in Table 2, the budget balances of all developed countries severely deteriorated between 2007 and 2009, sometimes by more than 11% of the nominal GDP (as in Ireland, Iceland or Spain). The average budget deficit increase for the selected developed economies was of about 7% of GDP.

Prospects are not very good for 2010 as budget deficits are expected to further deteriorate in some developed countries, although at a slower pace than before. Improvements are expected in a few countries (such as Australia, Belgium, Greece, Italy, Korea, Spain or United States), but they only rarely are substantial.

The consequences of the crisis on government balances and, consequently, on public debts, have proved harder to bear by those countries that have experienced significant budget deficits in the period before the crisis (deriving mainly from pro-cyclical budgetary policies), such as France, Greece, Japan, United Kingdom or United States. For some countries with significant budget surpluses and lower public

debt (such as Korea, Australia, Luxembourg or Denmark), the effects proved to be bearable and public debts are unlikely to evolve into an unsustainable level.

Two major factors have contributed to the increase in developed countries' budget deficits in the context of the crisis.

First, as economic theory stipulates, the budget balance varies with the progression of the economic cycle, due to the operation of automatic stabilisers. In an economic downturn, revenues tend to be lower and social welfare payments higher than when the economy is operating at full capacity and, thus, budget deficits rise. The impact of this factor is, however, temporary and is expected to reverse as the cycle picks up.

Secondly, budget deficits increase can result of the discretionary budgetary policy measures adopted by national authorities in order to stimulate economic recovery. Unless these actions are conceived on a temporary basis, the influence of this factor on budget deficit and, thus, on public debt, is permanent and will continue in the absence of specific policy adjustments.

In order to support the recovery of the economy, public authorities from developed countries have adopted comprehensive budgetary support packages (estimated at about 1,6% of GDP in 2010 [8]). Although their size and composition varied across countries, they generally included [10]: increases in government final consumption expenses; new public infrastructure projects; cuts in direct taxes; measures that have helped to boost or bring forward private demand through car scrappage incentive schemes, direct lump-sum income payments to households and temporary reductions in indirect taxes and housing tax credits.

As an example, for the EU Member States, the European Commission presented, in November 2008, and the European Council approved in December 2008, a comprehensive plan of recovery from the economic crisis, comprising short-term measures to boost demand and purchasing power and to protect jobs as well as "smart investment" to yield higher growth and sustainable prosperity in the longer-term. The overall value of the budgetary stimulus agreed for in the European Economic Recovery Plan was of around 200 billion EUR

or 1.5% of EU GDP, out of which around 170 billion EUR or 1.2% of GDP (equivalent to 85% of the total) supported from national budgets [6].

#### 4. Possible solutions and their applicability

The literature indicates several mechanisms that public authorities can use in order to reduce public debt to GDP ratio, when the risk to increase over the level considered sustainable appears: *use inflation to alleviate public debt burden, sell public assets, default on some public debt obligations, GDP growth or generate budget surpluses and redeem debt*. However, not all these mechanisms are fully applicable in the current conditions.

If inflation rises, it erodes the real value of the debt held by creditors and thus reduces the effective public debt ratio to GDP. As suggested by J. Aizenman and N. Marion [1], an inflation of 6% over four years could reduce the public debt to GDP ratio in United States by a significant 20%.

However, inflating the debt away is not an option when a large share of a country's public debt is indexed, either directly or indirectly, to inflation or when floating rate debt instruments are employed, as is the case in many developed countries. If such a strategy is adopted, there is also an important risk of inflation getting out of control.

The sale of assets, especially those acquired during the crisis, could be a solution. However, this would only give a relatively modest contribution to reducing public debt ratios in the years ahead (of about 3% of GDP, as seen above).

The government can always choose to default on some of its debt obligations as a last solution, but this is a very costly alternative. As E. Borensztein and U. Panizza [2] show, there are several types of costs that may result from an international sovereign default: reputational costs, international trade exclusion costs, costs to the domestic economy through the financial system and political costs.

If GDP grows rapidly enough, surpassing the growth rhythm of public debt expressed in absolute figures, public debt could decrease as a share of GDP. However, this solution requires a robust economic recovery from the financial

crisis, and growth perspectives for developed countries are still weak and uncertain.

Achieving and maintaining prudent public debt levels therefore requires a budgetary balance adjustment, as a last resort solution, resulting in lower budget deficits or even budget surpluses on the medium-term. This could be accomplished either by increasing revenues from taxes, either by reducing public expenditure (especially final consumption ones) and budgetary resources would be made available to redeem public debt.

Required consolidation efforts are substantial. According to IMF estimates [7], for the advanced economies, attaining a public debt ratio of 60% of GDP by 2030 would require the structural primary balance to improve by 8% of GDP, on average, during 2011-2020 and to remain constant for the following decade.

Important budget consolidation could also create some space for developed economies to address some other major challenges in the years to come, such as the growth of age-related expenses, and would allow them to be better prepared when confronted with future crisis.

#### 4. Conclusions

Our findings show that, on the background of the crisis, public debt has substantially increased in all developed countries, threatening to evolve into an unsustainable level, particularly in countries where pre-crisis public debt to GDP ratios and budget deficits were already very high. This situation is mainly due to a sharp increase in budget deficits, both as a consequence of cyclical revenue and expenditure increases and of anti-cyclical budgetary policy measures adopted in order to alleviate the effects of the crisis on the economy.

It is imperative that public authorities from developed economies act appropriately and timely to correct the situation and reduce public debt to a prudent level, thereby preventing the emergence of a new public debt crisis, which could have even more disastrous effects than the current one. Two reasons would justify this.

First, such a crisis could prove to be more severe than a crisis with private sector origins, because no one would be available to bail out the public sector.

Secondly, the incurrence of a public debt crisis in developed countries could also have



important negative effects for emerging and developing economies, although their public debt to GDP ratio is substantially lower. The current crisis has proved that a loss of confidence in the advanced economies could spill over to other, less developed countries, with weaker fundamentals.

Public debt reduction strategies should mainly be based on a substantial reduction of budget deficits and even a return to budget surpluses on the medium-term. Thus, not only financial resources from taxes will be made available for public debt redemption, but favorable conditions will be created for the developed countries to be better prepared, in the future, when confronted with similar situations.

## 5. References

- [1] J. Aizenman, N. Marion, „Using inflation to erode the U.S. Public debt”, NBER Working Paper 15562, 2009;
- [2] E. Borensztein, U. Panizza, „The costs of sovereign defaults”, IMF Working Paper 238, 2008;
- [3] European Commission, „Innovative financing at a global level”, Commission Staff Working Document, Brussels, 2010;
- [4] European Commission, „European Commission Forecast – autumn 2009”, European Economy no. 10, 2009;
- [5] European Commission, „Economic crisis in Europe: causes, consequences and responses”, European Economy no. 7, 2009;
- [6] European Commission, „Communication from the Commission to the European Council – An European Economic Recovery Plan”, Brussels, 2008;
- [7] International Monetary Fund, „Strategies for fiscal consolidation in the post-crisis world”, Fiscal Affairs Department, 2010;
- [8] International Monetary Fund, „The state of public finances cross-country fiscal monitor: November 2009”, Fiscal Affairs Department, 2009;
- [9] Organisation for Economic Co-operation and Development, „OECD Economic Outlook no. 86”, November 2009;
- [10] Organisation for Economic Co-operation and Development, „Preparing fiscal consolidation”, Economics Department, March 2010;
- [11] P.C. Padoan, „What is the economic outlook for OECD countries? – An interim assessment”, OECD, Paris, 2010;
- [12] C.E. Reinhart, K.S. Rogoff, „From financial crash to debt crisis”, NBER Working Paper 15795, 2010;
- [13] C.E. Reinhart, K.S. Rogoff, „This time is different: A panoramic view of eight centuries of financial crises”, NBER Working Paper 13882, 2008.

## New Challenges Faced by European Companies and their Stakeholders

PhD Student Bobe Claudia-Maria  
*Academy of Economic Studies Bucharest*  
*clau\_sunny@yahoo.com*

Professor, PhD Roman Costantin  
*Academy of Economic Studies Bucharest*  
*roman\_costantin@yahoo.de*

PhD Student Mocanu Mihaela  
*Academy of Economic Studies Bucharest*  
*mihaela.g.mocanu@gmail.com*

### Abstract

*The European Union is currently affected by the financial crisis that spread internationally. The member states face difficulties such as price volatility, uncertainties, liquidity issues, cases of bankruptcy, increased unemployment rate, and decreasing GDP. The present paper analyses the challenges faced under these new circumstances by the European companies and their stakeholders. By taking into consideration the threats and weaknesses faced by firms and other interested parties, we emphasize the importance that transparency and communication between companies and their stakeholder have in overcoming financial difficulties.*

**Key words:** GDP, financial difficulties, stakeholders, creditors.

**JEL Classification:** G3, G31, G38

### 1. Introduction

The present paper covers aspects related to the current situation of the European Union and the causes of the economic crisis that affected the member states. The authors analyzed not only the effects, but also the chain of events that lead to the current crisis.

The break-out of the world economic crisis, initially started with a financial crisis, caused by

unprecedented increases in credits that were stimulated by a long period of moderate financial and economic conditions. As a consequence, this crisis is opening the road to changes affecting European companies, stakeholders and the relationships between them, as well as to changes at the level of the whole society. What are these changes and what possible directions of actions should be adopted are the main questions this paper tries to answer. As a result of their analysis, the authors emphasize the role and importance of communication in times of financial crisis, as main survival factor and even exit from the crisis.

### 2. Current Economic Situation of the European Union and Causes of the Financial Crisis

The fifth anniversary of the largest recent enlargement of the European Union is marked by financial difficulties faced by the member states. Risk adversity, reduced liquidity, price volatility, uncertainty regarding the future of financial institutions, doubts related to the quality of the structured credit products and uncertainty about the macroeconomic perspective now characterize the EU economic environment.

The current turmoil was preceded by a period of benign financial and economic conditions,

with low real interest rates and no liquidity problems. The consequence was an exceptional growth of credit, since investors and intermediaries were willing to take on higher risks. In conjunction with this, a sophisticated and apparently stable system was established, which consisted in originating extremely complex financial instruments that allowed banks to offload risks (especially in the United States of America). These financial instruments were then distributed and bought – mostly in Europe, without paying proper attention to the underlying assets and the real economic fundament of these instruments [1]. This excessive distribution of credit, the use of complex financial instruments, the underestimation of risks and even the lack of economic cooperation between major countries within the European Union and globally have led to the current financial crisis.

However, the report of the Economic and Financial Affairs Council (ECOFIN) called “Five years of an enlarged EU: Economic achievements and challenges” states in an optimistic tone that “the recent EU enlargement was not only a historic step in unifying a long-divided Europe but also a success from an economic point of view resulting in a win-win situation for the whole EU” [2]. The objective of the European Union structures currently refers to using the created synergies in order to diminish the negative effects of the financial crisis in the member states. The European Council in 2008 agreed on a European Economic Recovery Plan, based on a proposal of the Commission. Moreover, the Council of the European Union has recently drafted country-specific recommendations that have in view the particular economic situation in each member state [3].

### **3. Corporate Governance. The Impact of the Current Financial Crisis on the Main Stakeholders and Accounting Professionals**

In theory it is considered that the concept of enterprise refers to a single entity which operates harmoniously and whose main goal is to

maximize value and shareholder wealth. Due to the appearance of new elements and complex needs, other views on the enterprise have been developed. Thus, the definition of the enterprise could be based on the concept of social interest, with the purpose of generating wealth as a result of the participant’s collaboration in the company’s life (shareholders, managers, creditors, employees, customers, suppliers, public power). Thus, the objectives of a company are of social nature, but also relate to maximizing profits [4]. The definition developed under the first theory leads to financial information directed towards investors, while the second definition is oriented to satisfy the financial needs of all users [5].

One of the key factors that influence the efficient use of resources, the increase of the confidence shareholders have in the enterprise managers, the success in achieving the company’s objectives and the economic efficiency is the corporate governance system by which a company is controlled. This system promotes fairness and transparency at company level, and consists in a set of rules of conduct that aims the welfare of the society as a whole, but mostly the welfare of the shareholders and other stakeholders: managers, creditors, employees, customers, suppliers, public power, etc. [6]

Across the European Union, there are several corporate governance models which have distinct characteristics: the Anglo-Saxon corporate governance system (specific for Great Britain) and the German system (specific for Germany and for Continental Europe countries). The Anglo-Saxon model has a “shareholder orientation, with the expectation that other stakeholders will indirectly benefit from the active pursuit of shareholder interests”. The German system “is more orientated towards a stakeholder approach, in the sense that employees are also included in the internal governance process” [7]. Although, the corporate governance systems may differ, the managers, investors and other stakeholders have different behaviors in relation to changes of the economic environment that recently stroked over Europe.

### 3.1. Managers, Investors and Auditors

There are several challenges that European managers, investors and auditors face under the current financial crisis, which highlighted certain weaknesses in the related management, investment and auditing processes. It is a known fact that managers and investors have contrasting interests and different views on the success of a company. Whereas for investors, who took financial risks, success means, in most of the cases, financial performance, namely profit, managers are often tempted to follow their own interest, at the expense of the investors. However, under the current economic situation, it may happen that the objectives of the managers and those of the investors are the same, since both are interested in survival and exit from the crisis. Therefore, a challenge for investors and managers would be to cooperate better towards improving their risk management systems and bringing their company financial success.

Since investors do not always have the benefit of direct contact to the responsible managers, the ones that act instead of them and protect their interests are the financial auditors. Their interest is to obtain a reasonable insurance that the financial statements provide a true and fair view. Under financial crisis, the role of the external auditors has an increased importance, and banks and supervisors rely more and more on the expertise and judgment of external auditors as independent and upright experts [8]. Auditors in the European Union also face new challenges, since political, social and economic pressures on them are now higher than ever.

Currently, two widely used sets of auditing standards exist side by side, i.e. International Standards on Auditing (ISAs) and the US standards adopted by the Public Company Accounting Oversight Board (PCAOB). Europe should adopt ISA's as soon as possible to reduce uncertainty and promote convergence, and should call for convergence between ISA's and PCAOB standards [9]. Moreover, the quality of the audit work is more and more important, and

independence rules are essential in this matter. However, countries currently apply different independence rules, particularly those on scope of services restrictions. Europe should seek to adopt or converge to the independence standards of the International Federation of Accountants (IFAC) as soon as possible [10].

### 3.2. Creditors

The current financial crisis has underlined some major weakness of European and international financial institutions. In fact, the now intensively publicized world's economic crisis started with a boom on the market of credits and financial instruments. The long period of moderate economic conditions in the European member states and the positive evolution of new member states stimulated this credit expansion and the failure in correctly assessing investment risks. Other factors for the credit boom at international level and for lowering the underwriting standards were: increased competitiveness among financial institutions, low interest rates, rising house prices, and weak government oversight.

As a natural reaction, in times of financial crisis, the attention of bank creditors grows significantly. While in normal conditions, prudence should be a fundamental principle, during financial crisis, lenders focus on excessive prudence, on business continuity of companies, on their ability to maintain profits, on the degree of liquidity, but also on the human factor, especially on managers, on their behavior, the measures taken to survive, and also to exit the crisis. The refusal of bank creditors to fund a company can lead to a liquidity crisis.

The permanent communication between creditors and managers, the fair description of the company's situation, the flexibility, the transparency and the fairness are key factors for establishing a viable relationship between creditors and companies. In crisis conditions, survival is the main objective of the companies and funds are primary. However, if loans are not efficiently used, it can lead to bankruptcy.

### 3.3. Other Stakeholders – Employees, Customers, Suppliers

Survival remains the biggest challenge in times of financial crisis. However, survival is understood in different ways by the managers and the employees of a company. If managers believe that survival means reducing the number of staff, for sure, the employees will think exactly the opposite, because the disposal would affect their welfare, as the unemployment period may be longer than normal. On the other hand, accepting a number of employees too large in comparison with the necessities of survival or continuation of activity can lead to inefficiency and even bankruptcy. In crisis conditions, the employees are interested not to lose their job, and to maintain the same financial and other benefits. Therefore, the permanent communication with their managers, the active participation in the business of the company, or on the contrary, the more or less violent confrontations between managers and employees are some of the possible effects related to the reaction of employees during these difficult conditions.

Trading partners demonstrate more prudence when there are going concern issues. Customers are mainly interested in the company's going concern assumption, but they also have in mind the possibility of negotiating prices easier. On the other hand, the suppliers are interested and analyze more strictly the profitability of the companies and their ability to pay the financial liabilities. However, the monitoring of debits and deadlines is the main objective of suppliers in times of financial crisis.

The improvement of the relationships between the trading partners and the companies can be achieved through communication and informational transparency. The financial crisis leads to significant changes in the behavior of stakeholders. The reactions differ depending on the role of the participants in the company's life. To avoid bankruptcy and conflicts of interest, managers should adopt a flexible attitude, adapt to the demands of the stakeholders involved and not at last, insure permanent communication between company and interested parties.

### 4. Importance of Communication under Economic Crisis

Most economic crisis lead to rumors, to distorted perceptions regarding the economic environment, to stress, to lack of control, to panic, to disorientation, to uncertainty, to lack of security and even to major lack of balance in the whole society. The first affected by the above mentioned facts are companies, their owners and managers, but also other stakeholders and parties directly involved in the life of a company. They may have reactions such as denial, avoidance of responsibility, disclaimer of culpability, justification. Finally, the reactions are transformed into positive ones: acceptance, remediation, corrective actions, optimism and confidence. One of the factors that make the transition from a negative attitude on the crisis to a survival-oriented behavior, if not to optimism, is the communication between the company and stakeholders and between the company and the economic environment as a whole.

Individuals react differently to a given situation. Their personality, temperament, and the environment in which they have developed and worked, the psychological, social, economic, political factors and the factors of other nature have led to different, complex, sometimes opposed reactions. Social context involves individual's interaction, which can be achieved mainly through communication. The role of communication is important because it can lead to sustainable and productive relationships between individuals or to the opposite reactions of rejection, conflict, and indifference. Human relationships influence the creation, the existence and the development of the enterprises, and of the economic environment. Companies cannot exist without individuals, whereas a powerful connection is created: individuals depend on the existence and the proper functioning of companies, while companies cannot exist in the absence of individuals.

In times of financial crisis, communication takes magnitude, since individuals need accurate information on the facts (in order to eliminate rumors and distorted perceptions of the economic environment). On the other hand,

using communication and tools offered by psychology, individuals can recover their balance (by eliminating stress, lack of control, panic and disorientation). Last but not least, the uncertainty, and the lack of security and balance can be controlled and removed only when panic and disorientation in the society are reduced. Thus, individuals can make correct and rational decisions related to the crisis situation, can identify the causes, clear them off and restore the social and economic balance.

## 5. Conclusions

The current economic conditions in the European Union launch new challenges for companies and their stakeholders. The uncertainty, the increasing number of cases of bankruptcy, the risk adversity of investors, the reduced liquidity, the stricter credit conditions, the price volatility are some aspects that require changes that may be catalyzed through communication, as an essential instrument of survival and exit from the crisis. The responsibility of managers will be to develop survival strategies and powerful instruments of risk management, whereas investors will be more prudent and conservative. Creditors will tighten their underwriting procedures and auditors will face stricter internal controls in order to avoid audit failures. Confronted with the threat of losing their jobs, employees will become directly interested in the success or failure of the company where they work. In our opinion, the main catalyst of all these changes will be communication.

## 6. References

- [1] Report on the Financial Crisis 2008, drafted by René Ricol, accessed at 20.03.2009, [www.experts.comptables.org/csoec/content/download/139505/2840268/version/1/file/FinalReport-def.pdf](http://www.experts.comptables.org/csoec/content/download/139505/2840268/version/1/file/FinalReport-def.pdf);
- [2] Council Conclusions on Five Years after European Union Enlargement 2009, accessed at 08.05.09, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/107540.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/107540.pdf);
- [3] Council Recommendation on the 2009 up-date of the Broad Guidelines for the Economic Policies of the Member States and the Community and on the Implementation of Member States' Employment Policies 2009, accessed at 08.05.09, <http://register.consilium.europa.eu/pdf/en/09/st06/st06638.en09.pdf>;
- [4] Feleagă N., Criza financiară la cumpăna dintre secolele XX și XXI și guvernanta întreprinderii, *Economie teoretică și aplicată* nr. 9, p.61-70, 2006;
- [5] Feleagă N., op. cit.;
- [6] The Business Environment and Corporate Governance, World Bank 1998, accessed at 25.04.2009, [www.worldbank.org](http://www.worldbank.org);
- [7] Rossouw G.J. 2009, The Ethics of Corporate Governance – Global Convergence or Divergence?, accessed at 18.03.2009;
- [8] External Audit Quality and Banking Supervision 2008, Basel Committee on Banking Supervision, accessed at 23.03.2009, <http://www.asbaweb.org/E-News/enews-16/Documentos%20Finales/Supervisi%C3%B3n%20Bancaria/SB-01-EXTERNAL%20AUDIT.pdf> [www.emeraldinsight.com/1754-243X.htm](http://www.emeraldinsight.com/1754-243X.htm);
- [9] Report on the Financial Crisis 2008, op. cit.;
- [10] Report on the Financial Crisis 2008, op. cit.

## 7. Acknowledgements

This paper is a result of the project POSDRU/6/1.5/S/11 „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by the European Social Fund through The Sectorial Operational Programme for

Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies.

This paper represents dissemination within the research project PN-II-ID-PCE-2007-1 nr. ID-795/2007 financed by the state budget through CNCSIS-UEFISCSU.

# Aspects Regarding the Accountancy of Mines Closure Projects Financed Owing to Loans Ratified by the World Bank

Boca (Rakos) Ileana-Sorina

lilitafree@yahoo.com

*Student in doctoral studies at "Valahia" University of Targoviste*

## Abstract

*The accounting and financial registering of the expenditures regarding the projects of mines closure, preservation, and ecology works financed by the International Bank for Reconstruction and Development are carried out according to the Accountancy Law no. 82/1991, re-published, and to the new accounting Settlements in accordance with the 4<sup>th</sup> and the 7<sup>th</sup> directives of the European Economic Communities that are in force beginning with January 10<sup>th</sup> 2010 owing to Order no. 3055 dated October 29<sup>th</sup> 2009.*

*According to theses legal stipulations, yearly financial reports drawn out by the juridical persons of public interest are the object of a statutory audit.*

**Key words:** project, implementation, World Bank, loan, financing, restructuring, mining industry, accountancy, account, financial reports

**JEL Classification:** M48, G28

## 1. Introduction

World Bank is an institution including five international financial institutions, namely: The International Bank for Reconstruction and Development – IBRD; The International Finance Corporation - IFC; The International Development Association - IDA; The Multilateral Investment Guarantee Agency – MIGA; The International Center for Settlement of Investments Disputes - ICSID.

The World Bank is generally more successful in enforcing its conditionality on the Romanian. The results are still mixed, but there is a strong sense that the overall vision that underlies the WB operations in Romania is correct and that big lending programmes like PSAL-industrial

restructuring and privatisation, ASAL (reforms in agriculture) or the currently negotiated PAL can play a role in pushing the reform a head. Technical assistance in areas like improving the business environment, strengthening the financial sector or restructuring the land market in rural areas is badly needed. Each institution plays a distinct part in fighting against poverty and with a view of improving the living standard of the population belonging to the countries in course of development. The generic term of **World Bank** mainly regards IBRD and IDA, and the major financing projects are provided by IBRD.

The International Bank for Reconstruction and Development (**IBRD**) was founded in 1945 and includes 185 member states. IBRD's objective is poverty diminishing in solvable and average incomes countries in course of development promoting durable development through loans, guarantees, and analysis and consultancy services. IBRD is a financial intermediary, borrowing funds in international capital markets for lending to its member countries.

IBRD is funding operations are designed to meet a major organizational objective of providing low cost funds to borrowing members. The loans are given to the governments or to the public institutions of the countries in course of development, on the basis of governmental guarantees. IBRD gets its funds mainly from the international financial markets, with a maximum solvability share. IBRD emits obligations and passes the benefit of small interests to its clients. The projects are evaluated by the Bank according to the capacity of the benefiting country to pay its debts.

The programs supported by IBRD belong to two categories: **Programs for economic and social infrastructure projects** – meant for modernizing and developing certain fields, such as: the energetic field, transports,

agriculture and rural development, education, birth control, health, and food supply. In order to determine the efficient implementation of the programs, IBRD requires the beneficiary State's participation with a certain share (between 10 and 30%). **Programs of field adjustment**, as elements of supporting economic reform, promoted through macro-stabilization programs of the International Monetary Fund and meant to cover external deficit – loans with a view of adjusting the private field (Private Sector Adjustment Loan - PSAL) and the public sector (Programmatic Adjustment Loan - PAL).

## 2. Content

The expenditures for mines and quarries preservation and final closure, including the monitoring of post-closure environmental factors in the case of national companies, displayed by the technical programs of closure and preservation, previously elaborated and approved according to legal stipulations, are provided by the companies' own resources and by budget allocations included in the budget of the Ministry of Economy, Trade, and Business Environment, according to the yearly lists of works drawn out by the main ordering credit institutions.

The expenditures necessary in order to carry out auxiliary activities belonging to the process of mines closure and ecology as well as the ones regarding the organizing and carrying out of public acquisitions, tests and expertise needed during the project/closure/ecology works, and the organizing and finalizing receptions are stipulated by the general devises of the objectives to be closed while noticing the total approved sums for each objective.

The payment of the services targeting such activities carried out at the objectives to be closed is done according to the internal norms and/or tariffs approved by the order of the main ordering credit institution. The expenditures occurring while closing mines and quarries are registered by accountancy according to the stipulations of Accountancy Law no. 82/1991, re-published, and to the applicable accounting settlements. The administration of the funds coming from the State budget with a view to preserving and finally closing mines and quarries is done by the Ministry of Economy, Trade, and

Business Environment while noticing legal stipulations.

The expenditures meant for mines closure, preservation and ecology works are monthly demanded by the main ordering credit institution according to the demands of opening budget credits accompanied by the centralizing Report of the companies' returns evidence.

Returns evidence is drawn out according to the technical closure or preservation programs of the mines and to the effective expenditures resulting out of the works reports monthly drawn out by the companies. Returns evidence is checked and approved by the General Department of Public Finances that has jurisdiction upon the economic entity that undergoes closure, preservation or ecology works.

All economic and financial operations that have been carried out are registered at the moment they occur by a document that represents the basis of accounting registering; they accordingly become justifying documents. Consequently, mining units have to register the expenditures for which they demand subsidies according to the stipulations of the Accountancy Law no. 82/1991, re-published, with subsequent modifications and completions.

With a view of a unitary approach, noticing the criteria of efficiency and performance of mines' closure and ecology works a specialized company has been founded; it should provide, owing to its highly experienced staff, the efficient management of the process of mines and quarries closure that targets: the operative survey and solution of the specific problems that may occur while carrying out the works, the permanent collaboration with the companies that administrated or exploited those units.

The company is called CONVERSMIN S.A. – Mines Preservation and Closure Company – and is under the authority of the Ministry of Economy, Trade, and Business Environment; it is a Romanian juridical person whose capital entirely belongs to the State; the Romanian State, through the previously mentioned ministry, is its sole shareholder.

CONVERSMIN S.A Bucharest implements the mines closure policy; it provides the management of the activity through attributing



the contracts of public acquisitions according to the legislation in force that regards all the component elements (preservation, planning, underground closure, ecology works, monitoring, sale of recovered stuff, technical support) as well as unpredictable events (calamities); it also targets the survey of the projects' implementation including the post-closure monitoring stage, the efficient use of resources, the periodical correlation of legislation with the other contact fields, and, last but not least, the providing of a permanent dialogue with the communities.

Another aspect one should have in view while stating the coordinates that mark the foundation of a specialized company involved in closure and monitoring activities, is the implementation of a unitary social policy; such a thing is possible through attracting a larger number of persons in the closure activity due to the fact that, as a rule, closed mining units belong to areas having a mono-industrial character and jobs for mining specialized persons might be quite difficult to be found.

This company carries out preservation and underground closure works employing workers belonging to the national mining companies. The carrying out of the underground mining closure works by a sole specialized operator plays an important part in surveying and quickly settling the specific problems that may occur during the works or during the permanent collaboration with the companies that have managed or exploited the units, especially in the areas where beside the mines to be closed the activity of other units placed within the same perimeter still goes on.

The reference stuff provided by the mining sub units in the country are centralized either by the national companies or by autonomous administrations; further they are sent towards the technical and economic council as original, written documents, sealed and signed as well as electronically to the secretariat of the General Department of Mining Resources; they are accompanied by a forward letter and a presentation letter at least 10 working days before being analyzed.

In order to properly implement the projects financed by IBRD, at the level of the Ministry of Economy, Trade, and Business Environment, they have founded the Management Unit of the

Mines Closures Project, an organism in subordination of the Ministry of Economy, Trade, and Business Environment, with both external financing and from the State budget. In accordance with World Bank procedures, for the management of the project, a Project Management Unit (PMU) was created, appointed by the Secretary of State (Minister, in Romanian terminology).

Romanian administration: over the duration of this projects it had three general managers (whose tenure bears a good correlation with the lifespan of the governments who appointed them). The first general manager was a political appointee (with no experience either in mining or in social mitigation), while the other two came from the mining industry. Similarly with their staff, none had any experience in social development.

The staff employed by this unit has the proper skills and resources needed to efficiently coordinate all sorts of aspects connected to the financial and payment management of the projects. The Project Management Unit (PMU) under the Ministry of Economy is the implementing entity of the mine closure and environmental remediation component of the World Bank-financed projects for the mining sector.

This Projects Management Unit (PMU) yearly elaborates a budget project at the end of April which is rectified in June and September. Such budget projects are drawn out according to the estimates of each contract of mine closure works.

These budget projections are submitted by PMU

to the Ministry of Public Finances which, through its specialized department, analyzes and transmits to PMU its agreement or disagreement upon the proposed trimester project; afterwards, it submits the budget projections to the Ministry of Economy, Trade, and Business Environment where they are minutely analyzed; finally, they send PMU the trimester distribution of the allocated budget. Each month, PMU establishes a credit. They draw out a sole credit establishing for each decade of a month that includes all the categories of expenditures; accordingly, the first decade includes salaries expenditures, the second one includes exceptional expenditures (business trips, etc.), and the third decade includes goods, services, and works expenditures.

Accountancy is drawn out in two currencies: lei and dollars, and in two accounting systems: the Romanian one and the one according to the last Accountancy International Standard. In order to register all financial operations and origin sources they use financial accountancy.

The sums that enter PMU account have their origin in two sources: the State's budget and IBRD loan.

Beginning with 2009, the system works according to pre-financing, namely: the Romanian State is the one that also provides the part of the loan; subsequently, the money enters the State's account out of the loaned sum.

PMU incoming money enter the account 770, "Budget Financing" (Incomes out of non-refundable financing programs) with analytical items according to the two financing sources: IBRD and the State's budget, money used for the following settlement operations: mine closures expenditures, services expenditures, goods expenditures, operational expenditures (salaries, supporting PMU administrative activities, etc.). The expenditures account employed by PMU is 673, "Internal transfers expenditures". The whole allocation is registered according to title 11, "Expenditures for non-refundable financing programs" 80.01, art. 65, paragraph 65.01, "Expenditures afferent to non-refundable financing programs". In case of each financing source there are analytical items for each category of expenditures.

For each category of expenditures there are sub-analytical items of 2<sup>nd</sup> degree in case of each contract. At the end of the administration period the accounts employed are closed owing to account 121, "Profit and loss"; at the end of the year, account 121, "Profit and loss", is closed owing to account 117, "Retained earnings". According to the credit of account 770, "Budget financing" payments are registered; according to its debit, they register the monthly closure owing to 121, "Profit and loss"; depending on the character of the expenditures, afferent accounting notes are drawn out.

The software used with a view of keeping the accountancy of the projects of mine closure is called "Plan Procurement Erasmus"; according to its conception, accounting operations detail all accounting data that represent the foundation of the counts.

All mine closure, ecology, and preservation works contracts are drawn out on the basis of FIDIC, namely, works payment according to the amount of executed works comes first (project or execution variations may occur, namely supplementations of the amount of works or diminutions that regard renunciation to certain works).

Accounting notes are monthly drawn out on the basis of the character of the expenditures: 80% of the sum meant for payments is provided by IBRD, and 20% of the sum is provided by the State's budget. Let's consider the following:

Salaries at the end of the month:

673 "Internal transfers" = 421 "Staff, due salaries" 80% World Bank

673 "Internal transfers" = 421 "Staff, due salaries" 20% Government

673 "Internal transfers" = 431 "Social insurances" (all contributions)

In case of account 673, "Internal transfers", they

use analytical items for each of the two financing sources; for each financing source there are sub-analytical items in case of each category of expenditure.

Payments are done according to settlements; centralizing documents for each article are drawn out, including returns evidence, according to calculation breviaries and measuring methods, periodical delivery and reception minutes. The sites inspector analyzes and signs each document, and finally draws out a technical report and issues a document that certifies the payment; the document should be endorsed by the Ministry of Public Finances and by the Local Public Administration in the area the sites is located.

PMU receives the whole file and has it checked by its Technical Department, where the public acquisitions specialist thoroughly checks the file, including the implemented public acquisition procedure and the observation of all legal norms regarding the sub-contractors.

The PMU procurement process is carried out in accordance with guidelines World Bank Procurement under IBRD Loans and IDA Credits "of May 2004, and "Selection and Employment of Consultants by World Bank Borrowers" of May 2004, and provisions contained in the Loan Agreement. The mission also noted that the PMU maintain and provide timely documentation of

processes. Procurement and have an archiving system which facilitates complete documentation verifying.

Once PMU has checked all technical details included in the technical report of the discount, it certifies the reality and exactness of the sums contained by that structure, and, according to it and to all the estimations made by the financial department, draws out the proposal of payment accept. Under the supervision of PMU accounting and technical specialists the proposal of payment accept is drawn out; the invoice is enclosed according to the two financing sources; further, the proposal is submitted to the PMU's manager in order to be signed, then to the manager of the General Department of Mining Resources who is going to approve the settlement signed by the Financial Administration whose sum is contained by the accept notes. At the level of PMU's financial department they issue the proposal of authorizing a certain expenditure belonging to the budgetary commitment and to the payment authorizing. PMU accepts the payment of the works that have been carried out according to the mentions made by the General Department of Mining Resources; afterwards, PMU manager signs the invoice as being "ready to be paid". PMU specialists check on spot each work that has been carried out. Such documents bear the accept of the unit's own financial control, the accept of the financial inspector delegated by the Ministry of Economy, Trade, and Business Environment, distributed at the level of the Ministry of Economy, Trade, and Business Environment; they are finally approved by the minister who is the main ordering credit entity. PMU financial department draws out the payment document – payment order, external payment disposal – and the payment order, signed by PMU manager, is submitted to the Treasury. Further, payment is being done; the next day PMU receives the account extract containing the payment from the Treasury which is registered as follows:

673 "Internal transfers" = 401 "Suppliers"

Payment of the invoice:

401 "Suppliers" = 770 "Budget financing"

At the end of the semester the balance sheet with

all its afferent annexes is drawn out; lei and dollars balance is drawn out monthly.

All accounting files belonging to the projects are drawn out according to Erasmus IT

accounting software of PMU. Reserve saving of accounting files, transactions, and reports is done as follows: monthly in case of accounting files and transaction and each trimester in case of periodical reports; reserve files are stored on the server and CDs and preserved in a fireproof safe. PMU draws out in due time trimester financial reports belonging to the Financial Monitoring Reports (FMR) given automatically and easily by the IT software. PMU has established appropriate internal controls for project's including regular reconciliation of bank accounts, reconciliation of statements on payments Bank with project accounting records, proper allocation of tasks and policies and proper accounting procedures. Future payments will be made by the Ministry of Public based on eligible expenditures reported regularly by the PMU. Follow the MPF to issue a decision on the planning submission following withdrawal request and the latest talks, the Ministry will forward the following damage by the end of June 2010.

### 3. Conclusions

Accounting systems are informatics based, complex and vast being conceived by a Romanian financial IT software company. The IT accounting software employed by the Projects Management Unit displays efficient security levels and is used in order to draw out the financial monitoring reports of the project. The funds received from World Bank and Romania's State budget are considered to be the financing sources of the project.

### 4. Bibliography

- [1] Government Decision nr.1008/2006
- [2] Order No.1917/2005 from 12/12/2005, Published in the Official Gazette, Part I No. 1186 of 29/12/2005 approving the methodological norms on organization and management accountancy institutions public chart of accounts for public institutions and instructions for its implementation
- [3] [www.minind.ro](http://www.minind.ro)
- [4] Accounting Law No. 82/1991 republished
- [5] Government Decision No. 1634 of December 29, 2009 the organization and functioning of the Ministry of Economy, Trade and Business Environment

## The Accounting Systems of the Main Member States of the EU

Bostan Ionel

*Stefan cel Mare University of Suceava, Romania,*

*e-mail: ionel\_bostan@yahoo.com*

Grosu Veronica

*Stefan cel Mare University of Suceava, Romania,*

*e-mail: doruveronica@yahoo.it*

Iancu Eugenia

*Stefan cel Mare University of Suceava, Romania,*

*e-mail: eiancu@seap.usv.ro*

### ABSTRACT

*The obligation to make financial statements according to the IAS/IFRS allows the European groups, with branches in another European country to reduce costs. In fact, instead of multiplying the editing of the accounting data (the balance sheet according to the local national law and the one according to the group norms), it is possible for them to respect the local norms, publishing only the balance sheet according to the IAS/IFRS.*

*Many of the economical analysts assume that the international comparability of the financial statements heads to using only one set of accounting standards for making the financial statements.*

**Key words:** IAS/IFRS, international comparability, local norms, costs, balance sheet

**JEL Classification:** M4, M14, M48

### 1. Introduction

The development of competition, the globalization and the growth and integration of the capital markets require comparable accounting information based on superior-quality standards, an accounting information to consolidate and not to obstruct the global efficiency of the market.

The obligatory adoption of the current IAS/IFRS norms for the creation of the financial statements of the European

companies- and especially of the listed ones- are a necessary step for the full integration of the financial markets of EU member state.

The 4<sup>th</sup> and 7<sup>th</sup> CE directives contributed to the harmonization of the base accounting information of the stock companies, determining a general improvement of the European accounting norms quality, and this due to the greater comparability of the companies' account, which eased the activity of the trans-border companies.

But, the accounting directives did not manage to reach the objective of full comparability for the European entities' balance sheets, in exchange obtaining a "formal equivalence" of the optional accounting norms which is more simple.

### 2. Short History Concerning The Actual Accounting System Configuration

On one side, the lack of a full harmonization is a consequence of the chosen instrument; the directives are normative acts, in essence principle norms, suspected of a different application in the member states. It is not surprising that the accounting directives admitted, in a series of cases, alternative solutions or optional accounting treatments, or that they haven't challenged all the aspects of the accounting domain concerning the balance sheet. The use of a greater number of general and principle notions did nothing else but amplify the interpretations given by each

member state, reducing the convergence degree of the national accounting norms.

On the other hand, historically and politically speaking, choosing a principle instrument, such as the directive one, is certainly appreciated; the presence of a large number of accounting options eased the approval of the directives and their implementation in various countries of Europe, allowing to surpass the resistance of the same member states to the accounting harmonization policy preferred by the communitarian institutions. It is enough to think about the long periods of time that were needed to implement the accounting directives (Italy, for example, implemented the 4<sup>th</sup> directive after 13 years from the deadline) in order to realize the difficulties brought by the tendency to impose the member states to give up- even partially- the own accounting traditions, consolidated and to converge to an unitary model.

The slow process of fully applying the principles established within the directive was the cause of their quick ageing; while the member states were struggling to comply their own national legislation and accounting practice to the communitarian requests, the social and economical context changed, making the directives to become completely inadequate to reach the objective to ease the intra-communitarian exchanges.

The most radical changes are the ones concerning the financial markets. During the 90s, the international real estate markets, so as the European ones went through a deep changes period, mostly due to the increased use of the new IT technologies and of the economy's globalization, which made possible reaching high mobility levels of the capital, leading to a progressive closeness of the financial markets.

The evolution of the international financial scenario lead to the increase of the European society number which intent to enter an extra- national context (the so-called global players) and which are obliged to feed with balance sheet information that is more comparable and complete, facing the ones supplied by the balance sheets made under the communitarian directives, applied in a pretty different manner in each member state, this problem becomes more pragmatic and dramatic in the case of the investigations on

the extra- European markets, as a consequence of the obligation stipulated in the majority of the rulebooks to make the reconciliation of the accounting prospects with the local accounting norms.

Also within the EU, adopting applicative disciplines and national procedures that are very detailed and differenced denied the possibility to mutually recognize the accounting prospects which the Union aims to reach, with unavoidable consequences for the european emitters to elaborate and present more accounting documents fascicles, in order to be listed in the member states, others than the ones coming from.

### **3. The Accounting Systems Of The Main Member States Of The Eu**

Within the economical doctrine that deals with the accounting systems which are put under national regulation, a common thing is the division of the accounting systems' "family", which follows the one of the juridical systems and mainly coincides with the distinction between the civil law and common law.

For the common law system, the role of the accounting norms would be glorified on one side because of the slack character of the juridical norms in matter of accounting, and on the other side because of these norms' own characteristics, in which practice always had an important role. It is no surprise, therefore, which the accounting audit and the "generally accepted" accounting standards concept were created because of these regulations<sup>1</sup>.

In the UK, from an initial situation that lacked the rules and uncertainties concerning the identification of the accounting norms, it reached, in the 80s, to a careful regulation of the accounting domain. The normalization process of the English accounting standards is mainly due to the categories interested in editing the balance sheet (the ASB- Accounting Standards Board), to which was trusted a formal setter standard role, as well as the recognition, by law, of the juridical value of the accounting standards

---

<sup>1</sup> In fact, both norms are born in the SUA

made by this organization.<sup>2</sup> Once with the application of the European accounting directives, a normalization process of the accounting standards was initiated, which changed the traditional importance given to the professional originating accounting norms.[2]

In present, the system is not far from the one present in the majority of the EU countries, by which he is attributed the judge role as a consequence to review at the last analysis the compliance with the IFRS, made by the IASB.

In the civil law systems, the existence of a well defined juridical frame and the traditional defensive to the non legislative sources that do not belong to the state determined a reduce relevance of the accounting standard in the juridical area.[4]

Of a real interest for the similarity of the juridical traditions are the experiences gathered by France and Germany.

It is very well known that in France developed, starting with the 70s, a great debate concerning the balance sheet discipline, focused on the necessity to reach a codification of the accounting right, understood as a specific branch of law, characterized by various principles and sources<sup>3</sup>.

The accounting legislation started to be developed during the 80s, especially because of the impulse derived from the application of the 4<sup>th</sup> directive. With this occasion, a general law was elaborated as concerns accounting, qualified by the COB as being the “code” of the accounting standards.

<sup>2</sup> By the activity of the Companies Act in 1989 which expressly requires the managers of the big companies to stipulate in the lower corner of the financial statements if the accounting standards have been respected and to specify the eventual reasons for which derogations were necessary. For an assembly view of the evolution and functioning of the English accounting system, Khanna B. and Pozza L, in *Regno Unito*, in Provasoli A. și Vigano A – *Processi*, pg. 116, present how the Companies Act norms do not contain and adequate and real recognition of the accounting norms.

<sup>3</sup> Fortunato S – *Bilancio e contabilita d'impresa in Europa*, Bari, 1993, pg.37, Andrei P., *Sistemi contabili e infomazioni di bilancio*, în Franco Andrei P., *Sistemi contabili e infomazioni di bilancio*, în Franco Angelli; Andrei P. -*Sistemi contabili e informativa di bilancio*, in Franco Angelli, Milano, 2000; Viandier A. și C De Lavzaingheni- *Droit comptable*, Paris, 1993

Using the “code” term is altogether improper; classifying the French accounting norms is actually only partial, because it does not include fiscal accounting standards and as such does not include the accounting of the so-called “civil” companies, which practically make only a fiscal log [5].

In the harmonization and legalization process of the French accounting system, a huge step was made by the adoption under a juridical form of the ministerial decree, of the so-called “plan comptable general” (CNC)-Conseil, being a public consulting and coordination organization for accounting under the authority of the Finances and Economy Ministry. The juridical relevance of the accounting standards included in the “plan” is confirmed by its penal punishments in case of inobservance.

As concerns Germany, it is necessary to highlight the fact that the German accounting system was developed traditionally as a system with a powerful legal base, in part due to the adopting of a “reverse dependency” model between the civil and fiscal balance sheets, and in consequence to base its fiscal determinations on certain sure rules with juridical value.

The fundamental principle of the German accounting system is represented by the notion of „Grundsätze ordnungsmässiger Buchführung” which, most probable, is the matrix of the notion, in Italian, of „fair accounting principles”. [3]

The principles<sup>4</sup> of the German accounting are configured as being true and real „commercial uses”. [1]

Even in this case, after the application of the accounting directives and legalization of certain balance sheet principles, revealing the determination by induction of the accounting principles by a civil court decreased substantially<sup>5</sup>, even after recognition of the European accounting systems; therefore, applying the accounting directives represented for all the member state a radical change

<sup>4</sup> During this chapter, to the “accounting principle” term is associated the term of “accounting standard”

<sup>5</sup> For a reconstruction of the debate that took place in Germany, varying with the juridical nature of the fair accounting principles, also look at Livantino M. și Pecchiari N. –*Germania*, in Provasoli A. Și Vigano A. - *Processi di formazione dei principi contabili în alcuni paesi europei*, Napoli, 1998.pg 163

moment, and of development for the accounting traditions.

#### 4. Conclusion

The elaboration process of the accounting directives needed, on another hand, a substantial effort- in terms of finding a compromise that would have lead to a formal convergence of the two current accounting macro systems, which belong to the common and civil “law” juridical macro systems.

Despite sustained effort, there is a common opinion in the accounting doctrine, according to which, because of the diversity of the juridical frame and, in general, of the “environment” and social- economical factors to initiate the “normalization” of the accounting standards, several models were followed by various member states.[4] In order to make an unique communitarian market, the accounting harmonization process came only with one meaning, an obligatory one.

#### 5. References

- [1] Balzarini P. - La natura giuridicadei principi contabil in alcuni paese europei: Italia, Francia, Regno Unito, Germania, în Provasoli A.
- [2] Bird J.F., Auditors liability and the legal status of accounting standards, i Journal of Business Law, 1986, pg.383
- [3] Fortunato S. - Il bilancio e contabilita d’impresa, în Europa, Bari, 1993, pg.42
- [4] Lacchini M. – Modelli teorico-contabili e principi di redazione del bilancio, Torino, 1994
- [5] Viandier A. - La loi d’harmonisation et le droits des sociees, in Revista Societe, 1984
- [6] Vigano A. - Processi di formazione dei principi contabili în alcuni paesi europei, Napoli, 1998

## THE EVOLUTION OF THE INTERNATIONAL ACCOUNTING SYSTEMS

Bostan Ionel

*Stefan cel Mare University of Suceava, Romania,  
e-mail: ionel\_bostan@yahoo.com*

Grosu Veronica

*Stefan cel Mare University of Suceava, Romania,  
e-mail: doruveronica@yahoo.it*

Iancu Eugenia

*Stefan cel Mare University of Suceava, Romania,  
e-mail: eiancu@seap.usv.ro*

### Abstract

*The annual financial statement is a technical and accounting instrument capable to provide with, periodically, a synthetic representation of the patrimonial and financial statement and of the economical result of an entity. In Europe, the financial accounting phenomenon was born in the second half of the 80s, when the legislature started to modify the aspects concerning the procedure to make the balance sheet. Later on, in the beginning of the 90s, computing and accounting techniques studying was begun, by creating a real and true branch of the economical sciences, called „financial accounting”.*

*For these reasons, the attention was mainly focused on making specific norms, concerning the structure and evaluation of the financial statement, aiming to limit the liberty enjoyed by the administrators in choosing the rules to adopt in making the balance sheet. The fact that each evaluation of a patrimonial item is changing, varying with the purpose the one that makes the balance sheet proposes to get to by evaluation, was recognized; therefore deriving the necessity not to let to the administrators the decision concerning the way that the patrimonial elements will be evaluated, a highly- important decision*

*and with a practically relevant impact over the obtained results*

**Key words:** annual financial statement, economic result, financial accounting phenomenon, accounting system

**JEL Classification:** M4, M41, M48

### 1. The purpose of the accounting systems' classification

Classifying the international accounting systems is necessary for the next reasons:

- in order to understand to what extent the accounting systems of various countries are similar;
- in order to study the way of the accounting systems' evolution and future development;
- in order to understand the reasons for which some nations exert a dominant influence for the accounting area and others do not.

The cultural influences over the accounting systems were studied by various researchers In the domain according to which culture, or better said the values shared by a society are also reflected in the accounting systems. The main variables by which these phenomena can be explained are:



- a) the professional control versus the legal one;
- b) uniformity versus flexibility;
- c) prudence versus optimism;
- d) confidentiality versus transparency;

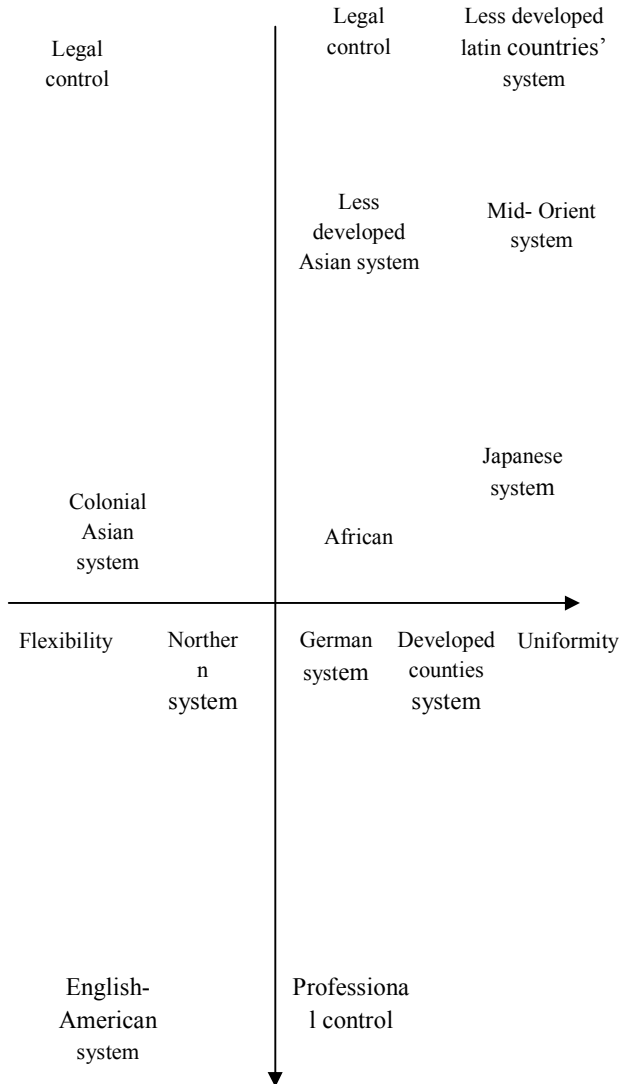


Figure no. 1 Flexibility vs uniformity and legal control vs professional control in the world's accounting systems or „norm application”

Source: Radebough and coaut, 2006

- a) *Professional control and legal control*

This variable represents the preference for a professional opinion and auto-regulation of the profession more than to adhere to prescriptive legislative norms and legal controls.

On a world level, the accountants do their jobs in various ways, for example in the UK the concept of “true and fair view” depends highly on the accountant’s opinion as an independent professional.

In countries like France, Germany and Italy, the main role of the accountant is to apply detailed and prescriptive legislative norms.

The dimension, valence and authority of the accounting profession are, in general, directly proportional to the prevalence, in a certain accounting system, of the professional control.

*b) Uniformity versus flexibility*

This social value reflects the preference for uniformly applying the accounting procedure, for its consistency in time, than for flexibility in applying the norms, varying with the specific circumstances of each society.

For example, in France and Spain there is an unified accounts’ plan on a national level, and the influence of the fiscal norms over the balance sheets is significant. In the UK and USA, in exchange, the conviction that flexibility is needed in applying the rules is more spread, translated as a greater attention for their inter- temporal comparison.

For example: the balance sheet formats regulated by law in many of the European countries and cannot be modified. But, in the UK and USA, there is no application standard form, but only a minimum respected content.

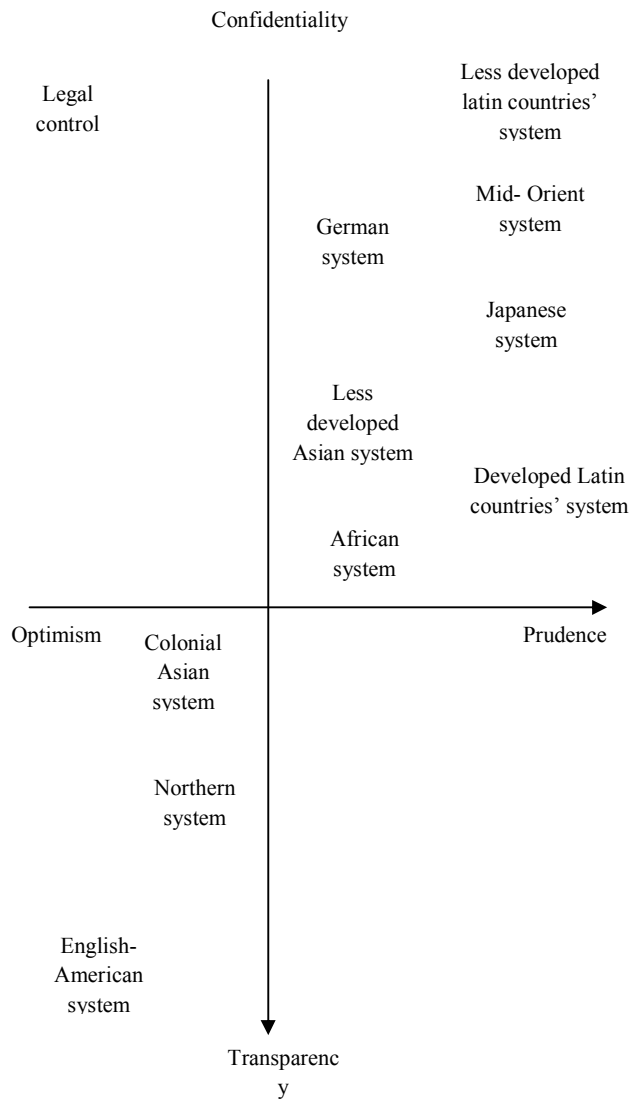


Figure no. 2 Evaluation and the financial information

Source: Radebaugh and coaut. 2006

*c) Prudence versus optimism*

This variable reflects the preference for a prudent variable of the patrimonial elements' evaluation, which consists in confronting the future risks, instead of a more optimist and less adverse approach of the risks.

It's about one of the most important characteristics of an accounting system, because prudence is one of the most rooted and omnipresent fundamental principles.

The prudence principle varies a lot from country to country, passing from the prudential- connoted accounting systems (Japan, France, Germany, Switzerland) to the less prudent ones, such as USA, UK, and from certain points of view the northern countries.

Prudence seems to be tied to the capital markets' developments, the influence of the fiscal norms over the balance sheets and the various pressures exerted by the financial information users.

*d) Confidentiality versus transparency*

This variable reflects the preference for confidentiality and spreading the financial information only to the ones involved in the entity's management, instead of a more transparent approach of the accounting information spreading.

The influence of the management over the quality and quantity of the supplied financial information is relevant. Confidentiality seems to be strongly connected to prudence, even if the last one seeks the patrimonial elements' evaluation and not of the supplied information. In certain countries, there is a minor financial disclosure compared to others; in Japan, France, Germany and Italy, confidentiality is better preferred than in the UK or USA.[1]

Transparence is often tied to the spread capital and the development of the capital market, because the companies are put under significant external pressure concerning financial information spreading.

**2. Difficulties in classifying the accounting systems**

Various accounting systems are often associated to various countries; nevertheless, a country can have more than one accounting system, for example one for the listed companies and another for the not listed ones. Sometimes, the bigger companies can adopt accounting rules that differ from the

ones that represent the “legislation” or the accounting norms of a country (e.g. the Japanese companies that use the USGAAP or the European ones using the IFRS).

Therefore, it would be more correct to refer to the “dominant accounting system” of a country (Nobes, 1998), which is the one used by the majority of the existent economical entities of that country. Another difficulty is that the accounting systems can radically change in time, such as it happened in China, Russia and the majority of the East Europe countries [2].

The financing system of the entities is most likely the most important reason why there are differences between the international accounting systems, revealing in fact that there are various purposes why the balance sheets are published.

The dominant financing system of a country represents one of the main variables capable to explain the purposes of the balance sheet. There can be identified 3 financing system types:

- a) the systems based on capital markets;
- b) the systems based on credit capital- government type;
- c) the systems based on credit capital- financial institutions type.

The accounting systems, of the countries in which financing by capital markets is prevailing, tend to be different to the systems in which the entities are prevailingly financed by the credit capital.

***The insider/outsider model***

The accounting systems afferent to the strong equity countries

In the strong equity countries, the biggest part of the financiers are outsiders, which is they do not have a privileged relation with the company [1].

This category includes both small shareholders and institutional investors (insurance companies, investment companies etc.). Within the “weak equity” context, the

biggest part of the financiers (families, governments, banks and other entities) are, in exchange, insiders, which meaning they have frequent and opportune access to the reserved financial information, because the most times they have a long- term relation with the financed subject [2].

Table no. 1 an example of the characteristics of the two accounting systems

Characteristics	Strong equity	Weak equity
Security depreciations and provisions	The balance sheet norms do not coincide with the fiscal	The balance sheet norms follow the fiscal ones
Profits afferent to the unmade changes	Reported in the profit and loss account	Late or unreported
Legal reserves	Absent	Obligatory
Schemata of the profit and loss account	Net costs classified varying with their function (costs afferent to sales)	Costs classified by their nature
Cash flows	Obligatory	Not required, often edited
Profit per share	Obligatory for the listed companies	Not required, often reported

A “strong equity” accounting system type, also called Anglo-Saxon, has the following characteristics:

- legal system: common law;
- fiscal system: no influence of the financial norms over the balance sheet evaluations;
- balance sheet users: especially the risk investors (outsiders);
- characteristics of the financial information: “devoted framework”, prevalence of the competence principle over the prudence principle;
- additional information: high transparency degree;
- evaluation: optimism, using the current values (fair value), no limit for profit distribution; examples: Australia, Canada, Ireland, the Northern

Countries, New Zealand, Singapore, UK and USA.

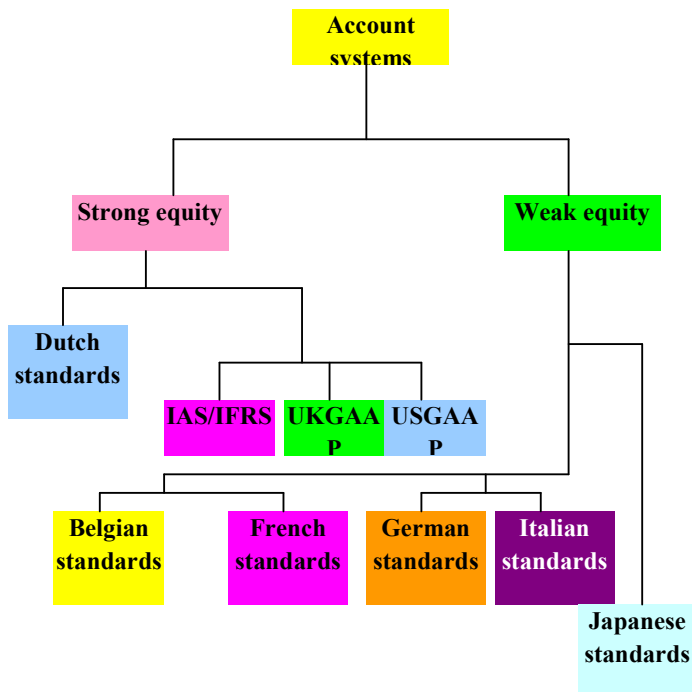


Figure no. 3 The structure of the international accounting systems

Source: Nobes Parker, Comparative International Accounting, 5th ed, Prentice Hall, 1998

## 2) The „weak equity” type accounting systems

The “weak equity” type accounting systems (known as European) have the following characteristics:

- the law system: specific legal norms;
- the fiscal system: is known for the influence of the fiscal norms over the balance sheet evaluations;
- the balance sheet users, especially social creditors, fiscal authorities, sometimes risk investors;
- characteristics of the financial information: prevalence of the prudence principle over the competence principle, reduced relevance of the financial information for the stakeholders;
- additional information with a high confidentiality degree;

- the evaluations of the patrimonial elements are characterized by prudence, use of the historical cost, the just value is not admitted; no limit for the profit distribution, in some cases the creation of hidden reserves. Examples: Belgium, France, Germany, Italy, Japan, Portugal, Spain, Switzerland.

## 3. Conclusion

The evolution of the internationalization process of the economical entities and globalization of the financial markets determined an increase of the demand for information on behalf of these sectors’ operators, which highlight more and more the need for uniform accounting rules, shared internationally. Therefore, the financial and economical harmonization process recorded, in Europe, in the last years significant progress, finding its applicability in practice in significant economical domains by adopting the international standards IAS/IFRS by the member states of the EU.

The transition to the IAS/IFRS determined fundamental changes in the financial reporting system of the entities, generally leading to a deep review of the evaluation and representation criteria of the patrimonial structures in the balance sheet.

One of the objectives of our paper, as previously mentioned, is to investigate several problems that result from this transition to the IFRS, concerning the effects these one bring to the economical performance. In many of the European countries, the local legislation allows the adoption of the IAS/IFRS for all the companies, even if they are not listed and do not make consolidated financial statements; in some cases, even for the making of the individual balance sheet of the holdings or company groups.

## 4. References

- [1] Andrei P. - Sistemi contabili e informazioni di bilancio, in FrancoAngelli, Milano, 2000
- [2] Fortunato S. - Bilancio e contabilità d’impresa in Europa, Bari, 1993

[3] Allegrini M și Ninci E. (2007)– Conto economico al IAS1 nelle indicazioni dell'OIC in Amministrazione & Finanze nr. 11/2007  
[4] Amodeo D., (1966), Gli standards generalmente accettati e la loro influenza sulla pratica e sulla teoria contabile, Cursi, Giannini Editore, Napoli

[5] Andrei P.(2000) - Sistemi contabili e informazioni di bilancio in FrancoAngelli, Milano  
[6] Hanson E.I. Hambr J.C. Walgen Bach P.H. (1992) Principles of accounting, The Dryden Press, Fort Worth  
[7] Marchi L., Allegrini M. (2003), L'evoluzione dei principi contabile in Italia, Rivista contabile, nr.50

# Evolution and Tendencies Concerning the Romanian Insurance Accounting

Botea Elena Mihaela

*The Bucharest Academy of Economic Studies*

[mihaela.botea@yahoo.fr](mailto:mihaela.botea@yahoo.fr)

Sahlian Daniela Nicoleta

*The Bucharest Academy of Economic Studies*

[daniela.sahlian@gmail.com](mailto:daniela.sahlian@gmail.com)

## Abstract

*The appearance and evolution of insurance were strongly connected to the development of the society. Each evolutionary stage had a strong impact on insurance regardless of the activity field (life insurance, commodity insurance, and so on). Insurances and accounting have evolved simultaneously. This thesis points out the most important moments in their evolution, globally and locally. Nowadays, accounting has developed a new, specialized branch dedicated to insurance – actuarial accounting. In Romania, this branch adopted the IAS/IFRS.*

**Key words:** Insurances, accounting, IAS/IFRS perspectives

**JEL Classification:** M41, G22

## 1. Introduction

The society development was influenced by the people's effort and endeavor concerning their own fortune and protection in front of different events able to destroy their existence and even their evolution.

At the insurance origin are human being's protection needs and solutions found in order to create the most appropriate ways to manage all risks. It's impossible to say when insurance's origins are. In some sense, we can say that, „insurance appears simultaneously with the appearance of human society”.

Talking about accounting's origin we can affirm these were directly affect by private propriety's birth, by money's development and, last but not least, by the growth of the commerce market. Politics, trade, money, and credit are all of them stimulating accounting development.

The history of accounting is as old and fascinating as civilization, among the most important professions in economic and cultural development. The role of accounting in the ancient world is coming into clearer focus with new archaeological discoveries and innovative interpretations of the artifacts. It is now evident that writing developed over at least five thousand years—by accountants.

## 2. Insurances and accounting origins

The roots of insurance might be traced to in Egypt, where, around 6500 BC, the stone cutters developed a mutual fund in order to cover all community damages generated by disasters. early methods of transferring or distributing risk were practised by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC, respectively. Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC, and practised by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

The concept of the 'general average' was invented by the inhabitants of Rhodes around 800 BC. Merchants whose goods were being shipped together would pay a proportionally divided premium which would be used to reimburse any merchant whose goods were jettisoned during storm or sinkage.

The Greeks and Romans introduced the origins of health and life insurance c. 600 AD when they organized guilds called "benevolent societies" which cared for the families and

paid funeral expenses of members upon death. Guilds in the Middle Ages served a similar purpose. The Talmud deals with several aspects of insuring goods.

Accountants participated in the development of cities, trade, and the concepts of wealth and numbers. The Babylonians were the first to use "accounting books" tablets, which represent a summary document of inventories or transactions and contain additional explanatory markings. With stylized signs all information could be recorded directly on the tablets, eliminating the need of tokens (small clay balls).

Later in Greece in Delos, Olympia and Delphi the priests regularly used the inventory, the balance sheet and some other reports in order to manage the temple's fortune.

With the growth of towns and trade in Europe, the medieval guilds undertook to protect their members from loss by fire and shipwreck, to ransom them from captivity by pirates, and to provide decent burial and support in sickness and poverty. By the middle of the 14th cent., as evidenced by the earliest known insurance contract (Genoa, 1347), marine insurance was practically universal among the maritime nations of Europe. In London, Lloyd's Coffee House (1688) was a place where merchants, ship-owners, and underwriters met to transact business.

Italian merchants developed commercial ties throughout the Mediterranean. With the Crusades, beginning about 1000 AD, demand for exotic Eastern goods developed and Italian merchants expanded trading ties throughout Europe. The most successful merchants developed complex trading relationships across Europe and into Asia, which required money and credit and improved accounting methods. Evidence suggests that double entry bookkeeping developed in the Genoa-Venice-Florence area in the 1200-1350 period, part of a vast commercial revolution. Accounting records of several companies indicate complete double entry accounting. Luca Pacioli Franciscan monk and mathematician, published *Summa de Arithmetica, Geometrica, Proportioni et Proportionalitate* in 1494. It was a summary of existing mathematical knowledge of the time and contained a section on "Details of Accounting and Recording" that described bookkeeping as used in Venice. Pacioli's *Summa* was the first complete description of double entry bookkeeping.

In Romania the roots of insurance might be traced in Transylvania in the XIV century where the first mutual protection associations appear, created by different manufactures in order to cover for fire damages and even life insurance. In Brasov in 1744 several small organizations founded "Casa de incendiu" – "Fire house".

Talking about a real Romanian insurance association, it was also created in Brasov in July 1848 "General institute for life annuity". This association offered all members, regardless of religion or nationality, a life annuity.

## 2.1. Insurances evolution during 1871 - 1948

This period was a very important one for insurance in Romania, through the fact that:

- in March 1871, through a High Princely Decree, the first Romanian insurance company, DACIA, was funded having a corporate funds of 3 million lei. In 1873, a second insurance company was funded, ROMANIA, having a corporate funds of 2 million lei. These Romanian insurance companies had as funding members and administrative council members important figures of the politic, economic and social scene of the age. In 1881, the two Romanian insurance companies merged and created a sole company, DACIA-ROMANIA, which became a strong company. As a consequence of the creating of these insurance companies and development of the local insurance market, one by one the foreign insurance companies started retreating, giving up their portfolios to the Romanian companies

- the laying down and publicating of the balance sheet in insurance were attained according to the norms provided in C. com. for anonus societies, completed with special norms elaborated by the legislator for this activity field. This settlements were attached to the content of the law from the 7<sup>th</sup> of July 1930 and developed the following aspects:

- The corporate funds and reserves were presented as distinct posts in the liabilities;
- The debtors and creditors were enlisted separately in the balance sheet, accounts compensations were not permitted; this represented one of the most important dispositions regarding the balance sheet, by which they tried to eliminate the enterprises practice of compensating the account receivables and debts in order to make

proof of a better liquidity; furthermore, the dubious account receivables had to be booked in the assets together with the corresponding amortizing;

- in case of added value of the titles or goods, the difference appeared separately in the assets, with the specification of making a fund for currency fluctuations in liabilities, so that the added value isn't an achieved profit and, consequently, should not affect the result;
- constitution expenses were amortized in one year, with the specification that article 37 forbade the distribution of dividends bigger than 5% before the writing-off of the constitution expenses were amortized.

## 2.2. Insurances during the communist period 1949-1990

After the nationalization, in 1948, the insurance companies went in the property of the state with all their assets and liabilities, and the public insurance institution were also entered in the new structures of the planned economy.

The insurance sector has gone through a transfiguration, transformation period, some of them being positive others imposed by the monopole quality which the state imposed. A first step was made in 1948 when the insurance companies were nationalized and passed on to the property of the state. Their entire portfolio and technical and mathematical reserves were passed on to the Sovromasigurare Soviet-Romanian insurance company.

In 1952 an integral Romanian capital was made, State Insurance Administration - ADAS, company which was specialized in insurance, reinsuring and damage commissariat activities. ADAS has continued its activity under the general governance of the Ministry of Finance, according to certain decrees specially issued for it. The only things established by ADAS were the risks submitted in reinsuring, the limit of own and the conditions for reinsuring.

The year 1949 represented the transition to standardized accounting and the development of the first chart of accounts in our country. Accounting's adapting to the informational requirements of the planned economy, especially regarded the soviet experience. This is why, at the beginning of the 50's accounting works of Russian authors were translated and turned into Accountancy textbooks, which represented the theoretical basis for the development

of a new accounting system. Accounting's standardization was only assured by the state, through the Ministry of Finance which introduced clear accountancy norms. Accounting was considered a control tool of the plan execution and protection means for the integrity of the property of the state. A first step towards the standardization of accounting was elaborating a general accounts frame, from which chart of accounts detached, differenced through the activity branch. At the same time, norms regarding the booking in accounts technique were settled, being adapted to the decimal system which assured the rationalization of accounting booking. Accounting was organized in a sole informational circuit (accounting monism), closely following the production function of the enterprise and the calculus of the overall costs.

## 2.3. A new age of insurances 1990 – 2002

When the market economy is adopted, the insurance sector will also start undergoing a deep transformation process. After 1990, important legislative changes have appeared which led to the ousting of the state monopole, the apparition of several insurance companies and the settling of the competitive climate on the Romanian insurance market.

The dereliction of the centralized economic system and the orientating towards the economy market generated a big crisis between the new economical reality and the old ways of representation and shaping which existed in accounting. Romania's transition to the economy market enjoined the adoption of a new accounting law, which corresponded with the new conditions specific to the new free economy, a competitive one. During the centralized economy we did not have an accounting law, but norms elaborated based on the Decisions of the Council of Ministers and norms adopted by the Ministry of Finance, in its quality of sol accounting norm setter. In the interwar period a public accounting law existed. Thus, the accounting of the private enterprises was not submitted to settlements coming from the state, but, as mentioned above, it was under the incidence of the stipulations of the Commercial code, which established the liability for dealers and the other persons that used commerce paper work, to keep the accounting registers. Due to these circumstances, in 1991 appears the Law no.



47, concerning the constituting, organizing and functioning of the incorporations in the insurance field. This Law stipulated the fact that in Romania the insurance activity was done through insurance companies, insuring-reinsuring companies and reinsuring companies and as well as intermediating companies (intermediating agencies). According to the Law, the companies activating in the insurance field, could have been constituted as a joint stock company or as a limited liability company.

After 1990, on the Romanian insurance market, a large number of insurance intermediation companies have appeared (over 800 activating companies by 2000), which acted like agents and also as insurance brokers (in fact, only a few companies were insurance brokers).

In 1994, by the initiative of thirteen companies, the National Union of the Insurance and Reassurance Companies in Romania<sup>1</sup> was funded. Nowadays the National Union of the Insurance and Reassurance Companies has 21 insurance and insurance-reassurance companies as members.

By the appearance of Law 32/ 2000, the Insurance Supervision Commission was founded. The commission was an independent, self-contained organism, being financed by the insurance companies, having the role of settling and supervising the insurance market. The Insurance Supervision Commission is led by the Insurance Supervision Commission Council, consisting of five persons (a president, a vice-president and three members).

### 3. Insurance accounting's tendencies

#### 3.1. The opening of insurance accounting towards the European Directives

In the past decade, in Romania accounting in the insurance field was treated like an extension of the financial accounting. The specific elements of this field were maintained in predefined templates, created to register the financial situations and performances of certain companies with financial or industrial activity and too little modified in order to apply to the insurance requirements. Thus it got to the point where the specific income and expenses for

this activity to be presented in only two accounts, which were "Income from the insurance and reinsurance activities" and "Expanses with the insurance and reinsurance activities", and the technical reserves, which represent a major component of an insurance company, could only be found under the "Other reserves" category.

The above presented situation completely changed starting with 2002, with the approaching of the Romanian accounting to the international one, manifested in the past few years, has also included the insurance activity.

The new accounting settlements, harmonized with the European Directives, were specially created for this activity field, and more precisely Order 1187 from the 25<sup>th</sup> of December 2005 "Accounting settlements in accordance with the European directives specific for the insurance field" which had applicability starting with the 1<sup>st</sup> of January 2006. They include an accounts plan specific for insurance, in which the income and expenses from the insurance and reinsurance activities are found in distinct accounts, an entire class for technical reserves accounts, a particular set of financial situations – balance sheet, a profit and loss account (a technical account for life insurances and also a non technical account for general insurance), the situation of treasury fluctuations, the situation of the modification of the company's own capital and the explicative notes of the annual financial situation.

In the European Union (EU), there are two types of accounting settlements which can be applied in the insurance field:

- Accounting Directives: Directive 91/674/CEE concerning the annual accounts and the consolidated accounts of the insurance companies, the 4<sup>th</sup> Directive (no. 78/660/CEE) concerning the annual accounts of certain types of societies, the 7<sup>th</sup> Directive (no. 83/349/CEE) concerning consolidated accounts;
- The European Commission's (EC) Regulation no. 1606/2002, which submits the liability for the application of these IFRS adopted at a community level, by EC regulations in order to lay down the financial situations consolidated by the quoted companies, starting with the 1<sup>st</sup> of January 2005.

In what concerns the putting in practice of Regulation no. 1606/2002, in a first stage at an EU level all the effectual international standards

<sup>1</sup> the National Union of the Insurance and Reassurance Companies in Romania = Uniunea Nationala a Societatilor de Asigurare si Reasigurare din Romania (UNSAR)

except IAS 39 (which was adopted with some modifications considered temporary and exceptional) were adopted. The strategy published by CSA has the purpose of explaining the process which will be continued in view of the application of the stipulations of the Order of the Minister of Public Finances no. 907/2005, according to which insurance companies just like public interest entities, can also lay down a set of financial situations in accordance with IFRS and of Regulation no. 1606/2002 according to which quotable entities must apply IFRS when laying down the financial situations consolidated in the period following the 1<sup>st</sup> of January 2007.

### 3.2. A new approach of insurance accounting from the IAS/IFRS perspectives

According to the strategy concerning the implementation of IFRS in the insurance field, approved by the CSA Council on the 3<sup>rd</sup> of October 2006 (“The Strategy”), starting with the financial exercise of the year 2007, insurance companies that are not quoted on a regulated market or that are in process of marking in the day of balance sheet and lay down consolidated financial situations, will lay down this financial situations in accordance with IFRS. For the financial exercises of the years 2008 and 2009, all the companies in the insurance field, regardless to whether they are or are not quoted on a regulated market, have to lay down annual and consolidated financial situation in accordance with the IFRS as a second set of financial situations, for the information exigency of the CSA, the marker and other users. Starting with 2010, depending on the results of the evaluation of the effects concerning the application of the IFRS and the requests and evolution registered at an EU level, the companies in the insurance field are going to lay down annual and consolidated financial situations in accordance with IFRS as a single set of financial situations.

The adopting of the IFRS determines a major change of the accounting language for the insurance companies in Romania as well as for the consultants on accounting matters, the AUDITORS, the analysts in the financial accounting field. The transition towards IFRS will not only regard the accounting field, but will have bigger implications from the basic activity planning to the company’s strategic management.

The adopting of the IFRS implies:

- A new performance evaluation system,
- Improving the quality of information intended for management in order to take the best decisions,
- The increasing of competitively, and last but not least
- The changing of the entire reporting base.

For investors, the implementation of the IFRS will lead to an upbringing in the credibility of the information presented by companies, a better understanding of the risks and benefits and through assuring a comparability of the financial results of companies in the same activity field.

IFRS are based on principles and impose new responsibilities to those that lay down the financial situations; because of this the companies that will use IFRS will have to apply accounting principles according to how were they emitted, as a condition to attain transparent financial and of a high quality reports.

For companies in the insurance field, IASB decided to introduce a specific standard for this field, process which will be realized en route of two stages. IASB conceived **phase I** as an essential moment in the attaining of the final standard. During the first phase there will not be a comprehensive and final standard for the insurance field, the applicable principles that are those provided by IAS 32 “Financial instruments: presentation and description”, IAS 39 “Financial instruments: spotting and evaluating” and IFRS 4 “Insurance contracts”.

For the requirements for stock and insurances capacity improvement to be ensured, there must be applied the accounting principal that are prudent and relevant for the suitable decisions. When we talk about prudence, the accounting principles refer, at least, at the following:

- the evaluations must be performed so that the information’s credibility to be ensured
- when certitudes exists (including the use of accounting estimation), they must be recognized and evaluated
- prudence must not lead to a deliberated over evaluation of the debts

The basic IFRS characteristics for the insurance are:

- the actives and the financial debts are managed according IAS 39
- the insurance companies will only apply the IFRS that are demanded. The IFRS referring to insurance contracts will be only applied for those (including reinsurance contracts). As the IFRS 4 puts it, the definition for the insurance contracts is one of financial substance not a legal one. An insurance contract is “a contract through whom the insurance company accepts a signifying from one part ( the insured ), agreeing to compensate the insured in case a future insecure specified event ( the insured event) will affect in a negative way the insured.” The insured is defined as being “the part how has the right to compensation in an insurance contract if an insured event appears.”
- An insurance risk is “a risk, different from the financial one which is transferred from the contract owner to the insurer.”
- A financial risk is “the risk of a possible modification of one or more rates of the specified interests, prices of the financial instruments, prices of the merchandises, of the exchange rate, of the prices or rates index, of the credit index or other variables. The only condition is that the non-financial variable’s modification must not be particular for one of the signing parts.”

The second Step has a lot in common with the finalization of the Solvency II model. The

#### 4. Bibliography

- Epstein B.J & Mirza A.** (2005) IFRS 2005 – *Interpretation and application of IAS / IFRS*, București, BMT.
- Cenușă G., Burlacu V.** – *Mathematics for insurance*, Ed. Teora, București, 2000.
- Ciurel V.** – *Insurance and reinsurance*, Ed. All Back, 2000.
- Daykin C.D.** – *The Developing Role of the Government Actuary’s Department in the Supervision of Insurance*, vol.119, part II, no.473.
- Daykin C.D., Pentikainen T., Pesonen M.** – *Practical Risk Theory for Actuaries*, Chapman&Hall, 1993.

European Commission wants to revise the insurance solvability requirements for the European Union, to improve a set of aspects especially in what concerns the more subtle approach towards the risks profile. The construction of a single market needs the creating of a coherent and operative system to monitor the societies insurance solvability in the European Union. This system will need to respond to the challenges represented by the growing competition, the continuous integration of the stock markets, the stronger development of the financial mixtures, to the new distribution channels, etc. From this point of view, we can say that the Romanian insurance market made a big step in the last years, quantitatively and qualitatively speaking. A legal frame had evolved, frame that is compatible with the European laws regarding solvability, the professional calcification requirements, the implementation of risk management procedures, of intern control, comporting governance and, at the same time, to consolidate the supervising authority. As a result, the insurance companies will need to assign a bigger attention to supervising the business risks and the financial results that they obtain, because this can have positive or negative effects over solvability.

**Dobrin M.** - *Insurance accounting*, Ed. Bren, București, 2005.

**Gart A., Nye D.J., Harrison C.M., Gibbons R.J.**, - *Insurance Company Finance and Investments*, Insurance Institute of America, Malvern, Pennsylvania, 1994.

**Murray A, Gohil H., Buckley K., Burke J.**- *Mind the GAAP: Fitch’s view on Insurence IFRS* –Special report Fitch Ratings, may 2004

\*\*\* Accounting reglemantations concerning insurance domain

<http://www.cea.assur.org/>

<http://www.actuaries.org/>

<http://www.jia.com/>

[http://en.wikipedia.org/wiki/Insurance#History\\_of\\_insurance](http://en.wikipedia.org/wiki/Insurance#History_of_insurance)

## Profitability of the Credit Institutions within Actual Context Financial Economical Crisis

University Lector Doctor Bratu Silviu Marius  
University Lector Doctor Bratu Alina Ramona  
*University "Spiru Haret" Constanta*  
*bratusilviu@yahoo.com*

### Abstract

*Profitability represents one of the clue sources of the capital development, a relevant indicator of the competitive position for a banking institution and its management quality, that permit to a bank to maintain a certain profile of risk, offering protection towards the problems on short terms, being known the fact that a healthy banking system is built on profitable banks with an adequate capital.*

**Key words:** profitability, banking system, financial economic crisis, credit institutions

**JEL Classification:** G2, G20, G21

### 1. Introduction

Getting of some increased performances represents the major objective of all actors, participants at economical activity.

Selecting the best measure viewing the performance purpose of all entities, implicitly also those of the credit institutions, represents a challenge for different users of the financial situations.

This way, the owners want to know the value of property, besides the managers' capacity of the entity administration in order to create value. Members of the administration councils want to evaluate the quality of the administration and to conceive remuneration contracts which translate the bank strategic objectives.

The managers have to transfer their leading politics into concrete and measurable indicators. The creditors want indicators able to demonstrate the crediting institution capacity to generate future treasury fluxes necessary for debts reimbursements.

### 2. Content

For performance evaluation of a business it should be looked for modalities through which are possible to measure financial and economical consequences of the historical management decisions, referring to investments, financial operations. The main questions at which we have to answer are: if the resources are efficiently used, if the entity profitability is at the expected level and if financing options are prudently and correctly selected. At a general view, *profitability represents the main criterion in appreciation of the crediting institution performances.*

Profitability of a crediting institution can be defined as its capacity or its potential of getting profit after payment of all expenses. It can be measured being based on the used capital, positive cash flux and the report between net profit and selling. *Profitability represents the main criterion in appreciation the performances of economical entities.*

One of the clue sources of the capital production is represented, without any doubt, profitability of the crediting institutions, under the shape of the reported profits. An essential condition as for a banking system to be healthy, represents the component in its structure of some profitable banks, capitalized adequately. Viewing to establish the competitive position of the bank on the banking markets, besides its management quality there is used as relevant indicator "profitability". This permits to crediting institution to preserve a certain profile of risk and offers protection towards the problems on short terms.

Banking performances and their analyse are very useful to investors, societies which ask for a credit, the average deponents or business men who have stabile relationships and of great evolution with a certain banking institution. The performance can be defined as being the measurable level of stability of a

bank activity, characterized through reduced levels of all risking categories and a general tendency of the profit, increasing it from a period to another.

Capacity of making profit is one of the most dynamic components of the factors which influences the strategy of an entity, and can be measured through efficient economical-social indicators and those of profitability. Accountancy dimensions of the performances are extracted from the banking account results. This puts into evidence the winning sources of a bank, the quantity and quality of these, besides the quality of the crediting portfolio of the bank and concentration of its expenses. At the same time, the structure of the loose-profit account admits getting of an assembly image regarding the business of a bank. Characteristic of a bank is the fact that, in a traditional mood, the major income banking source has been constituted in calculating interests, but, more and more, at the present moment they are orientating themselves towards non-traditional activities getting incomes, that are also reflected into the profit-loose account. So, as an example, the incomes from transactions operations, investments and incomes based on commissions have begun to have a significant preponderance into the results of the modern banks.

The concept of profitability is not associated in a special way to the banking domain. Analysis of the profitability measure nature, determination of the economical-financial indicators or instrumentation of some modalities for profit planning represent components of the economical management components as a general view whose main task is realization of profit. Profitability represents one of the clue sources of capital generating, a relevant indicator of the competitive position of a banking institution and that of its management quality, that permits the bank to maintain a certain risking profit, offering protection towards the problems on short terms, being known the fact that a healthy banking system is built on profitable banks, capitalized adequately.

Profitability of a banking society may be influenced of some factors. One of these, that produce modifications into the structure and establishment of banking profits, is represented by the obligatory reserves, motivated at their turn by the legal capital requirements and the measurement of monetary politics. Having in view to maintain the confidence into the banking system, crediting institutions are

obliged to respect certain minimal requirements of capital.

In conditions in which certain activities and assets suppose smaller capital require, the banks will have the tendency to modify their business in the favour of these, but, because these have a smaller risk the brought profits by these will be inferior. It should be taken in view the fact that the existence of some minimal obligatory reserves, besides the existence of some legal requirements of excessive liquidities will have a harmful effect on the results.

Another major factor that influences the profitability of a crediting institution, besides the political business options of this, is fiscal taxation. This influences the competitiveness of the diverse instruments and segments of the financial markets. So, as an example, the taxation of the incomes from interests, combined with non-taxation of the capital wins, can make the deposits less attractive than proper capital investments.

As an effect, the banks adjust their business and politics decisions in order to minimize the taxes to be paid and to profit at the same time of the eventual "gates" in fiscal legislation. Above all the level and transparency of the profit taxation, the clue domains that should be in view at evaluation the business environment and that of the bank potential profit are if/how are taxed non-realized profits and incomes from interests, and if there are admitted, or not the provisions ahead of taxation.

In certain cases, inflation can increase operational costs of a bank faster than its incomes. Marking the assets values at the market requires recognizing of the wins, non-realizes as incomes, because these incomes are going to be cashed; this aspect can influence the quality of the profits.

Taking into consideration the fact that the tolerance with which the banks operate is traditionally a little one, any change into the level rate of the interest will generate modifications of the gross profit percentage.

The evolution of the markets which traditionally constituted the unique domain of the banks led to these opening towards other institutions that became competitors to the banks. At their turn, these also modified and diversified their activity portfolio on other non-traditional markets, reason for which these do not fulfil any more a simple intermediary role, respectively of accepting deposits and awarding credits. An analyse on profile structure of the banking institutions in the most

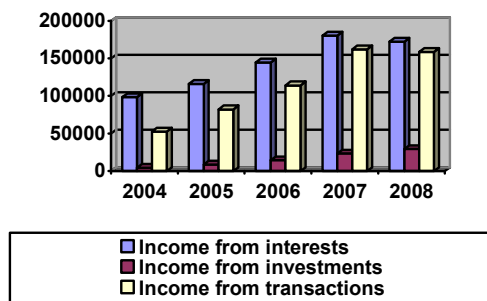
developed countries relieve the fact that traditional banking activity is only profitable as while as it is seen from the margin. And the incomes from other sources have become a significant contributor of the result.

Between the incomes that contribute to increasing of the banking profit we can especially remind, incomes from commissions, besides those from activities based on transactions with titles. Changing the profile structure of the banks has as an effect profitability melioration without majoring the traditional crediting risk, which results from crediting portfolios.

Within profitability analysis should be started from the consideration of the income structure of a bank and the components of this these. The analyst will pursue the tendency of this evolution over the observing period of time.

In the figure nr.1 we have presented the way in which the bank incomes are created within a period of 5 years (2004-2008).

Figure 1 – Banking Income Structure x



From the diagram analysis there can be determined the quality and profit stability of a bank, besides the sources of this and modifications intervened in their structure. One can easily observe that the incomes from transaction and from banking investments have become a more and more important contributor within the total of incomes, while the income contribution from interest was diminished.

These tendencies require an analysis to be profoundly made, because within normal conditions incomes from investments are less stabile than incomes from interests. An explication of this tendency could be that there were done adverse modifications within macro-economical environment or those of the banking market, what could offer determined reasons of such an orientation. There has also contributed to this orientation the fact that profitability of investments has been greater

and greater in comparison with profitability of the borrowings.

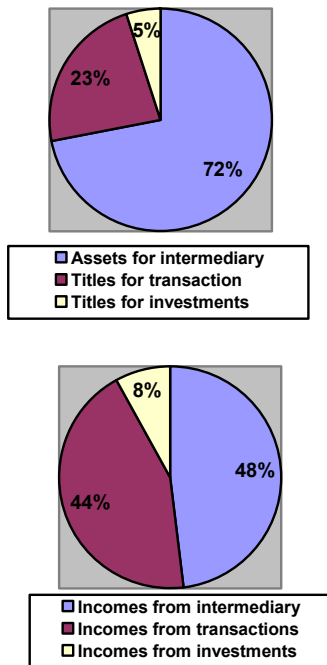
There exist two ways for profitability estimation and that of the risk within aleatory environment using selected hypotheses of work:

- there is considered that the past time is a mirror of the future. From the multitude of profitability anterior registered into similar investments there is distinguished an average. This central tendency has the greatest chance to be also registered in the future. Considering that, in the future the conditions of exploitation remain non-modified (or they modify themselves in a non-significant way), we can admit without making any mistake, that the average deviation of the future profitableness towards the central tendency will be the same or in any case, very appropriate of that anterior registered. The two measurements of the anterior performance, the average and the average deviation will constitute pertinent estimators for profitableness appreciation and the risk of new capital investments;

- the second way is researched for non-similar investments to those presented anterior (new produces, new markets) or for exploiting conditions modified substantially (new technologies, variations of the economical increases, inflation etc). Within these conditions, the experts in the economical previsions will identify different states of the future economical nature (optimistic, stationary, and pessimistic) and they will look for the best estimation of the cash-flows for these possible states. There will be extracted from these a hope of profitableness (having the greatest realization probability) and a “hope” of future profitableness deviations towards the central estimated tendency.

In order to get an answer at the fact that investment profitableness have been greater and greater compared with borrowing profitableness it should be realized a comparison of the income structure and the structure of the assets. This could offer conclusions regarding the quality of the assets management.

Figure 2 – Assets Structure Versus Income Structure



In the figure nr. 2 we have realized the comparison of the way in which are made up diverse asset categories with those of the gross incomes. The comparison has as a purpose the exact determination of the modality in which are engaged the bank assets and if the general incomes are, or are not measured with major weight in assets engaged for each category of assets ( with other words, they are incomes got at the place where the energy is consumed ). A normal situation is represented by the case in which the assets are engaged in categories of products which generate the greatest incomes at an acceptable level of risk. A similar analysis can be made having in view identification of the credit categories that bring proportionally reduced efficiency.

Making an analytical comparison of the expenses groups with interest with the debt connected debts categories there can be put into evidence the presentation of a bank towards specific financing sources, besides if there took place changes within the structure of its financing sources.

Within a system with an intensive concurrence, the banks cannot afford to offer produces or business services insufficient profitable. International banks and financial conglomerates, especially, should establish explicitly the exact contribution of their constituent parts through a good organization of their functions.

An evaluating frame of the performances for banking institutions comprises a number of elements like: an organization able to permit a clear allocation of the incomes and expenses on units of activities, in a close report with different business and/or produces and/or market segments lines of a certain bank, an internal system of establishing the transfer prices in order to evaluate the contribution of the diverse units of activity to the result, and efficient means and consequent of incorporation of the respective risk elements within the performance evaluation frame. At the moment in which there are known the net contributions along lines of activity, produces or markets there is possible to establish clearly which are the client segments the most promising and which produces should be analysed regarding their capacity to generate incomes.

The profit represents the final result which reflects the net effects of the politics and activities of a bank in a financial exercise. Stability and its increasing tendencies are the best synthetic indicators of a bank performance, both in the past and in the future.

For economical and financial state evolution of the banks, there can be used a system of banking performance indicators which should have in view[1]:

- a. net tolerance of the interest;
- b. profit rate;
- c. rate of the assets utilization;
- d. rate of the economical profitableness;
- e. equilibrium effect;
- f. rate of financial profitableness.

Also, for profitableness evaluation of the banking institutions we might have in view: intermediating tolerance, average profitableness of the proper capital (before and after taxation), dividends as percentage from the net incomes after taxation and so on.

All indicators under observation along a time period for establishing the tendency of profitability. Analysis of the modification for diverse indicators in time express modifications of the politics and bank and/or its business environment.



### 3. Influence of the Financial Crises on Profitability of Credit Institutions.

At the actual moment the profitability of the credit institutions is strongly influenced by the financial crisis released into American space which gradually comprised the whole world. The crisis changed fundamentally the behaviour of companies, of the banks or advocates, leading to diminishing of the investor implication for real initiatives on real estates, capital markets or financial projects.

As a crisis effect everybody postpone as much as it is possible the taking of a decision within conditions of a great volatilization of the macro-economical parameters, legislative frame, etc.

Specific, the banks have suddenly become hyper-prudent, the buyers – obsessed of the adequate prices at the immediate risks.

Release of the financial crisis has been produced at the same time with colossal Lehman- Brothers bankruptcy whose effect could not be provided by Bush administration. The gravest consequence was that the banks, seeing that, indifferent of the greatness and the weight of danger they can succumb any days, they lost their confidence each other, becoming extreme of suspicious ; who knows what dangers watch in the neighbour bank and if the borrowed money are under the danger to be lost. Inter banking credit, a very large instrument used in the past, was hanged up.

The banks do not borrow between them any more, when they have liquidity discomforts, they cannot satisfy the client cash requirements in economy. The stocks they still had at hand, put them at the central banks, there where money are not lost.

Companies and banks develop due-diligence activities over this period as control instruments. On the other side the banks want to assure themselves of the fact the there will not be met difficulties of the crediting return on behalf of the clients, and the companies analyse other variants to attract liquidities. They also re-negotiate contracts for smaller interests. On real estate, within this period, activity is orientated towards hire re-negotiation. There also exist cases in which companies or physical persons who purchased lands, give them up to the banks, because they do not have any more financial means to start constructions on those lands and neither funds to be able to return the credits.

The value of these lands mid while knew a considerable reduction, so that the banks

recuperate, in some cases, only partially from the awarded credit values, this fact having a direct effect on their profitability.

It is also a solution used by banks over the crisis period to re-structure the debt credits.

In the frame of this programme the banks had an approach directed towards the clients who had an orderly behaviour regarding the payment of obligations, but who after October-November 2008 began to report delays. So, the banks divided the affected by crisis clients in three categories:

- those who are also entered into the crisis;
- those who have great rates;
- those who have incomes in a diminished trend.

The management of the banking institutions adopted the following solutions:

- awarding of a waiting period ( for unemployed clients);
- awarding of a period of diminishing the payments ( for those who have greater rates);
- extending the crediting period ( for those with smaller incomes).

The last analysis made on banking system shows that great European banks will register, probably, both in the year 2009, and 2010, substantial loses. The main impediment in the way of economies revenues is given by the hard conditions of crediting which in this way limit awarding of borrowings and implicitly the funds circulation. In the case in which the crediting will not be retaken there exists the risk as the economical increasing level to remain non-significant or even to enter a new recession.

The banks play in this way a special important role in the process of overtaking the crisis, because the collecting of a capital and awarding of much more credits may contribute to the end of the financial crisis. Evidently re-taking of the crediting will have a positive influence on profitability of credit institutions.

### 4. Conclusions

It can be stated without doubt that profitability represents the main purpose of any credit institution. It is one of the clue resources of the capital generation. The profitable banks make a healthy banking and sustainable system.

Evaluation of the performances and implicitly the profitability of banking institutions are made through indicator system



of banking performance, whose tendency should be pursued in time.

Financial crisis has affected in an unprecedented way majority of the world economies, and within these frame the credit institutions played an important role. The crisis release itself started from the bank Lehman-Brothers bankruptcy, a bankruptcy that released ulterior like in a domino play other American banks or in other countries.

At the present The United States of America seem to be appropriate to the final of this crisis, but our country will have much time to wait until national economical reestablishment.

## 5. Bibliography

- [1]. Vasile Dedu, *Administration and Banking Audit*, second edition, Ed. Econ. Bucharest, 2008;
- [2]. Hernnie van Greuning, Sonja Branjovici, *Analysis and Banking Risk Management. Evaluation the Corporatist Government and Financial Risk*, Translation authorized by the World Bank, Ed. Institut IRECSON, Bucharest, 2004;
- [3]. Ion Verboncu, Michael Zalman, *Management and Performances*, Ed, University, Bucharest 2005.

## The Order Method – a Calculation System Used in Constructions

Breuer Adela , univ. lecturer, PhD St.  
*Eftimie Murgu” University of Reșița, Romania*  
 Lesconi Frumusanu Mihaela, univ. tutor, PhD St.  
*Eftimie Murgu” University of Reșița, Romania*  
 Ciurea Jeanina Biliana, univ. lecturer, PhD St.  
*”Eftimie Murgu” University of Reșița, Romania*  
 E-mail a.breuer@uem.ro

### Abstract

*The choice of the best production cost calculation method is a decision that must be taken performing a very clear distinction, the two notions being frequently confused as being the same thing, the cost expense respectively.*

*The construction production makes no exception to the rule, especially since the construction process is very complex, and documents used in tracking and determining the costs are specific to this sector of the economy. In this scientific approach we will start from IAS 11 “The construction costs” and the legislation in Romania which try to match the standards, but, unfortunately, this attempt remained only on paper because in practice the companies from the construction field work as they consider best. The units within the construction field use the order calculation method because through the specific of this construction activity, this method suits best.*

**Key words:** consumption, costs of administration, production of construction, development.

**JEL Classification:** M1; M11; M20

### 1. Introduction

The success of any business depends on management, and the building is no exception. A proper management and a good strategy is the way to secure the success of that activity.

The most important element in a long time pursued by managers due to continuous and rapid development of society is time. A specific element of time management is to

define activities necessary to achieve the objective building, defining what should be done by identifying specific activities aimed at achieving the elements of the organization activities. The main instruments used for determining the sequence of activities are: network graph with the activities represented in the network nodes (method METRA), network activity graph represented by arrows, diagrams conditional method (method GERT) and standard graphics.

For the proper execution of the projects the managers are shown the following methods of programming: Gantt chart, critical path method (CPM), graphical method of evaluation and update of the program (GERT), technical evaluation and review of the program (PERT).

In the sector of the construction activity, management of construction works involves the planning, development, design, monitoring during implementation, the final construction, maintenance and ultimately, reconversion.

Throughout the period of the construction project implementation, another issue of major importance followed by managers is the correct accounting of costs and revenues forecasted to be completed following the execution of construction works.

The main problem in the case of accounting management for accurate tracking of costs and expenditure is the demarcation between cost and expense.

Some authors talk about the substitution of the cost with that of the production expenditure “to avoid confusion between the concepts of cost and cost of production”[4].

A correlation between the cost and expense is given by the following statements: “expenditure is a materialized and living labour consumption expressed in money

generated by some economic processes or social – cultural activities,” and cost “an economic category expressing in money, the costs of living and materialized labour expenditure performed in order to purchase or manufacture and sell units of goods, works or services rendered by an enterprise”.

To demonstrate the link between cost and expense we will refer to the cost of production which is the total production costs incurred by an enterprise for production and dissolution in a period of time. Another demonstration that the costs and expenses are very close is given by the fact that most expenses are constitutive elements of the costs, such as some costs become expenses. (e.g. cost of consumables stocks)

As the cost is related to the consumption of factors that occasioned it and which, in order to be pursued and reflected, must have an account expression, the cost represents the account expression of all factors of production consumed in the production and distribution of material goods, works and services. To conclude, the costs consist of materialized and living labour consumption, expressed in value terms, consumptions, which form the production and distribution expenses incurred by the enterprise.

Looked from this point of view, the cost is a correlation between the expression value of expenditure to be carried out to obtain a production and its dissolution in a period of time and quantity of goods, works or services that form the production.

At the origin of the cycle of operation, accounting notes operating values flows, designated by the term expenditure supporting treatments adapted to management objectives. Accumulation of these expenditures on a good or service created by the undertaking gives a designated value through the term cost [3]. In the year the expenditures also include depreciation and provisions established [8].

The cost is the monetary expression of materials, labour and services necessary to achieve a determined economic objective[2].

Factors that determine the organization of management accounting and cost calculation are related to the profile and size, type of production and organization, the organizational structure, technological process, the production process, the degree of integration and the degree of

mechanization and automation of the production process.

The general principle of organization and execution of work of computer costs is determined by *the profile and size*.

How the construction units use the estimate as a method of calculating the cost, and how this is done using software for preparation of estimates, the method that fits, and which, moreover, is adopted at the construction method is the method based on the principle of centralization of data.

The second factor that influences the organization of management accounting and cost calculation is the type of production and organization of it. Under this second factor, businesses can be divided into three categories: [5]

- Enterprise with mass production;
- Enterprise with serial production;
- Enterprise with individual production.

Depending on the kind of production that has an organization, the management accounting and cost calculation is done in different ways. Thus, in the case of mass production is using the method of calculation phases. If it is about the individual production then the method used on products or product groups, and in the case of series production may use any of the methods mentioned above. It should also be noted that if individual output can be used on commands and methods that production is organized, tracked and managed according to the method of criterion related commands. Well can be used THM method, precisely because the production process is a large number and variety of machine tools.

## 2. The analyse of the problem

Activity of construction and assembly falls within the category of individual production, precisely because the main feature of the construction is the unique character that it has. This character does not refer to the physical form that takes construction when ready, but the uniqueness of the construction and assembly which are each building process.

Production of construction included in the production complex that calculation is the cost of production stages, according to estimates on calculation objects, the component currencies estimate the overall

cost is the final product called construction. Also, the calculation of final price includes the cost of installation, which, in construction case is called labour.

Specifics of implementation of construction works require that in the organization of cost calculation to be use the most appropriate method of calculation. Ensure a fair calculation is in turn conditioned by the proper accounting of production costs, required to provide dates necessary to track and calculate properly the costs of production.

Essential problems of the organization of calculation construction costs are: specifying calculation object, setting the unit of account, the choice of method of distribution of indirect costs, and choosing the method of calculation.

In the construction, object of calculation is what builds the subject: civil construction, bridge, road, etc.

If we talk about ancillary production that have the service department of the execution of construction works, then the object of calculation is, for example, the extracting of ballast, and concrete or mortar prepared by the company.

Setting the unit of calculation is based on the calculation's object, and may be in natural units, such as how many civil constructions are included in the construction contract, the number of cubic meters of cement produced in conventional units, such as the number of apartments in the project included, or value units.

Tracking the cost of executing the construction works is pursuing several indicators:

- overall production cost estimate is the cash equivalent of the work provided by the manufacturer to pay the beneficiary. Price estimate is that the resulting estimates of value, including the benefit of the contractor. The production of construction includes the organization site share that shall be levied from the beneficiaries;
- overall production cost is the sum of the planned costs that is planned for implementation of construction works. This is equal to the value of the planned price estimate, less the benefit provided and estimate reductions achieved or increased by the cost overruns from the estimate.

- global production on cost-effective includes all costs incurred in getting established on the basis of accounting dates, plus allowances of organizational development.

Because the works are conditioned to the estimate by category of works to be fully respected, determined that the cost structure of production in the construction industry on the estimate by category of work, thus reach the structure of costs production adopted in preparing the estimate of works and to highlight and calculating costs. In general, items of computer costs are:

- material
- labour
- equipment
- total direct costs, the sum of the three
- indirect costs
- costs for the organization of work site
- total cost.

a) Cost of raw materials and consumption materials represent approximately 55% -60% of total costs and reflect the expression value, the consumption of raw materials and materials, indicating the costs of supply and transportation to site. Also in this category include costs to transport equipment and technological equipment to the site.

b) labour costs represent a 18% -20% of total costs and include direct wages to the directly productive workers. In this category include costs and materials handling on site, the costs of handling equipment and facilities and increases the interruption to the work performed under the service or exploitation, and other increases directly related to construction activity and the amounts paid for time actually worked. Increases granted to staff increases for special conditions of employment, increases the construction site workers are not locals, increases in labour for work done in artificial light at night are part of the labour cost category.

c) costs include all equipment costs for operating machines and mechanisms for their construction, such as depreciation, transportation, installation, disassembly, spare parts, fuel and lubricants, incurred in the maintenance and operation, or the rent paid for equipment leased from third parties. Wages of direct workers, drivers and other workers used equipment, machinery and installations shall include all in the article "equipment costs".

d) indirect costs include costs of administration and management unit and other costs incurred in creating the conditions necessary for the execution of construction works.

Given their general nature, they can not be directly assigned to work at the time of publication, but indirectly to end management with the help of conventional calculations. Due to the particularities of the construction industry, the indirect costs are distributed differently than in other productive units. Thus, in construction, the indirect costs are calculated by percentage shares, shares that are otherwise subject to negotiation between the contractor and the beneficiary.

There are several categories of costs that, at first glance appear to be part of direct costs of production, but in fact do not fall into this category. Thus, service costs and supply of deposits formed on site, including staff salaries permanently serving these deposits (manipulator, downloaded, receptionist), not included in direct costs, but fall into the indirect one. Also in the fall and indirect costs due retributions directly productive workers, which do not relate to actual time worked, such as allowances during leave rest growth by age and other payments are made for time not actually worked. Direct wages staff works maintenance, technical revisions, current and capital repairs of fixed assets of general interest, are recorded in the category of "indirect costs".

Indirect costs are carried out on components, the main elements being: technical administrative personnel wages, depreciation of administrative buildings and fixed assets of administrative, bank interest, go for business, office costs, etc. .. In total production costs, indirect costs have a share of 12% -15%.

e) Costs of organizing work site have a share of 3% -8%, a share that varies depending on the nature of work performed. This article includes the costs of execution and acquisition of objects of organization development and construction costs immaterialized provisional and definitive constructions, including staff's wages involved in the work of organizing the site, as we see in this figure:

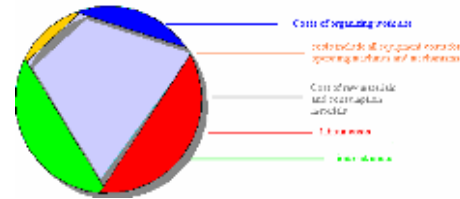


Fig. 1. Costs of organizing work

The method chosen for the assignment of indirect costs represent special importance for correctly calculating the cost of construction, the choice of sitting in nature and particularities of the works carried out the technological process.

The method of calculation is considered a "concrete technical organization of book production costs and sales, based on a sequence of specific steps and processes used to determine the cost per unit of finished product, work performed or service provided by a property"[4].

Another definition considers that "the method of calculation includes all costs of collection processes, where certain principles, costs incorporated places on costs, products, product groups, the works in a certain period of management (month, quarter, year) and processes leading to quantify these correlations between production costs and it has occasionally, in order to determine the full cost of production and per unit of product"[3].

Regarding the choice of method of calculation of costs, companies in the construction field from our country have opted for the method order. This method is applicable to industrial units with individual production or series, which at the end of the present management and production running, as is the case for economic units operating in the civil construction sector. Commands' method is customizes by:

- purpose of individual order is represented by the request of customer: in ante calculation subject of calculation is the final product, construction, and used in calculation is the command post against which collects direct and allocated costs indirect costs
- collected for each command in hand, costs can be analyzed separately;
- for each command in the special treatments are needed;
- the production process is not uniform, each command will has its route on

production, depending on the particularities of each command;

- production running varies from one period to another, depending on the stage in which the execution of construction works is;
- implementation duration is relatively long, being generally greater than one year;
- the main objective of the method is to determinate the profits for each command executed and evaluation of production in progress.

A command represents a property that is passing to the all stages of processing from execution to settlement. In general, orders issued for the implementation of a construction to start as stated in the technical project, preserving the characteristics and the technical details presented; launch any order requiring a time of preparation for the actual launching of the work.

Before issuing the order for implementation of proper control of construction works will receive a numerical symbol in the schedule command that is part of the book of orders. The symbol of an order contains more figures mean launch date order, but may also include other dates relating to command and make it easier to identify. In order sheet, are generally overlooked the following dates:

- number,
- description command: civil construction floor and attic floor
- the code assigned to that work: P + E + M
- start date order
- the technical details of the order : the work of organizing the site will be made in a time ... .., will use a number of ... .. workers, the equipment, machinery and plants used are ... ..
- the end date of order.

The next step is for the design, preparation and execution of programming work, draw up a list of rules of consumption of materials and raw materials and time, along with documents on the main inputs: the schedules for consumption and warrants to establish consumer cost of raw materials and materials consumed, receipts and salaries for the establishment of labour, is wages directly depending on the time worked, hourly rate, and the allocation of indirect costs to determine the rates of absorption in the final cost of work. Anticipated issuance of the documents listed above have the purpose and

level of compliance set out in the estimate ante calculated general works, the costs to have the most significant share in the cost structure and create prerequisites for referral during the overrun them. Method of calculation on orders presents two options: method commands in a short period of implementation, and method on orders under the contracts. The first type of calculation can not be applied to the execution of construction works, because one of the features of construction works is the period of time that takes place.

The types of contracts, depending on their negotiation, can be:

- fixed-price contracts, which are subject to escalation clauses for a price
- cot plus contracts are contracts with a percentage in addition to final negotiated percentage above with the beneficiary. In the execution of construction, the method adopted is that of fixed-price contracts.

Schematic[7], training cost when using the method of computer commands looks as follows:

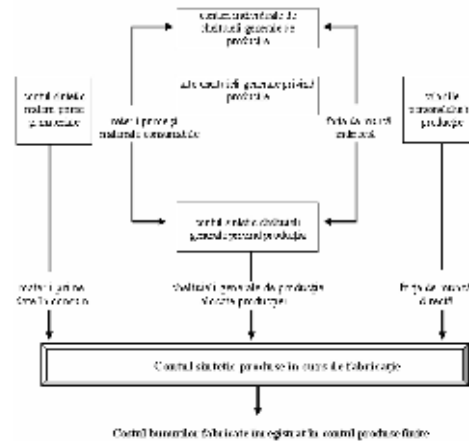


Fig. 2. Cost when using the method of computer commands

### 3. Conclusions

As you can see from the presented above, due to the advantages presented, method of calculation on the orders of the cost of construction works is best appreciated by units operating in this area, because the method is simple and not require a large volume of work. But like any other method and it has its limits, because accounting practice of constructions is very much

developing estimates additional consumption or to overcome the increasing price. Just for this reason, it would be better if accounting practice will try to use another method of calculation that allows the calculation of deviations from the consumption and thus, by using flexible budgets, to avoid the use of estimates for additional work.

#### 4. References

- [1] Baci, Costurile, *Organizarea, planificarea, contabilitatea, calculație, control și analiză*, Ed. Dacia, Cluj, 2001;
- [2] D. Chiron, Y. Lequin, *Comptabilite de l'entreprise*, vol.2, ED. SIREY, 1985;
- [3] M. Epuran, V. Băbăiță, C. Grosu, *Contabilitate și control de gestiune*, Ed. Economică București, 1999;
- [4] C. Iacob, *Contabilitatea gestiunii interne a unităților economice*, Ed. Certi Craiova, 1994;
- [5] Oprea Călin, M. Man, M.V. Nedelcu, *Contabilitate managerială*, Ed. Didactică și Pedagogică, București, 2008;

- [6] Oprea Călin, coordonator., *Contabilitatea de gestiune*, Ed. Tribuna Economică, București, 2002;
- [7] B.E. Needles, Jr, H.R. Anderson, J.C. Caldwell, *Principiile de bază ale contabilității*, ed. a V-a, Ed. Arc, București, 2001, p. 959.
- [8] O. Nicolescu, coordonator, *Abordări moderne în managementul și economia organizației*, vol.3, Ed. Economică, București, 2003;
- [9] M.F.P., *Reglementări contabile pentru agenții economici*, București, Ed Economică, 2002.

## The Views of Accounting – Management Relation

Budacia Lucian Constantin Gabriel  
Romanian American University  
lucian.budacia@yahoo.com

### Abstract

*The management's task is to make decisions, which ensure continued viability of the organization and control the implementation of those decisions. Where accounting (management) enters? It is part of the total information, available to management. It is important to recognize the partial role of accounting. Accounting is only a part of the complex set of information and organizational structures. The role of accounting is to provide relevant financial information within those structures. Rarely, accounting will provide sufficient information to enable making a decision to meet the target or to control the implementation of organizational plans.*

**Key words:** accounting, management, managerial planning, managerial decisions

**JEL Classification:** M1, M41

### 1. Introduction

As part of the economic information system, accounting provides most of the information in order to make decisions at micro and macro levels.

The development of capitalism, financial markets, diversification and continuous growth of trade and the need for new financial resources have led to the separation, in modern companies, of own equity contributions by their leadership. Under these circumstances, the decision is delegated by the owners - shareholders to management (managers), they keeping only the control function.

The management's task is to make decisions, which ensure continued viability of the organization and control the implementation of those decisions. Where

accounting (management) enters? It is part of the total information, available to

management. It is important to recognize the partial role of accounting. For example, as regards the desire to manufacture a new product, the management will take into account production and sale costs and income that they will produce. This is information that the accounting system should provide. In any event, management will consider other aspects of the decision, issues on which the accounting may not be helpful, such as technical problems of manufacturing the product, availability of employees across the necessary production and their marketing knowledge, nature of the market in which the product will be sold until the point where the product falls under the category of products existing in the company, etc.. Accounting is only a part of the complex set of information and organizational structures. The role of accounting is to provide relevant financial information within those structures. Rarely, accounting will provide sufficient information to enable making a decision to meet the target or to control the implementation of organizational plans.

### 2. The role of accountancy in the firm's management

Accounting may contribute to the management process in several ways. It has a role in *identifying and measuring information*: i.e., in determining how factors associated with a particular decision are recognized and quantified. The appropriate approach to these issues may depend on the decision to be evaluated and the alternatives available to the organization. Most of the accounting deals with techniques and procedures, but our definition of accounting



describes it as a *process*. Practical techniques are implemented into a human process, and accounting will be influenced and will influence the human context in which it is located, which in our case is the context of making managerial decisions.

Also, accounting has a role of *communication* in decision making. This role can have both positive and negative effects. The positive side is that accounting can help to ensure a common language by which managers can understand the effects of the decisions taken into account. The danger in terms of accounting information, is the fact that it tries to measure the financial consequences of actions (which is in the interest of most participants), as it sees things in an objective and accurate way (it is a rare case, as we will see later), and because it is usually more available than other sources of information, it is not paid due attention. An organization in which managers try to make and control decisions, based solely on accounting information, is unlikely to remain viable for long.

### 3. The cycle of managerial decisions

The economic and financial analysis is one of the basic tools of modern performing management, which underpins operational and strategic decisions, the management process, which cannot be done only on based on experience and routine.

Although many decisions are unique and are not made according to rules, stringent steps or programs, there are certain events that occur frequently in the review of issues that managers face. These events form a system, called the management decision cycle.

The *first stage* of this cycle is to identify the problem or need. Then in the *second stage*, the accountant identifies all reasonable alternatives for action that will solve the problem or answer the need. In the *third stage*, the accountant prepares a full analysis of each action, identifying the total cost thereof, cost savings or financial effects of economic forecasts. For each alternative there could be the need for different information on costs. In the *fourth stage*, after studying the information collected by

the accountant and organized in a logical manner, the management selects the best course of action. In the *fifth stage*, after the decision was made, the accountant drafts a post-decision audit report, to provide the management with information about the decision. If the solution is not completely satisfactory or if the problem persists, the decision cycle resumes from the start. If the adopted solution solved the problem, then the decision making process is considered completed.

### 4. Accountancy – a language of the process of identification, measurement and communication of economic information

Accounting is the process of identifying, measuring and communicating economic information to allow solid judgments and decisions by the users of such information.

In other words, accounting is a language - the language of business. Like all other languages, it has its own vocabulary, ways of expression, terminology and conventions - and because of them, it has its difficulties in interpretation and understanding. It is a language which affects, to a certain extent, all life, therefore being a language that everyone should be acquainted with.

Managers are responsible for planning on short and long term and for drafting overall development strategy, which determines the directions of the company for many years. Strategic action plans direct the management's daily or monthly activities. A strategic plan mentions the company's objectives, its organizational structure and its policies on growth and product lines or services. Retail markets are identified as part of the strategic plan, and as well as any other actions that affect the organization. These strategic plans often determine the projects that managers are willing to take into account.

Once managers determine that a project deserves to be examined, what information is needed to evaluate alternatives? Managers need sufficient information to identify how each alternative will affect company operations, but they should not be overwhelmed by a too large stream of data.

The management accountant is responsible for providing information relevant for each alternative.

How does the management accountant decide which information is relevant and which is not? Identical data for all alternatives are not relevant. In the event of a proposal to reduce spending on labor by installing an automated production line, the total value of sales remains unchanged, then this information must not appear in the assessments of various machines. Similarly, although the accountant can use data on past operations to prepare cost estimates or alternatives, historical data are not relevant to projections of future operations and do not orient managers in their choice for a certain alternative. The accountant should include only those predictions or estimates of costs that are relevant to decision making. Decision-relevant information is data on costs, income and future consumption of resources which are different for each alternative.

Accounting is a system for providing information (especially financial) to those who should decide and control the implementation of such decisions. In any case, the information provided by the accounting depends on the person who makes the decision and why the decision is made. For example, the type of information requested by the Executive Director of a multinational company such as ICI or Ford can be very different from the type of information requested by a member of a country cricket club. The first one might, for example, require information on the variety of products manufactured and sold by the company, information on quantity, price, cost, profitability and competitive position with regard to each product separately. The latter may request information about the annual subscription to be paid by members, the cost of social functions and so on.

In accounting, a distinction is often made between what is called "management accounting" and what is called the "financial accounting". (The latter is rather a misleading name considering that all types of accounting are to some extent financial.) Management accounting deals with providing information to managers who make decisions about the

allocation of resources in an organization. In opposition, the financial accounting deals with providing information to other users who are not managers, such as shareholders, customers, etc.

As managers determine the accounting policy of the company and are responsible for preparing financial statements, they often the function of external communication of financial accounting at the expense of its role as management tool for the internal activities of the company. This latter role becomes really important when the organization does not have an information system on management accounting, such as small and medium enterprises.

## **5. Managerial planning, decisions and control**

The managerial control is the process by which managers ensure that employees behave and act in accordance with plans, organization structure and rules. Control consists of measuring and correcting performances recorded by the subordinates' activity, in order to achieve the objectives and set plans.

It is important to recognize the role of feedback mechanism (data used in verification and control) with regard to the general framework. The feedback highlights the interdependence between the various stages of the framework. (E. g. The result of a certain stage provides information that can influence the formulation of the previous stages). Given that interdependence exists, to some extent, in all stages, the feedback is present in the whole system of planning and control.

The current activity of the company leads to permanent decision-making processes of different magnitude and importance. The final outcome of each such process consists in the decision-making. Its effective application exceeds, by implication and effects, the boundaries of the information system of the company, involving most of its subsystems. In fact if you look at the decision making process in connection with the other processes taking place within the enterprise, we may notice the existence of successions of cycles process comprising:

- ✓ Decision-making;
- ✓ Practical implementation of the decision;
- ✓ Recording the effects, whose achievement involves, more or less, all the company's subsystems.

The start of the decision-making process is initiated by an event or situation, whose occurrence is deemed by the decision-makers as goal of the decision-making process. It is clear in this case that a certain event triggers a decision-making process only if it receives from the decision-maker the nature of "triggering event".

In any case, it should be stressed that the interpretation of information is a vital part of an accountant's job, and it is clear that this aspect must be regarded as an integral part of the communication process. It should be noted that the definition of accounting shall not extend to decision-making. Of course, many accountants are involved in decision making, but in such cases they meet a managerial role than the role of accountant. We do not want in any way to say that accountants should not be involved in management, but it is important to distinguish the accounting from decision-making. It is important that the information provided by an accountant to be as objective as possible, and if accountants do not have a clear distinction between accounting and decision making in their mind, there is a high risk that, unconsciously, to manipulate the information provided so that decision made to be the one they desire.

## 6. Conclusions

In the decision making process, the role of the accountant is to provide accurate, timely information and in a useful form. To achieve this, the accountant must collect relevant information and report them in a relevant way to management.

## 7. References

- [1] Budacia, L.C.G., Bazele contabilității – primul VIDEO – BOOK din România, Editura Didactică și Pedagogică R.A., București, 2009.
- [2] Budacia, L.C.G., Baza bazelor contabilității, Editura Universitară, București, 2009.
- [3] Caraiani, C. și M. Dumitrana, Bazele contabilității, Editura InfoMega, București, 2005.
- [4] Coman, F., Contabilitate financiară și fiscalitate, Editura Economică, București, 2009.
- [5] Delesalle, F. E. și E. Delesalle, Contabilitatea și cele zece porunci, Editura Economică, București, 2003.
- [6] Demetrescu, C. G., Istoria contabilității, Editura Științifică, București, 1972.
- [7] Doinea, O. și C. Șerban, Bazele contabilității, Editura Scrisul Românesc, Craiova, 2002.
- [8] Drăgan, C.M., Bazele contabilității, Editura Contconsult, București, 1995.
- [9] Epstein, B.J. și E. K. Jermakowicz, IFRS: interpretarea și aplicarea standardelor internaționale de contabilitate și raportare financiară, Editura BMT Publishing House, București, 2007.
- [10] Epuran, M., V. Băbăiță și C. Imbrescu, Teoria contabilității, Editura Economică, București, 2004.
- [11] Evian, I., Contabilitate dublă, București, 1946.
- [12] Feleagă, N. și L. Malciu, Contabilitate financiară o abordare europeană și internațională, vol. II, Editura Infomega, București, 2005.
- [13] Feleagă, N. și I. Ionașcu, Tratat de contabilitate financiară, vol. I și II, Editura Economică, București, 1998.
- [14] Hussey, R., Dictionary of Accounting, Oxford University Press, Second Edition, 1999.
- [15] Ionașcu, I., Epistemologia contabilității, Editura Economică, București, 1997.
- [16] Tabără, N., D. Budugan și E. Horomanea, Bazele contabilității – concept, modele, aplicații, Editura Sedcom Libris, Iași, 2009.
- [17] Paliu – Popa, L. și N. Ecobici, Contabilitate financiară aplicată, Editura Universitară, București, 2010.
- [18] Ristea, M., C.G. Dumitru, C. Ioanaș și A. Irimescu, Contabilitatea societăților comerciale, Editura Universitară, București, 2009.

## Internal Control - Key Element of the Financial Control System in the European Union

Budacia Lucian Constantin Gabriel  
 Romanian American University  
 lucian.budacia@yahoo.com

### Abstract

*The internal control refers to the financial control performed by organizational structures of internal control at the economic entity (public authorities of central and local administration), including a priori approval systems (ex-ante) and internal audit (a-posteriori or ex-post). One of the basic features of internal control is the distinction between management and public internal financial control (PIFC), on one hand, and internal audit, on the other hand, which provides the functioning of the first and the independence of the second. The European Commission is the developer of the concept of public internal financial control (PIFC), the goal being to provide an operational model and structure to help national governments in reshaping their internal control environment and in particular to improve control systems in the public sector in the EU, in line with international standards of good practice.*

**Key words:** internal control, internal audit, financial control

**JEL Classification:** G3, G32

### 1. Introduction

Activities grouped under the generic name of "**financial control**" refer to examining the financial achievement of the goals and programs undertaken by different public entities, in order to prevent or to discover any irregularities, errors, deficiencies, to fix them and avoid them in future. This type of control can be achieved at the same time with the targeted programs or subsequently the completion of the activities thereon.

Legal provisions existing at Community level designed for such activity have been grouped in a separate chapter of the *acquis*, called "financial control" (Chapter 28 for the negotiations of Romania's accession to the European Union). One of the features of this chapter is that it

includes quite a few acts of general and compulsory nature (provisions of the founding treaties, regulations or decisions). Most existing mandatory acts regulate bodies specialized in financial control, their organization and operation, procedure to be followed for control, legal documents that record control results (reports issued by expert authorities) and their legal effects. The remaining *acquis* consists either of non-binding legal acts (recommendations of the EU institutions) or documents issued by the control authorities (reports). The legal force of the latter is quite insignificant, most containing only recommendations to Member States and/or EU institutions.

The *internal control* refers to the financial control performed by organizational structures of internal control at the economic entity (public authorities of central and local administration), including a *a priori* approval systems (*ex-ante*) and internal audit (*a-posteriori* or *ex-post*). One of the basic features of internal control is the distinction between management and public internal financial control (PIFC), on one hand, and internal audit, on the other hand, which provides the functioning of the first and the independence of the second.

The European Commission is the developer of the concept of public internal financial control (PIFC), the goal being to provide an operational model and structure to help national governments in reshaping their internal control environment and in particular to improve control systems in the public sector in the EU, in line with international standards of good practice.

The purpose of the **public internal financial control** (PIFC) is to check the fulfillment of formal and legal terms so that funds allotted to a public institution to be properly spent. Its correct operation provides a first "filter" to ensure a sound financial management of any public authority.

PIFC is provided by an internal structure of the said public institution, which structure has the power to undertake the employment of different funds granted to the respective institution. According to the Community *acquis*, the person in charge in this respect cannot be, at the same time and for the same operations, the person responsible for managing the accounts related to that activity (account officer).

**Internal audit** is an independently organized activity in a public institution, which is devised to carry out checks, inspections and analysis of its internal control system (PIFC), in order to assess the extent to which it fulfills the public institution's objectives and uses financial resources effectively and efficiently and to communicate to the institution's management any deficiencies and irregularities and to propose measures to correct deficiencies and improve results.

Regulation no. 1605 of the Council on June 25, 2002 on the Financial Regulation for the general budget of European Communities defines in the art 85-87 the concept of *internal auditor*. Thus, each institution will establish an internal audit structure which must comply with international standards. The internal auditor appointed by the institution will be responsible to it for the sound verification of systems and procedures of budget execution. The regulation sets out some incompatibilities for internal auditors; they cannot be responsible for empowerments or account officer.

Among the auditor's responsibilities, the Regulation provides the approval of the institution regarding risks, by means of independent opinions on quality of management systems and control of funds and recommendations for improving the operations' implementation. Also, the Regulation focuses, in particular, on the main responsibilities of the internal auditor:

- ◆ Assessment of compliance and efficiency of internal management system and the performance level of departments in implementing policies, programs and actions by reference to related risks;

- ◆ Assessment of compliance and quality of systems for control and internal audit applicable to each operation of budget execution.

In exercising their duties, the internal auditor enjoys unlimited access to all information necessary to complete such duties. Upon the termination of the assessment, the internal auditor draws up a report containing the audit's

results and recommendations for the institution. The auditor submits also a yearly report of internal audit, which mentions the number and type of internal audits performed, their recommendations and measures taken by the institution.

Each institution sets out their own rules concerning internal audit so that to ensure complete independence of the auditor while carry out its duties and responsibilities.

The European Commission stipulates that the financial control systems must function based on the following principles:

- Clear distinction between management, financial control and internal audit;
- Efficiency of customs administration;
- Existence of legislation in line with European directives;
- Existence of an unique contact point for OLAF cooperation;
- Independence and competence of the external audit;
- Protection of EU financial interests.

The implementation of the public financial control system must be approached as a long term process which requires the commitment of all parties. Experience has shown that establishing new decisions and rules without the agreement and consent of all participants may result into claims of misunderstanding and resistance endangering the entire adjusting process. Therefore, the adjustment of the internal control system in the public sector should be preceded by a period of perusal and debate.

The European Commission has acquired significant experience while implementing and developing the public internal financial control. Such experience proves that the sound commitment of the central authorities is the key prerequisite for the success or the project concerning the PIFC's adjustment.

In most cases, such central authority is the Ministry of Finance. This is the logic decision as the result of a proper internal control reflects the situation of the national budget's financial management.

The PIFC system is devised to provide transparent and appropriate methods and organizational structures ensuring that public funds are used for the goals envisaged by the budget authorities (Government and Parliament).

Moreover, a performing internal control environment is an efficient tool to prevent

corruption and fraud. The public sector sustains the external control, performed by the Parliament and by the supreme audit institution (in Romania, this is the Court of Accounts). The Government is responsible, before the Parliament, for managing, implementing and controlling its policies and needs systems to organize accounting and budget procedures, internal control standards and inspection services fighting against fraud and corruption.

Usually, the systems of the traditional public internal control are based on an ex-ante central control system and ex-post inspection focused on the third part of claims, complaints and doubtful transactions, infringements of budget rules and punishment of human errors.

Compared with the modern system of PIFC, the traditional system, given its solid lawfulness and uniformity nature, lacks the criteria of economy, efficiency and effectiveness with respect to the management and control of public funds.

The internal control is based on transparency both in its relations concerning responsibility and in terms of methodology and harmonization standards. Transparency is a default manifestation of the government, with responsibility for raising revenue and spending it as constructive as possible.

PIFC comprises international and European standards of good practice and aims to provide optimal approaches for reforming the traditional national control system.

PIFC considers as important the concepts of management and internal audit, which should be decentralized, functional and independent. PIFC does not focus on budget and accounting techniques (although internal control may suggest improving these systems), or the inclusion of inspection on topics such as investigating and prosecuting individual cases of fraud or serious irregularities. The public internal control is preventive in nature and aims to ensure that adequate systems are implemented to remove possible phenomena of corruption and fraud.

The public internal control itself is subject to external evaluation by the supreme audit institution.

The main international standards of public internal financial control are the standards defined by INTOSAI guidelines for internal control in the public sector and the statement of the European Confederation of Internal Audit Institutions on the internal audit in Europe while

the external public audit is subject to the Declaration of Lima in 1977 on the concept of auditing.

The public internal financial control: **CFIP = SMFC + AI + UCA** is defined as having three pillars:

- The system of management and financial control (SMFC, management /management responsibility);
- The system of functional independent internal audit (AI), and
- A central harmonization unit (UCA) for developing methodology and standards for the first two pillars.

## **2. The system of management and financial control**

Managers at all levels must be responsible for all activities they have performed, not only in functional (operational) policy, but also in management and financial control policies.

The first level of control should be the management level. Each manager is responsible for establishing and maintaining satisfactory systems of and financial management control until the completion of tasks of plans, programs, budgets, accounts, checks, reporting, archiving and monitoring.

Risk assessment is a tool to be used as part of the control system, able to help identifying risks or risk areas.

Risks must be assessed and then managed in accordance with organization policy. Risk assessment is then made by management and not by internal auditors.

## **3. Functional independent internal audit**

Public institutions should be endowed with a functional independent internal audit in order to act as support for the management and having as target to provide assessments of the internal control systems.

The audit report is addressed directly to the manager at the highest hierarchic level, but the approval regarding the fulfillment of the audit is independent from the manager's opinion. The internal auditor is not part of the financial service department, but the auditor relates directly to the highest level of management.

The role of auditors is to assess the appropriateness of the internal control system implemented by the management, to underline weaknesses, to provide recommendations to improve it where necessary. Such formal role is officially shaped and explained in the Chart of internal audit – document signed by the management and auditors.

The audit work is governed by a set of rules and ethic code arising from the professional audit abilities and standards and not from managerial training. The set of rules and moral ethics is usually detailed under a document named Code of conduct for internal audit and is signed by auditors upon their appointment or certification as internal auditors.

The auditor significantly differs from the expert in inspection and review. The auditor pursues the appropriateness of the control systems in terms of efficiency, effectiveness and economy, underlining weaknesses which may endanger the achievement of the company's goals. Subsequently, the auditor submits before the manager or director, recommendations on where and how to improve systems.

Auditors must not be involved in management tasks (others than those in their charge) for which they cannot undertake responsibility. Auditors assess and recommend while managers decide whether the auditor's decisions are to be followed. This is because, in the end, responsibility lies with the managers. Auditors cannot be punished or prosecuted as such obligation belongs to the managers in the event of system or human errors or to the judicial authorities in the event of severe irregularities and/or fraud.

#### **4. Central Harmonization Unit as adjustment vector**

Considering the term required for the complete implementation of PIFC and the concept's applicability at all government levels, a vital central structure is necessary, namely the Central Harmonization Unit – empowered to administer the development of PIFC.

The Central Harmonization Unit is responsible for developing and promoting control and internal audit methodology based on accepted international standards and standards of good practice and for coordinating the enactment of new legislation concerning management responsibility (the financial management and control system) and internal audit.

CHU represents the prerequisite for a successful implementation and development of PIFC, but, in fact, it has become part of PIFC.

#### **5. Conclusions**

When the funds of the European Union are spent in member states, close cooperation between the European Commission and member states is required as regards the internal control and internal audit. It may be described as follows:

- For expenses directly administered and made by the Community, the internal control lies with the General Directorate administering them, based on ex-ante approval of the financial transactions while the internal audit is performed by the General Budget Department (The public services of the beneficiary state are involved, at some extent, when such aid is granted to non-member states).

- For expenses co-financed by the European Union, the internal control of member states lies with the local, regional or national government services (and with public companies, universities or private sector in the event of research) while the internal audit is carried out by the General Budget Department and the Commission's services (together with the related internal auditors from the member state in the event of Structural Funds and research);

- For expenses financed entirely by the Community, but administered by the member state, the internal control is performed by the certified national agencies within the member state while the internal audit is carried out by a national authority, the General Budget Department and by the certifying General Department.

In all cases, the external audit is conducted by the European Court of Accounts in liaison with the external audit bodies within member states and, to a certain extent, in an informal collaboration with the external audit bodies of the beneficiary states.

Given the formal responsibility assigned for the execution of the EU budget, the Commission must prove that there is an adequate internal control at all levels and that provides and uses an appropriate internal audit function for both direct costs and for

cases in which EU funds are paid and managed by member states or agencies.

The compliance with European Union requirements on budget process, financial control and audit is a basic obligation of members of the European Union. At the same time, we have to stress the role and objectives of EU control and financial audit aimed at proper management of funds, in accordance with EU objectives and general and sectoral regulations governing the Community sectoral policies.

The purpose of financial control and auditing in the EU is to ensure taxpayers, through the EU Council and European Parliament, that EU funds are well managed and spent in accordance with the objectives and the general and sectoral regulations of the policies to be followed .

## 6. References

- [1] Boulescu, M., C. Barnea și O. Ispir, Control financiar intern și audit intern la entitățile publice, Editura Economică, București, 2009.
- [2] Budacia, L.C.G., Bazele contabilității – primul VIDEO – BOOK din România, Editura Didactică și Pedagogică R.A., București, 2009.
- [3] Budacia, L.C.G., Baza bazelor contabilității, Editura Universitară, București, 2009.
- [4] Caraiani, C. și M. Dumitrana, Bazele contabilității, Editura InfoMega, București, 2005.
- [5] Dănescu, T., Audit financiar. Convergențe între teorie și practică, Editura Irecson, București, 2007.
- [6] Coman, F., Contabilitate financiară și fiscalitate, Editura Economică, București, 2009.
- [7] Delesalle, F. E. și E. Delesalle, Contabilitatea și cele zece porunci, Editura Economică, București, 2003.
- [8] Demetrescu, C. G., Istoria contabilității, Editura Științifică, București, 1972.
- [9] Doinea, O. și C. Șerban, Bazele contabilității, Editura Scrisul Românesc, Craiova, 2002.
- [10] Drăgan, C.M., Bazele contabilității, Editura Contconsult, București, 1995.
- [11] Epstein, B.J. și E. K. Jermakowicz, IFRS: interpretarea și aplicarea standardelor internaționale de contabilitate și raportare financiară, Editura BMT Publishing House, București, 2007.
- [12] Epuran, M., V. Băbăiță și C. Imbrescu, Teoria contabilității, Editura Economică, București, 2004.
- [13] Evian, I., Contabilitate dublă, București, 1946.
- [14] Feleagă, N. și L. Malciu, Contabilitate financiară o abordare europeană și internațională, vol. II, Editura Infomega, București, 2005.
- [15] Feleagă, N. și I. Ionașcu, Tratat de contabilitate financiară, vol. I și II, Editura Economică, București, 1998.
- [16] Hussey, R., Dictionary of Accounting, Oxford University Press, Second Edition, 1999.
- [17] Ionașcu, I., Epistemologia contabilității, Editura Economică, București, 1997.
- [18] Tabără, N., D. Budugan și E. Horomanea, Bazele contabilității – concept, modele, aplicații, Editura Sedcom Libris, Iași, 2009.
- [19] Paliu – Popa, L. și N. Ecobici, Contabilitate financiară aplicată, Editura Universitară, București, 2010.
- [20] Popeanga, P., Control financiar și fiscal, Editura CECCAR, București, 2009.
- [21] Ristea, M., C.G. Dumitru, C. Ioanaș și A. Irimescu, Contabilitatea societăților comerciale, Editura Universitară, București, 2009.
- [22] Roman, C., V. Tabără și A.G. Roman, Control financiar și audit public, Editura Economică, București, 2007.



## Quality Control of Accounting Information Provided by Annual Financial Statements

Bulgariu Catalin

*Faculty of Economics, University „Petre Andrei” from Iași*

*bulgariuc@xnet.ro*

Costuleanu Carmen Luiza

*Faculty of Economics, University „Petre Andrei” from Iași*

*ccostuleanu@yahoo.com*

Calistru Roxana Angela

*Faculty of Economics, University „Petre Andrei” from Iași*

*roxdav@gmail.com*

### Abstract

Continuous improvement of business environment is a key priority of governments to strengthen the functioning of market economy. In this context, the general framework of accounting and financial auditing accounting improves continuously its information quality by applying the accounting rules in accordance with EU Directives (the Fourth and Seventh-).

For analyzing a company's overall efficiency is particularly important the quantity and quality of existing information of financial-accounting nature existing at a time into the economic system of an enterprise, preferably at levels becoming more analytical. The financial statements of a company are the most important means by which accounting information is made available to decision makers. Therefore, companies publish their financial statements in a more explicit manner, as to be understood by the interested reader. Responsibility for annual financial statements to be in accordance with accounting regulations consistent with European Directives enter the entity's management and is communicated by a written statement attached thereto.

Success in accounting is influenced to a great extent by the quality of human resources and their competency. Annual financial statements are drawn up and presented yearly and have the purpose to meet the common informational needs of users. Auditing annual accounts raises the

degree of credibility and relevance of the information presented by financial balances. Control is a really effective contributing factor in maintaining activities at an operational level, and in the intelligent and competent solving of issues related to development and economic growth.

**Key words:** improvement of business environment, accounting rules, EU Directives, accounting information.

**JEL classification:** M 41

Accounting information can be a „mass” consumer good as it is employed by a numerous users, from small and medium enterprises to big companies operating on the stock market, from the Fiscal Administration to the large mass of citizens who act as small investors and economists.

Comparing accounting with a language starts from the premise that this science represents a tool created by society to assembly and to transmit a specific type of information [1].

Success in accounting is influenced to a great extent by the quality of human resources and their competency [2].

User diversity and their international needs led to the imposition of new requirements for accounting and financial statements. Users expect data certified by independent professional accountants. Each user of accounting data wants to receive real accounting data that reflect reality even if it

is said that we are dealing with a “truth built on accounting conventions” [3].

The basic component of modern management, control [4], provides operative knowledge on how economic and social activities are carried out, compliance with the economic, financial and contractual discipline, and prevention of economic imbalances.

Control is a really effective contributing factor in maintaining activities at an operational level, and in the intelligent and competent solving of issues related to development and economic growth [5].

To this purpose, financial audit and the profession of auditor [6] have emerged; they bring a supplemental input of credibility to the financial data prepared and published by enterprises. Audit [7] generally designates the professional examination of information in order to express a responsible and independent opinion by reference to quality criteria (standards).

It was observed that accounting data from financial statements meet only partially the needs of financial and economic analyses. This derives from the fact that:

- annual accounting records provide only retrospective or contemporary information regarding financial statements [8];

- in yearly accounting records, values are not recorded in accordance with the evolution of prices and, as a result, reality is erroneously presented;

- there are subjective data (i.e. net value of immovable corporate assets and their depreciation are affected by the retained durations of usage);

- the application of accounting standards that are strongly marked by taxation, in the context of sturdier requirements related to financial communication, reduces the value of the information presented by annual statements and leads to the use of methods to dissimulate the real situation, known as “creative accounting”. Creative accounting designates the process by which, taking advantage of the gaps in accounting regulations, figures are manipulated, and taking advantage of the flexibility offered by the accounting system, the only measurement methods chosen are those that can “produce” the expected accounting result. In general, it

is believed that results, equities and indebtedness are the most affected by creative accounting techniques [9].

To ensure a greater openness to analysis needs, the theory and practice of the field recommend several lines of action, of which we mention:

- to reduce the importance of accounting results by assessing their quality in relation to cash-flow. Cash-flow information is thought to be one of the most intelligible and objective categories of information, which presents facts without leaving room for subjective interpretation;

- to restrict the phenomenon of creative accounting through the “process of accounting harmonisation” at the European and international level, a process concerned with the preparation and improvement of the content of annual accounts [8].

In order to be useful in the decision-making process, accounting information must meet certain characteristics: relevance, reliability, comparability, and intelligibility. It is considered that in order to make the analysis meaningful, the information from annual records must be used in correlation with the following factors:

- the company size (big companies are less vulnerable to third-party decisions than small ones);

- the business risk;

- the economic, social, political and cultural environment.

The term “audit” originates in the Latin word “*audire*” which means to listen, to hear and the English verb “to audit” means to control, to examine, to inspect.

The profession of auditor emerged as a necessity, and the person who acquires this status assumes the final responsibility for the audit. The term “auditor” is also employed to refer to an auditing company [10].

**Internal auditing** refers to the assessment activity carried out within an entity, as a service. Its functions encompass, among others, the examination, assessment and monitoring of the conformity and efficiency of accounting and internal control systems [10].

**External auditing** aims to guarantee the credibility of the information disseminated by the company to external users (associates,

creditors, banks, fiscal authorities, clients, suppliers). Known in literature as “external control”, it is, fundamentally, an accounting control, carried out by professionals in the field in order to increase the usefulness and credibility of the financial and accounting information that the company disseminates outside, or, more precisely, that the company is compelled to or has the interest to make public [4].

External audit can take two forms, i.e.:

-*legal* or *statutory auditing* that encompasses verifying compliance with the tasks related to the oversight of company accounting, and the censors’ verifying and certifying of the balance sheet, according to legal provisions and on the basis of the mandate received from the GMS;

-*contractual auditing* carried out upon the request of an entity or individual, for purposes that are defined by the financial auditing agreement concluded with the auditor.

**Strategic auditing** is another type of auditing and refers mainly to performance assessment and the examination of the management decisions’ suitability, focusing on the reliable assessment of an enterprise’s chances to succeed, on a certain term. This type of audit highlights the company strategy at a given moment regarding [11]:

-the field of activity in which the company operates;

-the spatial location of each field knowing that companies develop considering several fields of activity;

-the real geographical size of each field;

-the strategy pursued by the company according to each kind of activity.

The ethical rules of the accounting profession were established by the IFAC in 1980 and provide that the professional associations of accountants in each country develop their own ethical code, aiming to guide professionals in their behaviour and in their professional relationships with the others [7].

Financial auditors must carry on their activities according to the following basic principles in order to achieve auditing objectives [10]:

-**Integrity** that implies not only honesty but also the fair conduct of work and

sincerity. The principle of honesty requires all financial auditors to be fair and intellectually honest and not to get involved in conflicts of interest;

-**Objectivity**, according to which a professional financial auditor must be fair and must not allow that objectivity be affected by prejudice, conflicts of interest or external influences;

-**Professional competency**. A financial auditor must possess the knowledge necessary to prove his/her professional skills, to act in a manner appropriate to his/her professional reputation and to avoid any behaviour that could discredit the auditing profession.

-**Confidentiality**. One of the basic skills of a financial auditor is keeping the secrecy regarding the data obtained during the exercise of his/her profession. Confidentiality implies that a financial auditor must not disclose any information obtained during auditing if he/she has not a legal, professional or other type of permission that forces him to disclose information.

-**Professional behaviour** – a professional auditor must act in a manner appropriate to the profession and must avoid any behaviour that could discredit the profession. This requires that the auditors show responsibility toward clients, third parties, other members of the auditing profession, employers and the public in general;

-**Technical standards** – a professional financial auditor must provide professional services in accordance with relevant technical and professional standards. Auditors have the duty to meet carefully and competently the client’s instructions and must meet the requirements of integrity, objectivity and independency.

Annual financial statements are drawn up and presented yearly and have the purpose to meet the common informational needs of users. Auditing annual accounts raises the degree of credibility and relevance of the information presented by financial balances.

Annual financial statements are subjected to an overall examination and to an analytical examination.

**Overall examination** aims to check if annual accounts:

- are coherent and consistent with accounting data;

- are presented according to accounting principles and accounting regulations in force;

- take into account the events following the closure of the financial exercise;

- provide a faithful, clear and complete image of patrimony, results and the financial situation.

Thus, the opinion of the professional in auditing and certifying annual accounts addresses two key issues [12]:

- the materialization and correct application of the procedures used in the current financial-accounting activity of the company;

- the way the image of the patrimony, financial situation and results obtained by the company is presented at a given moment.

The **analytical examination** of annual accounts is carried out through analytical examination techniques, some general and particular rules specific to annual accounts that require [13]:

- to establish indexes specific to the financial analysis and their compensation with other periods of management or with other companies;

- to compare the account data with the previous and prospected data of other similar companies;

- to compare the percentages of the turnover and some entries in the results account.

In order to express a motivated opinion, based on the financial situation, the auditor conducts a careful study with the help of various specific procedures. The auditing of annual financial statements is carried out in three main stages:

- the initial stage involves two phases: the orientation and planning of the audit, and the acceptance and contracting of the service;

- the stage of execution, in which the auditing takes place;

- the stage of conclusions.

## 1. Conclusions

Adoption of European regulation no. 1606/2002 is mandatory for the application of International Accounting Standards (IAS), since the year 2005, by all European entities

which use public saving. In this respect, the European Commission has undertaken a program having as target the compatibility of European Directives with international accounting standards. The seventh Directive of the European Union aims mainly the uniform regulation into the Community space of the rules and practices for preparation and presentation of consolidated accounts. Compliance is required by necessity of: globalization of national economies; Romania's access to international capital markets; transparency and simplification of financial reporting.

To achieve these goals, in the last period took place in Romania a series of legislative changes which included: amending and completion of Accounting Law no. 82/1991; accounting rules in accordance with Directive IV and VII of the European Union; the adoption of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), through the Order of the Minister of Finance. In Romania, regulations in accordance with the Seventh Directive of the European Union largely assimilated its provisions applicable to groups of companies which conduct businesses on its territory. Generically, the group, into the view of national and European regulations, represents the companies ensemble formed from parent company and its subsidiaries. In principle, the group presents consolidated financial statements, having the main objective of informing users fairly about the financial position and results of the member entities of the group, considered as a whole.

For analyzing a company's overall efficiency is particularly important the quantity and quality of existing information of financial-accounting nature existing at a time into the economic system of an enterprise, preferably at levels becoming more analytical. The financial statements of a company are the most important means by which accounting information is made available to decision makers.

Annual financial statements are drawn up and presented yearly and have the purpose to meet the common informational needs of users. Auditing annual accounts raises the degree of credibility and relevance of the

information presented by financial balances. Control is a really effective contributing factor in maintaining activities at an operational level, and in the intelligent and competent solving of issues related to development and economic growth.

## 2. References

- [1] N. Tabără and E. Horomnea, "National characteristics and international harmonisation in accounting", Finance, credit, accounting magazine, 9, 2000.
- [2] E. Horomnea, Treatise of accounting, vol. II, Sedcom Libris Publishing House, Iași, 2003, pp. 147.
- [3] N. Feleagă and I. Ionașcu, Treatise of financial accounting, vol. I, Economics Publishing House, Bucharest, 1998, pp. 241.
- [4] I. Florea and R. Florea, Economic-financial control, CECCAR, Bucharest, 2000, pp. 3-4 and 90.
- [5] M. Boulescu and Ghiță M., Financial control and accounting expertise, Mondo-economic Publishing House, Craiova, 1992, pp. 13.
- [6] C. Toma, Annual accounts and the faithful image in Romanian accounting, Junimea Publishing House, Iași, 2001, pp. 315.
- [7] M. Toma and M. Chivulescu, Financial audit and certification of annual accounts, Foundation for Financial-Accounting Management and Audit "Grigore Trancu Iași", 1997, pp. 8 and 129.
- [8] M. Mironiuc, Analysis of economic and financial achievements of enterprises, Junimea Publishing House, Iași, 1999, pp. 48-49.
- [9] L. Malciu, Offer and demand of accounting information, Economics Publishing House, Bucharest, 1998, pp. 56
- [10] Financial audit 2000. The Romanian Chamber of Auditors, Economics Publishing House, 2000, pp. 7-8.
- [11] N. Tabără, E. Horomnea and C. Toma, Annual accounts in the decision-making process, Tipo Moldova Publishing House, Iași, 2001, pp. 265.
- [12] D. Scutaru, Financial accounting auditing, Economics Publishing House, Bucharest, 1997, pp. 9.
- [13] I. Oprean et al., Preparation and auditing of balance sheet, Intelcredo Publishing House, Deva, 1997, pp. 182.

## Complex issue regarding the bankruptcy risk by using the scoring method

Professor Ph.D. Căruntu Constantin

„Constantin Brâncuși” University, Faculty of Economic Science and Affairs  
Administration

E-mail: caruntu\_ctin@yahoo.ro

Lecturer Ph.D. Lăpăduși Mihaela Loredana

„Constantin Brâncuși” University, Faculty of Economic Science and Affairs  
Administration

E-mail: loredana@utgjiu.ro

### Abstract

*The goal of the scoring method is to provide predictive models for the assessment of the bankruptcy risk of an enterprise. Its implementation requires observing a set on enterprises from two different groups: a group of companies with financial difficulties and a group of enterprises with no financial problems. For each of the two groups is established a set of rates, and then is determined the best linear combination of rates which allows the differentiation between the two groups of companies.*

*The scoring method refers to profitability indicators, indicators of asset structure, liquidity indicators or efficiency indicators. The condition for selecting the indicators which show the company's performance is the independent relation between them. The existence of correlations between indicators would lead, during that function, to record the repeated influences of the same economic or financial phenomenon.*

**Key words:** risk, efficiency, Z score, financial results

**JEL Classification:** G3, G32, G33

### 1. Introduction

Once the transition to the market economy it emerged as an objective necessity the knowledge of precise information related to the bankruptcy risk at a future time. The concern for the prediction of the bankruptcy

risk, worldwide, starting with the 60s of the last century, led to the development of a method called the scoring method which had a significant development due to the use of statistical elements of financial situations analysis, starting from a set of rates.

The scoring method is based on a grouping system of certain indicators which are found in correlation with the health status or the bankruptcy of the companies. The bankruptcy risks methods of analysis are techniques of discriminate analysis that group the financial characteristics of the companies which function normally and of those in difficulty. The linear combination of certain indicators, called the score function, makes the approximation (with a certain probability) of the bankruptcy risk.

Bankruptcy prediction uses this statistical technique called discriminate analysis for the transformation of the information offered by the economic and financial indicators into a score able to present the success or failure of a business. The discriminate analysis is able to offer a combination between two or more financial rates resulting from the application of a technique named multiple discrimination.

### 2. Scoring method

The score reflects the linear function of certain variables (indicators), weighted with certain average coefficients obtained through the least squares method, starting with the observations made on a significant set of companies, in simple terms, it means that this technique permits that after an analysis on a firm to obtain a figure (score) which tells if the

company will collapse or not. The score can be obtained using a function like:

$$Z = a_1 \cdot X_1 + a_2 \cdot X_2 + a_3 \cdot X_3 + \dots + a_n \cdot X_n$$

**where:**

$a_1, a_2, a_3, \dots, a_n$  - weighted coefficients;

$X_1, X_2, X_3, \dots, X_n$  - variables (financial rates).

From technical point of view, the determination of the score requires following some complex work phases:

**Choosing a sample of companies** composed of two groups, one that includes failed or ailing companies (e.g. companies with outstanding issues in payment rates, suppliers) and another that includes companies with no financial issues;

**Comparison** over a period of time, based on a set of indicators likely to be significant, of the two groups (bankrupt/non-bankrupt companies)

**The Selection of indicators** that realize the best discrimination. This phase is based on different statistical tests, the result being the choice of indicators with permanent and strong action within the samples studied.

**Development** through the discriminated analysis technique of a linear combination  $Z$  of significant indicators ( $X_i$ ),

**Choosing a point (or points) of inflection** to perform predictive classification of enterprises in the two groups. The goal is to minimize the errors or the cost of prediction error;

**Priori analysis** of the rate of success of scores  $Z$  by comparing the predictive classification with the known situation of the companies in the sample. It is a priori success rate in the sense that it is based on a sample test with which led to the construction of the function score;

**Posteriori analysis** of the success rate of  $Z$  functions by analyzing the degree of relevance for another sample of companies. The built  $Z$  function is likely to be useful and credible for a further period and to a much broader population of companies. Certification of this hypothesis can only be achieved through a subsequent test of the score built.

All the previsions and predictions are based on the data published in the financial situations. Selecting the indicators within the scoring method is realized starting with the results of the healthy companies, but also with

the companies being in difficulty, on significant periods: 20-30 years.

The world economic literature uses frequently three models: Altman Model also called „Z” Model, Canon and Holder Model and the Bank of France Model.

## 2.1. Altman Model or „Z” model

It is a statistic and mathematical predictive model of the bankruptcy state developed in USA in 1968 and subsequently in 1977 by professor Altman. The model includes five variables considered to be the most representative for a company. With the help of this model, professor Altman was able to predict almost 75% of the bankruptcies of some companies with approximately two years before their production.

The mathematical representation of the model is:

$$Z = 1,2 \cdot X_1 + 1,4 \cdot X_2 + 3,3 \cdot X_3 + 0,6 \cdot X_4 + 1,0 \cdot X_5$$

**where:**

- the  $X_1$  variable reflects the companies' flexibility and is obtained as a ratio between working capital (current operating assets – current operating liabilities) or goodwill and total assets:

$$X_1 = \frac{\text{Working capital or goodwill}}{\text{Total assets}}$$

-the  $X_2$  variable represents the rate of self-financing total assets and is computed as a ratio between the reinvested earnings (net result of the exercise – dividends of shareholders) and total assets:

$$X_2 = \frac{\text{Reinvested earnings}}{\text{Total assets}}$$

- the  $X_3$  variable represents the economic profitability rate and is computed as a ratio between the gross result of the exercise and total assets:

$$X_3 = \frac{\text{Gross result of exercise}}{\text{Total assets}}$$

- the  $X_4$  variable shows the indebtedness of the company and is computed as a ratio between market capitalization (for the companies not listed at the stock exchange it is used the social capital) and medium and long term debts:

$$X_4 = \frac{\text{Market capitalization} / \text{Owner's equity}}{\text{Long-term and short-term debts}}$$

The market capitalization represents the market value of the subscribed and paid capital. In the case of companies not listed at the stock exchange it can be used instead of this indicator, the value of owner's equity.

-variable  $X_5$  measures assets and is computed as a ratio between turnover and total assets:

$$X_5 = \frac{\text{Turnover}}{\text{Total assets}}$$

Depending on the score of the companies the following situations can be included:

- a) if  $Z < 1,8$  it means that the company is insolvent, near to bankruptcy;
- b) if  $1,8 < Z < 2,2$  it means that the company is in a tough situation;
- c) if  $2,2 < Z < 3$  it means that the company's situation is good;
- d) if  $Z > 3$  it means that the company is in a very good situation.

To demonstrate this we use the data from the table below:

**Table no.1**

Nb. Crt.	Indicators	N	N-1
1.	Total assets	21.628,897	23.405,086
2.	Working capital	9.005,326	8.741,520
3.	Reinvested earnings	1.254,476	1.404,305
4.	Owner's equity	18.088,759	19.599,098
5.	Turnover	27.461,100	31.197,944
6.	Long-term and Short-term debts	3.396,998	3.570,160
7.	Gross Income	2.187,844	2.624,732

Using the data from the table above we see that the variables of the Altman Model record the following values:

$$X_1^N = \frac{\text{Working capital}}{\text{Total assets}} = \frac{9.005,326}{21.628,897} \cdot 100 = 41,6\%$$

$$X_2^N = \frac{\text{Reinvested earnings}}{\text{Total assets}} = \frac{1.254,476}{21.628,897} \cdot 100 = 5,79\%$$

$$X_3^N = \frac{\text{Gross result of exercise}}{\text{Total assets}} = \frac{2.187,844}{21.628,897} \cdot 100 = 10,11\%$$

$$X_4^N = \frac{\text{Owner's equity}}{\text{Long-term and short-term debts}} = \frac{18.088,759}{3.396,998} \cdot 100 = 532,49\%$$

$$X_5^N = \frac{\text{Turnover}}{\text{Total assets}} = \frac{27.461,100}{21.628,897} \cdot 100 = 126,9\%$$

$$X_1^{N-1} = \frac{\text{Working capital}}{\text{Total assets}} = \frac{8.741,520}{23.405,086} \cdot 100 = 37,3\%$$

$$X_2^{N-1} = \frac{\text{Reinvested earnings}}{\text{Total assets}} = \frac{1.404,305}{23.405,086} \cdot 100 = 5,99\%$$

$$X_3^{N-1} = \frac{\text{Gross result of exercise}}{\text{Total assets}} = \frac{2.624,732}{23.405,086} \cdot 100 = 11,3\%$$

$$X_4^{N-1} = \frac{\text{Owner's equity}}{\text{Long-term and short-term debts}} = \frac{19.599,098}{3.570,160} \cdot 100 = 549\%$$

$$X_5^{N-1} = \frac{\text{Turnover}}{\text{Total assets}} = \frac{31.197,944}{23.405,086} \cdot 100 = 133,3\%$$

$$Z_N = (1,2 \cdot 41,6) + (1,4 \cdot 5,79) + (3,3 \cdot 10,11) + (0,6 \cdot 532,49) + (1,0 \cdot 126,9) = 49,92 + 8,106 + 33,363 + 319,494 + 126,9 = 537,783 \Rightarrow 5,377$$

$$Z_{N-1} = (1,2 \cdot 37,3) + (1,4 \cdot 5,99) + (3,3 \cdot 11,3) + (0,6 \cdot 549) + (1,0 \cdot 133,3) = 44,76 + 8,386 + 37,29 + 329,4 + 133,3 = 553,136 \Rightarrow 5,531$$

Summarized the obtained data are as follows:

**Table no.2**

	Indicators	N	N-1
$X_1$	Current assets ratio	41,6	37,3
$X_2$	Working capital ratio	5,79	5,99
$X_3$	Profitability ratio	10,11	11,3
$X_4$	Financial stability ratio	532,49	549
$X_5$	Assets turnover	126,9	133,3
	<b>Z Function</b>	5,377	5,531

From the obtained data it can be observed that the analyzed company has a very good situation from the point of view of the solvency and implicitly of the bankruptcy risk, the values of Z function state that the company is viable.

## 2.2. Canon and Holder Model

This model, built in 1978, applies to industrial companies with a number of employees between 10 and 500 and is based on the analysis „liquidity-chargeability”. The model is also based on the Z function having the following structure:

$$Z = 16 \cdot X_1 + 22 \cdot X_2 - 87 \cdot X_3 - 10 \cdot X_4 + 24 \cdot X_5$$

where:

- the  $X_1$  variable represents the reduced liquidity rate and is computed as a ratio between claims, financial investments on short term and available funds, on one hand and on the other short-term debt:

$$X_1 = \frac{\text{Claims} - \text{Funds}}{\text{Short-term debt}}$$

- the  $X_2$  variable represents the financial stability ratio and is determined as a ratio between long-term capital and total debt:

$$X_2 = \frac{\text{Long-term capital}}{\text{Total debt}}$$



- the  $X_3$  variable shows the degree of financing sales from external resources and it is determined as a ratio between financial expenses and turnover:

$$X_3 = \frac{\text{Financial expenses}}{\text{Turnover}}$$

- the  $X_4$  variable shows the degree of payment of personnel and it is determined as a ratio between expenses with personnel and value added:

$$X_4 = \frac{\text{Personnel expenses}}{\text{Value added}}$$

- the  $X_5$  variable shows the weight of the operating gross result in the total value added and it is determined as a ratio between the operating gross result and value added :

$$X_5 = \frac{\text{Operating gross result}}{\text{Value added}}$$

The decision rule Conan- Holder shows:

Table no.3

Z Score	Bankruptcy probability	Company status
Negative	> 80%	Unfavorable situation
0-1,5	75-80%	
1,5-4,0	70-75%	
4,0-8,5	50-70%	Uncertain situation
8,5-9,0	35%	
9,0-10,0	30%	Favorable situation
10,0-13,0	25%	
13,0-16,0	15%	
Z > 16,0	Sub 15%	Excellent situation

For exemplification we use the data from the table below:

Tabelul nr.4

Nr. Crt.	Indicatori	N-1	N
1.	Claims	1.265,86	1.182,95
2.	Liquid assets	2.236,03	1.721,61
3.	Short- term liabilities	3.121	2.580,32
4.	Long- term capital	18.507,89	20.824,77
5.	ilities	21.628,89	23.405,09
6.	Financial expenses	381,60	259,24
7.	Turnover	27.461,10	31.197,94
8.	Personnel expenses	10.569,78	13.159,88
9.	Value added	14.337,54	17.391,29
10.	Operating gross surplus	3.678,93	4.127,37

By using the data from the table above the variables of the Altman model record the following values:

$$X_1^{N-1} = \frac{\text{Claims} + \text{Liquid assets}}{\text{Short-term debt}} = \frac{1.265,86 + 2.236,03}{3.121} = \frac{3.501,89}{3.121} = 1,12$$

$$X_2^{N-1} = \frac{\text{Long-term capital}}{\text{Total debt}} = \frac{18.507,89}{21.628,89} = 0,86$$

$$X_3^{N-1} = \frac{\text{Financial expenses}}{\text{Turnover}} = \frac{381,60}{27.461,10} = 0,014$$

$$X_4^{N-1} = \frac{\text{Personnel expenses}}{\text{Value added}} = \frac{10.569,78}{14.337,54} = 0,737$$

$$X_5^{N-1} = \frac{\text{Operating gross result}}{\text{Value added}} = \frac{3.678,93}{14.337,54} = 0,256$$

$$X_1^N = \frac{\text{Claims} + \text{Liquid assets}}{\text{Short-term debt}} = \frac{1.182,95 + 1.721,61}{2.580,32} = \frac{2.904,56}{2.580,32} = 1,13$$

$$X_2^N = \frac{\text{Long-term capital}}{\text{Total debt}} = \frac{20.824,77}{23.405,09} = 0,89$$

$$X_3^N = \frac{\text{Financial expenses}}{\text{Turnover}} = \frac{259,24}{31.197,94} = 0,008$$

$$X_4^N = \frac{\text{Personnel expenses}}{\text{Value added}} = \frac{13.159,88}{17.391,29} = 0,757$$

$$X_5^N = \frac{\text{Operating gross result}}{\text{Value added}} = \frac{4.127,37}{17.391,29} = 0,237$$

$$Z_{N-1} = (16 \cdot 1,12) + (22 \cdot 0,86) - (87 \cdot 0,014) - (10 \cdot 0,737) + (24 \cdot 0,256) = 17,92 + 18,92 - 1,218 - 7,37 + 6,144 = 34,396$$

$$Z_N = (16 \cdot 1,13) + (22 \cdot 0,89) - (87 \cdot 0,008) - (10 \cdot 0,757) + (24 \cdot 0,237) = 18,08 + 19,58 - 0,696 - 7,57 + 5,688 = 35,082$$

The data being summarized it shows that:

Table no.5

	Indicators	N-1	N
X <sub>1</sub>	Quick ratio	1,12	1,13
X <sub>2</sub>	Financial stability ratio	0,86	0,89
X <sub>3</sub>	The degree of financing sales through borrowed sources	0,014	0,008
X <sub>4</sub>	The contribution of the personnel expenses at the at the existence of value added	0,737	0,757
X <sub>5</sub>	The weight of EBE in value added	0,256	0,237
<b>Z FUNCTION</b>		34,396	35,082

Taking into consideration the decision rule Conan- Holder we can state that the analyzed company has an excellent situation regarding the bankruptcy risk, the probability of bankruptcy being under 15% and the financial position has a Z score better than in the year N.

### 3. The score function of the Balance Sheet Centre Database of the National Bank of France

The Balance Sheet Data Centre Database of the National Bank of France records companies, they pay income tax and that have less than 500 employees and that are classified in 3 categories: in bankruptcy, normal and vulnerable. The companies that are in bankruptcy are companies that were sanctioned through judicial proceeding and that are observed over 3 years before the bankruptcy.

The variables used are the accounting ratios. The companies are characterized through 19 ratios that follow four main aspects of their behavior: financial structure, activity ratio, profitability and management ratio. In certain situations, a ratio can take excessive values or can not be calculated. We are talking about the ratios that have the denominator equal to zero. For not diminishing the quality of the results by eliminating a sample of companies with such rates, it will be defined for each rate, an interval between certain limits, up or down, and the rate will tend toward one of these limits.

The Risk detection system developed by the Balance Sheet Centre Database of the National Bank of France's comprises three score functions, which are used in two stages.

*First stage: The function Z score*

For characterizing the financial behavior we use a first scoring function, which was built by comparing the companies in bankruptcy with normal companies. We are talking about Z function, which comprises 8 ratios concerning the analyzed year, having the following expression:

$$Z = -1,255 \cdot R_1 + 2,003 \cdot R_2 - 0,824 \cdot R_3 + 5,221 \cdot R_4 - 0,689 \cdot R_5 - 1,164 \cdot R_6 + 0,706 \cdot R_7 + 1,408 \cdot R_8 - 85,544$$

here:

- the  $R_1$  variable represents the sampling ratio financial expenses and is determined as a ratio between financial expenses and the gross operating surplus:

$$R_1 = \frac{\text{Financial expenses}}{\text{GOS}}$$

- the  $R_2$  variable represents the ratio of covering the invested capital or the ratio of financial stability and is determined as a ratio between long-term capital and the invested capital (total assets):

$$R_2 = \frac{\text{Long-term capital}}{\text{Invested earnings}}$$

- the  $R_3$  variable represents the cash flow to debt ratio and is determined as a ratio between cash flow and total debt:

$$R_3 = \frac{\text{Cash-flow}}{\text{Total debt}}$$

-the  $R_4$  variable represents the ratio of sales profitability and is determined as a ratio between the gross operating surplus and turnover:

$$R_4 = \frac{\text{GOS}}{\text{Turnover}}$$

- the  $R_5$  variable represents the days payable outstanding ratio, expressed in days, with the formula:

$$R_5 = \frac{\text{Accounts payable}}{\text{Merchandise}} \cdot 360$$

- the  $R_6$  variable represents the increased value added ratio:

$$R_6 = \frac{VA_1 - VA_0}{VA_0}$$

- the  $R_7$  variable represents the days sales outstanding ratio and is determined as the duration of a turnover, expressed in days, with the formula:

$$R_7 = \frac{\text{Accounts receivables}}{\text{Sales}} \cdot 360$$

- the  $R_8$  variable represents fixed investments ratio, from own resources and is determined as a ratio between the value of investments and value added:

$$R_8 = \frac{\text{Investments}}{\text{VA}}$$

Depending on the value of Z score the companies are grouped as it follows:

a) if  $Z < -0,25$  it results that the company is in difficulty with a high risk (70-100%);

b) if  $-0,25 < Z < 0,125$  it shows that the company has an uncertain financial position, having an average risk (45-70%);

c) if  $Z > 0,125$  it results that the company has an appropriate financial position, having a low risk (10-45%).

*Second stage: the intervention of the score functions Y1 and Y2*

In the second stage the objective is to make a distinction, between the companies that have a low score and those that are close to bankruptcy, with the help of two additional scoring functions Y1 and Y2. The companies that obtained an unfavorable score, under -0.25 are distributed in two groups, according to the value of the R1 ratio.

The first group is formed by companies that are characterized by GOS equal to zero or negative, or by a ratio R1 greater than or equal to 215%.

A second group comprises companies that have an R1 between 0 and 215%.

For the first group we calculate the score function Y1, which uses 7 ratios among two years, the time evolution having an important

role in the characterization of the bankrupt companies, if the bad situation last several years before the bankruptcy. For the second group, comprised of companies characterized by a R1 ratio between 0 and 215%, the calculation of Y2 uses 13 ratios among two years.

The risk analysis can be completed also by a series of non-financial aspects such as business management issues (moral and professional quality, reputation, experience in the respective sector of activity), company personnel (number and structure, quality and qualifications of the labor force) production facilities (age, technology), utilization of the production capacity, investments made, marketing policy (scope of activity, demand, suppliers, pricing policy, promotional policy, etc.).

#### 4. Conclusions

The risk analysis methods described above allow the measurement of past performances of the company, informing in small extent on its future. The financial results can degrade very quickly over time. Hence, it is more and more obvious the need for more precise information about the future, regarding the risk of bankruptcy. As a response to these practical requirements, the Company's diagnosis of the financial situation has undergone a significant development because of the use of statistical methods of analysis based on a set of ratios.

The scoring methods offer a synthetic assessment of the financial situation of the company, by looking forward (for the provision or detection difficulties) and as looking back. In this sense, they allow both an effective assessment of the bankruptcy risk for purposes of diagnostics and monitoring risk by the external partners and particularly by the lending institutions, in addition, these methods allow us to test ratios and combinations of ratios for foreseeing the difficulties for companies.

Also, they contribute to the solving of the difficulties created by the multitude of indicators of the financial balance, by treating rigorously the problems made by their interdependence or redundancy, leading to a selection and hierarchy that avoids the subjectivism in assessments. The development

of these methods required a study of the risky business characteristics and of the process of deterioration of the situation, which is an essential source for insight into the financial behavior of companies.

We can say that discriminatory functions provide an overview of financial information relating to business, but they can not indicate the origin of the difficulties of the company. Regarding the application of the scoring methods to business realities of our country, we can adapt and apply most of the methods of analysis used in Western countries.

#### 5. Bibliography

1. Achim Monica Violeta, *Analiză economico-financiară*, Ed. Risoprint, Cluj-Napoca, 2010;
2. Avare Ph., G.Legros, L.Ravary, P.Lemonnier, *Gestiune și analiză financiară*, Ed.Economică, București, 2002;
3. Banque De France Centrale De Bilans, *Méthode d'analyse financière*, Paris, 1990;
4. Bătrâncea M, *Risc și faliment*, Ed. Dacia, Cluj Napoca, 2003;
5. Burja Camelia, *Analiză Economico-financiară*, Ed. Casa Cărții de Știință, Cluj-Napoca, 2009;
6. Crecană Cornel, *Analiză economico-financiară*, Ed. Economică, București, 2006;
7. Dinu Eduard, *Rentabilitatea firmei în practică*, Ed. All Beck, București, 2004;
8. Erich A. Helfert, *Techniques of Financial Analysis - a guide to value creation*, Ed. BMT, 2006;
9. Ion Lala, Miculeac Melania, *Analiză economico-financiară*, Ed. Mirton, Timișoara, 2009;
10. Popescu Dan Dumitru, *Creating value through company analysis*, H'ART Publishing Science, Bucharest, 2007;
11. Spătaru Liviu, *Analiza economico – financiară. Instrument al managementului întreprinderilor*, Ed. Economică, 2004;
12. Vâlceanu Gheorghe, Vasile Robu, Nicolae Georgescu, *Analiza economico-financiară*, Ed. Economică, București, 2005.

## Specific Implementation of Fiscal Policy in Some New EU Members, Former Communis Countries

Lecturer PhD Cibotariu Irina Ștefana  
Lecturer PhD Student Apetri Anișoara Niculina,  
Lecturer PhD Mihalciuc Camelia Cătălina  
„Stefan cel Mare” University of Suceava

*irinac@seap.usv.ro, anisoarad@seap.usv.ro, cameliam@seap.usv.ro*

### Abstract

*The fiscal policy has been a part of the economic policy, contributing by specific means to drawing up the economical program of governance. The fiscal policy, seen as specific field of the economical policy, represents the conception and immediate action on organization, management and carrying out the fiscal activities; in other words, one should understand that fiscal policy signifies an assembly of methods, techniques and principles, which concern the operations, relationships, institutions and stipulations within fiscal field. Considering the current integration on the European unique market, the member states are liable to monitor the size of budgetary balance on current account and the public debt inventory, so that they will be able to comply with the restrictions stipulated in The Treaty of Maastricht (1992) and completed by The Settlement of Economic Steadiness and Growth (1997). The two agreements foresee special mechanisms in coordinating the fiscal and budgetary policies, assuming the drawing up of steadiness programs able to aim towards the re-equilibration on short term, or storing the budgetary surplus on long term. In this way, both the East-European states, currently candidates to Euro area, and the West-European states, before the adhesion to Monetary European Union, have started strategies of fiscal adjustment; these strategies consisted of measures able to ensure the necessary conditions on fulfilling the objectives imposed by means of nominal convergence criteria. In this paper, an*

*analysis was proposed over both the changes carried out by the fiscal policy that was adopted by after-communism countries, members of European Union, and over the challenges created by fiscal policy, in conditions of experiencing results of the current economic crisis. The research method consists of storing, analyzing and comparing the data concerning the fiscal policy tools and the budgetary deficiency over EU member countries, provided by Eurostat database.*

**Key words:** fiscal policy, governmental income and expense, budgetary deficiency

**JEL Classification:** G3, G38

### 1. Introduction

Structurally integrated within the economical policy of the state, the fiscal policy meets the following specific features:

1. the fiscal policy should provide a dynamical character, should be emphasized by mobility and flexibility, but should also prove the ability of adapting to concrete requirements of each duration;
2. simultaneously, it has to be endowed with a unitary character, based upon the concept of assembly, so as to ensure the functionality of the entire economical-financial mechanism;
3. it should indicate a global-systematical character and long term steadiness;
4. To be carried out preponderantly within distribution sphere.

The macro-economical stability and success of economical growth depend crucially on implementing an adequate mix of fiscal and monetary policies. These ones, along with the adopted strategies, must see that the social objectives pursued within them are

realized without resorting to persistent budgetary deficits that may, eventually, put in danger the macro-economical balance. We cannot talk enough of the state's need to have a consolidated healthy public finances system (Balcerowicz, 2006). For this reason, the purposes of the fiscal policy should allow all the economical agents, but also the population to benefit of the advantages a free market gives, to pursue realizing the EU fiscal policies' established objectives, but also be compliant with other EU policies, such as the work places' policy, the environmental policy etc.

The fiscal policies of the new EU members are determined both of the apparent problems of the society, which continues to confront with the costs associated to the transition, but also of the rather rigid and exigent norms concerning the EU fiscal policy. When establishing the fiscal policy, certain elements are taken into account: the objectives to modernize the countries' infrastructure, developing the environmental projects, long-term fiscal costs made to reform the health and retirement systems and the obligations to contribute to the EU budget. Furthermore, the problematic of the new EU members' fiscal policy can be fully understood by describing the main constraints of the transition period: inheriting a state of premature welfare, the free-rider behavior and fiscal evasion and the institutional and juridical fragility.

According to the Maastricht Treaty, the governmental deficit and public debt are limited to 3% and 60% of the GDP, for all the members of the EU Economic and Monetary Union. Tightly connected to this, there must also be assured the compliance with the Economical Stability and Growth Treaty. Furthermore, if the monetary policy is authorized to an independent central bank, such as the European Central Bank, the fiscal policy is constrained significantly, for the fact that besides assuring solid public finances, it must also support the ECB's objective to stabilize prices (Lungu, 2005).

From the EU experience, we may affirm that coordinating the fiscal policies towards the tax domain is necessary and must take into

account the nature of the taxes (indirect, direct). In exchange, the fiscal coordination of the policies concerning allocation of the budgetary resources is not a must, because in the EU member countries the budgetary discipline is maintained to stabilize economy and unique currency, and the fiscal policy in the policies of redistributing the budgetary resources is limited by the level of the EU budget existing funds.

The present paper aims to offer an assembly image of the changes made by the fiscal policies adopted by the post-communist countries, also EU members (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Romania and Hungary), and also to present the fiscal aspects specific to these countries and the challenges they faced when integrating in the EU.

## **2. The analysis of the governmental income and expense of the post-communist countries, newly entered in the European Union**

A close look over the income of each new member state, compared to the average of the EU-27 level, will unveil different ways in which they face the new EU member status and certain common characteristics, differentiating them from the old EU countries. The post-communist states hold 8 of the first 10 positions within the EU concerning the greatest share of indirect taxation. The analyzed data and the tendencies within the newly entered fiscal policies lead to a series of remarks, which we will present next.

The indirect taxes have the greatest contribution to the formation of the public financial income in almost all the new EU member states. For example, in Romania, the indirect taxes meant 44% of the total public income in 2006, while in Bulgaria, for the same period of time, the share was 55.27%. Exception- only two of the new EU member states, the Czech Republic, which in 2006 recorded a social contribution share in total income of 44.68% and Slovakia, which also has a great share of social contributions.

Almost all the post-communist countries have decreased the share of the direct taxes within the public income, for reasons such as:

- The relatively low level of economical development, which involves a reduced tax base, both for the company's profit and the individual's income

- The need to attract new productive investments, which determined low tax rates both for the companies and the individuals, sometimes even favoring the introduction of single rate tax systems;

- The direct taxes affect the international product and services' competition, while the VAT is refunded on export and has no effect on the local companies' capacity to export. Also, the direct taxes are more difficult to collect than the indirect ones;

- The motivational psychology of the individuals favor the indirect taxes compared to the direct ones, often perceived as a threat to personal welfare.

The new governments, who wanted to make visible a fundamental change concerning policies oriented more towards the market, easily adopted the reform of introducing single rate taxation. This was also motivated by the necessity to reduce the huge level of fiscal evasion, both legal and illegal. Therefore, seven of the ten countries adopted the single rate tax system, in 2009, the smallest rate being in Bulgaria – 10%, and the highest in Latvia- 23%. In the case of Romania, in the year 2005 a fiscal reform began, which aimed to replace the progressive tax system with the single rate one of 16%, still maintained even in present, and aims to stimulate the investments and capital accumulation. The signs gave by the single rate tax seem to indicate that it was well implemented. Nevertheless, the success in improving tax collection depends mostly on the complementary reforms of the social insurance contributions. The increased margin rates of salary taxes can be a major obstacle in improving tax collecting after the reform.

The previous experience shows that it is important for the decisional factor not to look only at the simple dichotomy between consume and income taxes, or to analyze only the specific characteristics of each tax in the local context. For example, the effect the consume taxes have on the economical efficiency depends on their characteristic of being mainly uniform or target specific goods.

Table 1: The countries' governmental income(GDP percentage)

	2000	'01	'02	'03	'04	'05	'06	'07	'08
EU (27)	45.40	44.8	44.2	44.1	44.0	44.4	44.9	44.9	44.6
Bulgaria	42.20	40.0	39.5	40.0	41.2	41.2	39.5	41.5	39.1
Czech Republic	38.10	38.7	39.5	40.7	42.2	41.4	41.1	41.9	40.9
Estonia	35.90	34.0	36.0	36.0	35.0	35.0	36.0	37.0	37.1
Latvia	34.60	32.0	33.0	33.0	34.0	35.0	37.0	35.0	34.0
Lithuania	35.90	33.2	32.0	31.0	31.0	32.0	33.1	33.0	34.2
Poland	38.10	38.0	39.0	38.0	36.0	39.0	40.0	40.0	39.0
Romania	33.80	32.0	33.0	32.0	32.0	32.0	33.1	33.0	32.0
Slovenia	43.00	43.0	43.0	43.0	43.0	43.0	43.0	42.0	42.0
Slovakia	39.90	38.0	36.0	37.4	35.2	35.2	33.5	32.5	32.5
Hungary	43.80	43.0	42.0	42.0	42.0	42.0	42.0	44.0	45.0

Source: Eurostat, *Economy and finance, Government statistics*

On the other hand, the effect the income taxes have on the work offer depends on their progression rate. This indicates that each country's decision concerning own tax model involves detailed technical analyses, but also a difficult political decision between a greater economical growth and an improved equity (OECD, 2007). In table 1, are presented the governmental incomes of several countries, on areas, as GDP percentage.

Next, we will present the size and evolution of governmental expense of the new member states, in the context of the problems faced after EU integration. If, in the year 2006, the governmental expenses on the Eu-27 level recorded the lowest value of the last five years (46,3%), in the year 2008 these expenses were 46.87 of the GDP, increasing compared tot the last two years (see table 2). The most increased share was reported in 2003, at 47,3%. Comparing the expenses as GDP shares, at the level of the post-communist countries we may observe relatively great differences. While in the case of Hungary, the governmental expenses are around the 50% GDP value, in most of the other countries this share was more close to 40%. The adequate size of the governmental expenses is, actually, difficult to determine because it depends on each country's social preferences.

Table 2: The countries' governmental expense (GDP percentage)

	'00	'01	'02	'03	'04	'05	'06	'07	'08
EU	45.	46.	46.	47.	46.	46.	46.	45.	46.
Bulg	42.	40.	40.	40.3	39.	39.	36.	41.	37.
Czech	41.	44.	46.	47.3	45.	45.	43.	42.	42.
Denm	8	4	3		1	0	7	5	9
Eston	46.	48.	45.	34.	34.	33.	34.	34.	39.
Latvi	37.	34.	35.	34.8	35.	35.	38.	35.	38.
Lithu	39.	36.	34.	33.2	33.	33.	33.	34.8	37.
Polan	41.	43.	44.	44.	42.	43.	43.	42.	43.
Rom	38.	36.	35.	33.5	33.	33.	35.	36.	38.
Slove	46.	47.	46.	46.	45.	45.	44.	42.	44.
Slova	42.	44.	45.	40.1	37.	38.	36.	34.	34.
Hung	46.	47.	51.	49.	48.	50.	52.	49.	49.

Source: Eurostat, *Economy and finance, Government statistics*

Schneider and Zapal (2006) divide the EU newly entered ex-communist countries into two categories: the ones with a "big government" and the ones with a "small government", varying with the level of public expenses. We may also develop this idea, by including the two countries that were accepted in the EU since 2007, Romania and Bulgaria. As it may be seen in tables 1 and 2, there may be a direct connection between the size of the governmental expenses and the size of the fiscal deficits. We may conclude that these countries seem to be fitting in the "big government" category, confronting with difficulties in covering own income. On the other side, fiscal deficits attract public loans, which further on, lead to an eventual increase of the governmental expenses, especially by rates and repayment installments.

The "small government" category countries have recorded average deficits, situated mostly under the 3% GDP value, by the year 2007. We mention that these have implemented single rate tax systems, which leads to the conclusion that they managed to have a better collection of budgetary income and, therefore, a better control over the budgetary deficit.

However, based on the financial and economical crisis, we may observe that, in the year 2008, a governmental deficit increase occurs for both government categories. Thus, of the second category countries, which have surpassed the 3% GDP limit, we may see Lithuania (-3.2%), Latvia (-4%), Romania (-5.4%). In addition, Estonia, which from 2002 to 2007 maintained in an increasing way the budgetary surplus (in the year 2007, this was 2.7% of the GDP), in 2008 it records a -3% deficit of GDP. The only country which since 2004 to 2008 maintained an exceeding budget situation was Bulgaria, this one increasing its surplus even based on the crisis which affected the year 2008, to +1.5% of the GDP.

Although the reduction of the public sector and governmental expenses in the non-crisis period generated positive effects, obvious for the economy of the new member states, threats still exist, and problems connected to the government's little power to influence the economy and society. All of these countries still need important investments in education, healthcare and infrastructure, which must be supported in order to comply with the European development standards. Their main objective is the economical growth and a better redistribution of income in benefit of the disfavored categories of the population. Since the beginning of the 90s, the moderate governmental investments were constantly increasing in the transition countries of the Eastern and Central Europe than in the EU (Gabor and Szapery, 2004). This is normal, as long as the marginal social productivity of the infrastructure investments will tend to increase in the less developed countries.

The analysis of the governmental income structure of the post-communist countries, members of the EU, indicates that the indirect taxes have the biggest contribution to the formation of public income in almost all of the EU newly entered post-communist states. Even more, in these countries, the need to attract new productive investments lead to more reduced direct taxes.

The adoption of the single rate tax, motivated by the necessity to reduce the relatively high level of the fiscal evasion, characterizes seven of these post-communist states (Estonia – 1994, Lithuania – 1994, Latvia – 1997, Slovakia – 2004, Romania – 2005, Bulgaria – 2008 and the Czech Republic – 2008), and seems to have been well integrated. Nevertheless, the

success of improving tax collection greatly depends on making complementary reforms within the social insurance contributions' system. The decision of each country on the way to vary its own tax model takes into consideration more than the simple dichotomy between consumes and income taxes, and involves detailed technical analyses.

Moreover, the size of the governmental sector significantly varies from country to country, the extremes being Hungary - where the governmental expense represent almost 50% of the GDP and Slovakia, which in 2008 reported governmental expense of 33% of the GDP. The reduction of the public sector and governmental expenses generated positive effects, obvious for the economy of the new member states, but threats still exist concerning the government's power to reduce economy. All of these countries still need public services and important investments in order to reach the European standards for education, healthcare and infrastructure. For the following period, the new EU entered should maintain a relative increased level of the public investment expenses, taking into account their relatively low public capital stock.

### 3. Conclusion

Although most of the new member states have managed to respect the fiscal criteria of the Economical Stability and Growth Treaty, and their long-term fiscal viability was not threatened by the slow rate of last period economical growth, certain fiscal consolidations were needed to be made. In the year 2008, under the crisis conditions, five of the 10 countries surpassed the 3% GDP limit. The choice of postponing the integration in the Economic and Monetary Union for reasons of incompliance with the fiscal norms will make that reaching for the convergence criteria to be

delayed, due to accumulating additional public debt and interest rates during the waiting period. We may conclude that there certainly are rather big differences concerning the total fiscal burden of the new and old EU member states. By examining the general taxation as a GDP share, on the EU territory we may observe that the newly entered states are characterized by a more reduced tax rate than the old member states. Therefore, the reward for a better fiscal policy is greater than before, but the risks involved by an inadequate fiscal policy are even greater.

### 4. References

- [1] Balcerowicz, L., "Enlargement, the Lisbon Agenda, and the Economic Development of Member States", *Atlantic Economic Journal*, Vol. 34, Issue 3, 2006, p.261;
- [2] Cioponea, M.C., (2007), „Finanțe publice și teorie fiscală”, Editura Fundației “România de mâine”, București;
- [3] Friedman, Milton, (1948), „A Monetary an Fiscal Framework for Economic Stability”, *American Economic Review*, XXXVIII, 245-264;
- [4] Gabor, O., “The Stability and Growth Pact from the Perspectives of the New Member States”, *Journal of Policy Modeling*, Vol. 27, Issue 7, October, 2004, p. 839-864;
- [5] Georgescu, M.A., (2009), „Administrarea finanțelor publice și a bugetului”, Editura Pro

Universitaria, București;

- [6] Lungu, L., „Multi-Annual Budgeting and the Future of Fiscal Policy in Romania”, *GEA*, March, 2005, <http://www.gea.org.ro>;
- [7] Moșteanu, Tatiana (coord.), (2003), “Politici fiscale și bugetare pentru reformarea economiei și relansarea creșterii economice”, Editura Economică, București
- [8] Schneider, O., Zapal, J., “Fiscal Policy in New Member States: Go East, Prudent Man”, *Post-Communist Economies*, Vol. 18, Issue 2, p. 139-166;
- [9] Ștefură, Gabriel, (2007), „Bugete publice și fiscalitate”, Editura Universității Al.I.Cuza, Iași;
- [10] Văcărel, Ioan, (coord.), (2006), „Finanțe publice”, Ediția a V-a, Editura Didactică și Pedagogică, București;



## An Analysis of the Catastrophe Bonds Market. Modelling the Volatility of an Index

CONSTANTIN Laura-Gabriela  
*Bucharest Academy of Economic Studies*  
*Faculty of International Business and Economics*  
*constantinlauragabriela@gmail.com*

CERNAT-GRUICI Bogdan  
*Bucharest Academy of Economic Studies*  
*Faculty of International Business and Economics*  
*cernatbogdan@yahoo.com*

IAMANDI Irina-Eugenia  
*Bucharest Academy of Economic Studies*  
*Faculty of International Business and Economics*  
*irina\_iamandi@yahoo.com*

### Abstract

*The catastrophe bonds have become an important asset class of the international financial market and the recent disasters that affected economies all over the world reinforced the need of reflection upon this risk transfer instrument. Within this context, this paper is an attempt of modelling the volatility of a catastrophe bond index, mainly the Swiss Re Total Return Index, through a GARCH approach.*

**Key words:** bonds market, volatility, financial environment

**JEL Classification:** G1, G12

### 1. The Catastrophe Bonds Market

Natural catastrophes prove to be an important concern all over the world due to their high economic, social and environmental implications. The recent Haiti and Chile earthquakes or the European windstorm Xynthia brought to attention, once again, the matter of natural risk management as well as the importance of the suitable instruments and mechanisms that permit the allotment of the financial resources when such events occur, an alternative to the traditional (re)insurance contracts.

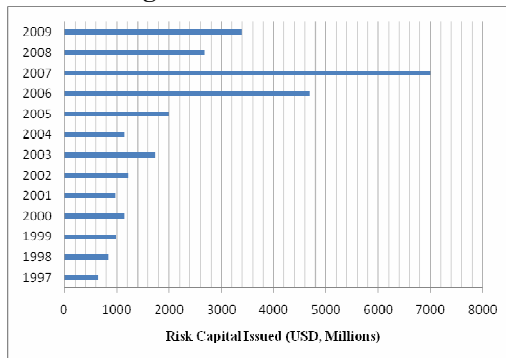
One such instrument is represented by the

**catastrophe bond** – an insurance-linked financial product through which disaster risk is transferred to the capital markets, using the securitization technique, when certain trigger

conditions, associated to the occurrence of catastrophic events, are met. It involves the existence of a reinsurance contract between the ceding company – usually a (re)insurance company and a special purpose vehicle (SPV) and the issue of bonds by the SPV.

This financial instrument appeared in 1997 as a consequence of the damages produced by natural disasters such as Hurricane Andrew or the Northridge earthquake that proved to be too costly for the reinsurance companies. Since their inception, the market of the catastrophe bonds expanded and developed and, in 2007, the peak year of this market, after a decade of use and refinement, “cat bonds” have matured substantially, becoming integrated into modern catastrophe risk management practices (Figure 1) [1].

**Figure 1. Annual Issue Size**

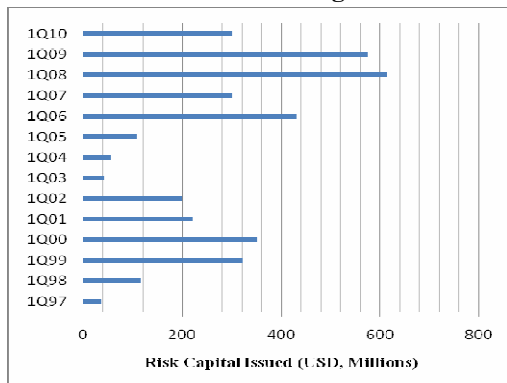


Source: GC Securities, February 15, 2010

In spite of the circumstances imposed by the financial crisis in late 2008 and early 2009, the catastrophe bond market continued to have a crucial role for both (re)insurance companies and investors. Therefore, in 2009, as financial markets stabilized generally, catastrophe bond issuance conditions continued to improve with USD 3.4 billion of risk capital issued through 18 transactions (mainly, a 25 percent increase over 2008, in terms of risk capital) [2].

As for issuance activity registered during the first quarter, 2010, in comparison with 2009, declined in terms of risk capital. However, for the catastrophe bond market the second and fourth quarter stand, historically, for the most intense periods of issuance [3].

**Figure 2. First Quarter Catastrophe Bond Issuance 1997 through 2010**

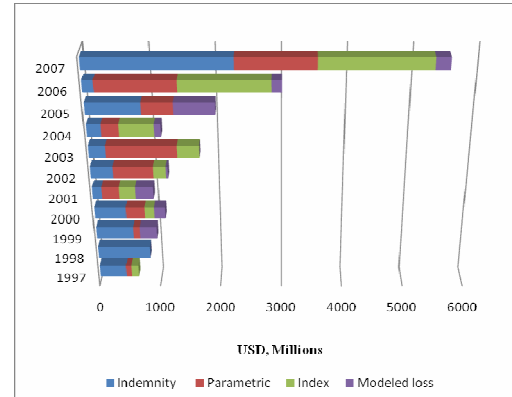


Source: GC Securities Proprietary Database, March 31, 2010

A crucial issue related to the catastrophe bond is reflected by the type of trigger mechanism that determines if the principal of the bond is paid to the sponsor: (1) the actual losses of the ceding entity – indemnity; (2) a loss industry index – index; (3) the reported values of the parameters of the disaster – parametric; (4) the parameters

of the catastrophe event are introduced into a model in order to forecast the expected losses of the sponsor – modelled loss; (5) an adaptation of the parametric trigger – parametric index; (6) the setting of the industry index weights after the occurrence of the event through modelled loss methods – MITT (modelled industry trigger transaction, patented by Swiss Re Capital Market) [5].

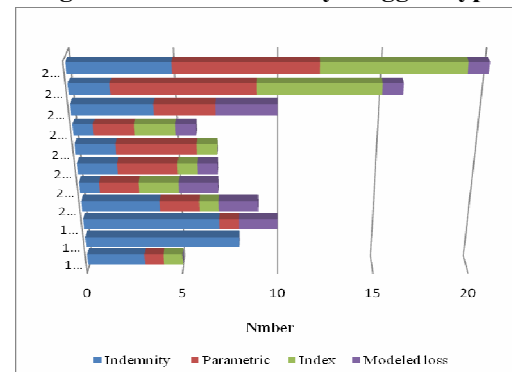
**Figure 3. Risk Capital by Trigger Type**



Source: Adapted by the authors from GC Securities, 2008

In terms both of risk capital and number of transactions by trigger type, the cedent companies showed, in the last years, a preference for index triggers, while the modelled loss ones are the least chosen (Figure 3 and Figure 4).

**Figure 4. Transactions by Trigger Type**



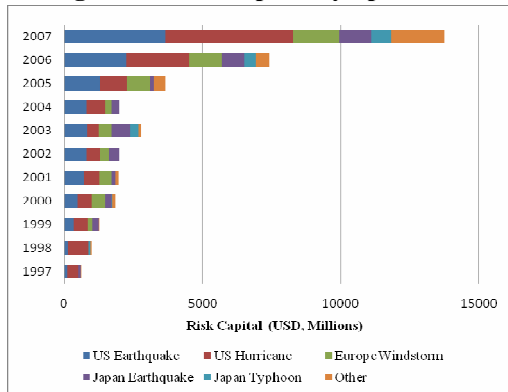
Source: Adapted by the authors from GC Securities, 2008

As far as the covered perils are concerned, the industry showed a propensity towards the US earthquake and US hurricane for all the 1997-2007 period (Figure 5). The same perils seem to be the object of cover through

catastrophe bonds for the following period, 2008-2009.

Moreover, multi-peril transactions (the same dollar of risk principal is exposed to at least two or more perils) accounts for 42 percent of total risk principal issued [4].

**Figure 5. Risk Capital by Specific Peril**



Source: Adapted by the authors from GC Securities, 2008

One issue that should be mentioned as being of a particularly importance for this market is the introduction of some bond market indices, developed by the reinsurance company Swiss Re. These indices were launched in 2007 and are, according to the company, the first step associated with the significant increase in transparency as far as the CAT bond returns are concerned.

The computation methodology is owned by Swiss Re, the determination is made weekly and they are published on Bloomberg. These indices, named Swiss Re Cat Bond Indices, track the price return and the total rate of return for USD denominated cat bonds. Swiss Re Cat Bond Indices track the performance of the main basket, all outstanding USD denominated catastrophe bonds [6].

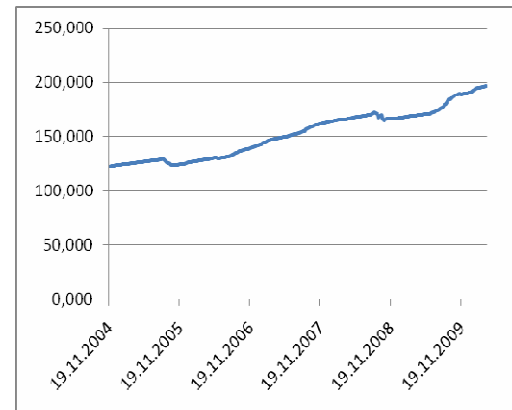
Within the main basket of bonds that are included in the indices one can identify: the Single-Peril US Wind CAT Bonds, Single-Peril California Earthquake CAT Bonds and the BB CAT Bonds (S&P rated). Moreover, the indices measure the coupon return, the price return and the total rate of return.

In addition to these indices, there are catastrophe bond mutual funds that come to expand the market. Among these, one can mention the AIG Diversified CAT Bond Funds or Clariden Leu CAT Bond Funds.

Figure 6 and Figure 7 display the weekly evolution of two of the most important catastrophe bond total return indices, from

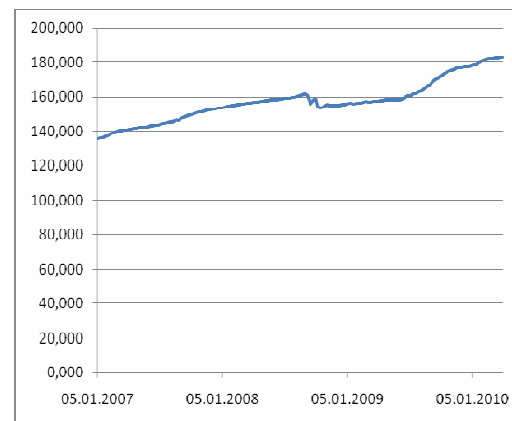
November 2004 till April 2010 for the first one and from January 2007 till April 2010 for the last one.

**Figure 6. Swiss Re Cat Bond Total Return Index**



Source: Bloomberg

**Figure 7. Swiss Re BB Rated Cat Bond Total Return Index**



Source: Bloomberg

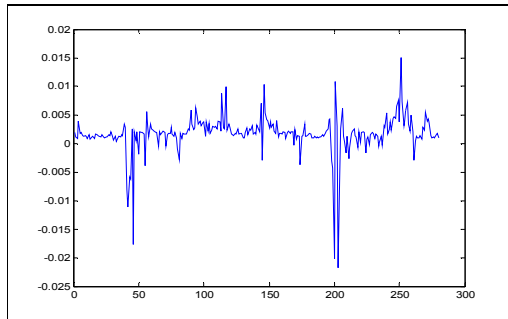
## 2. Testing the volatility of the Swiss Re Cat Bond Total Return Index

In order to assess the volatility of the Swiss Re Cat Bond Total Return Index (SRCBTR), we have checked the stationarity of the considered time series – weekly data from November 2004 until April 2010. As can be noticed from Figure 6, the SRCBTR is not stationary, fact that was proven after performing the Augmented Dickey-Fuller test. The tests and models were performed by using Matlab numerical computing environment [7].

Therefore, we have transformed the data by computing the logarithmic returns of the series (Figure 8). The Augmented Dickey-

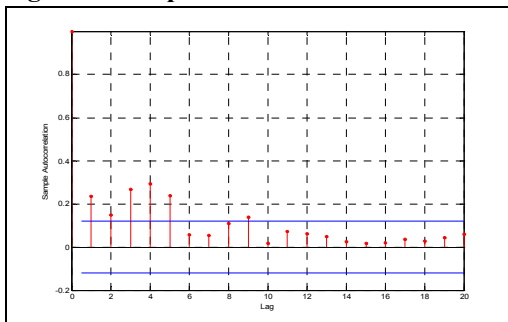
Fuller test proves the transformed time series is stationary.

**Figure 8. Weekly Logarithmic Returns of the SRCBTR**

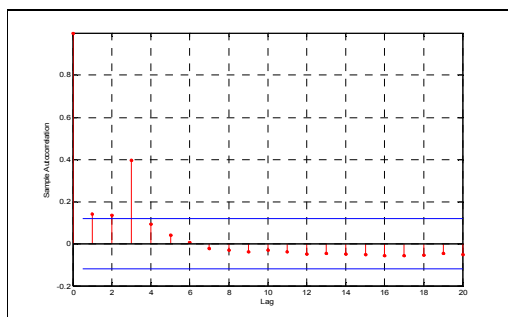


It is widely known that most financial return series exhibit some degree of autocorrelation and, more importantly, heteroskedasticity. Therefore, we plotted the sample ACF (auto correlation function) of both the transformed time series and of the squared values of the transformed series (Figure 9 and Figure 10).

**Figure 9. Sample ACF of SRCBTR Returns**



**Figure 10. Sample ACF of Squared SRCBTR Returns**



As can be noticed, the return series exhibits significant correlation from lag 1 to lag 5 and at lag 7. In addition, the sample ACF of the squared returns illustrates the degree of persistence in variance.

In addition, to sustain the graphical analysis, we quantified the correlation (for the returns and squared returns series) by using the Ljung-Box-Pierce  $Q$ -test (under the null hypothesis of no serial correlation). The outputs evidence that significant correlation exists both in the returns and the squared returns (in Table 1 and Table 2, respectively, the first column reflects the number of lags for which the test was performed;  $H=1$  confirm the serial correlation, the other columns reflect the p-value –  $p$ , the statistic test –  $Stat$  is higher than the critical value of the Chi-Square distribution –  $CV$ ).

Moreover, the Engle's test for the presence of ARCH effects was performed (the null hypothesis is that a time series is a random sequence of Gaussian disturbances, more specifically that there are not present ARCH effects). The output is presented in Table 3 and there is significant evidence in support of heteroscedasticity ( $H=1$  indicates rejection of the null hypothesis).

**Table 1. Ljung-Box-Pierce Q-test SRCBTR Returns**

Lags	H	p	Stat	CV
10	1.00	0.00	94.37	18.30
15	1.00	0.00	98.03	24.99
20	1.00	0.00	100.35	31.41

**Table 2. Ljung-Box-Pierce Q-test Squared SRCBTR Returns**

Lags	H	p	Stat	CV
10	1.00	0.00	56.75	18.30
15	1.00	0.00	58.24	24.99
20	1.00	0.00	60.65	31.41

**Table 3. Engle's ARCH test for the SRCBTR Returns**

Lags	H	p	Stat	CV
10	1.00	0.00	57.76	18.30
15	1.00	0.00	59.36	24.99
20	1.00	0.00	58.98	31.41

All the above mentioned results implied the calibration of a GARCH (*generalized autoregressive conditional heteroscedasticity*) model.

The word “autoregressive” indicates a feedback mechanism that incorporates past observations into the present. The word

“conditional” indicates that variance has a dependence on the immediate past. The word “heteroscedasticity” indicates a time-varying variance (volatility). One type of GARCH models EGARCH ( $P, Q$ ). Its general model for the conditional variance of the innovations, with leverage terms and an explicit probability distribution assumption [8], is:

$$\log \sigma_t^2 = k + \sum_{i=1}^P G_i \log \sigma_{t-i}^2 + \sum_{j=1}^Q A_j \left[ \frac{|\varepsilon_{t-j}|}{\sigma_{t-j}} - E \left[ \frac{|\varepsilon_{t-j}|}{\sigma_{t-j}} \right] \right] + \sum_{j=1}^Q L_j \left[ \frac{|\varepsilon_{t-j}|}{\sigma_{t-j}} \right]$$

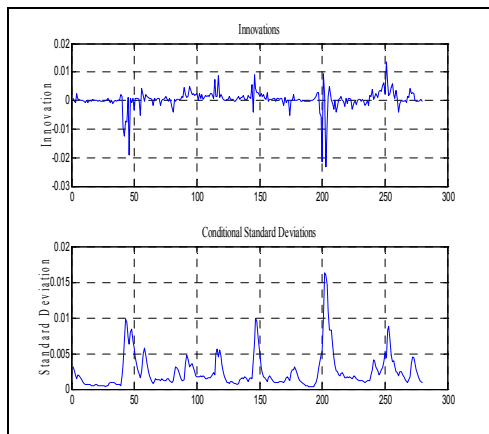
The Matlab environment generated the parameters presented in Table 4, mainly an ARMAX (3, 0, 0)/EGARCH (2, 1).

**Table 4. Estimated parameters**

Parameter	Value	Standard Error	T Statistic
C	0.00066	0.000100	6.5704
AR(1)	0.17189	0.053939	3.1868
AR(2)	0.13055	0.053848	2.4244
AR(3)	0.18836	0.049601	3.7976
K	-0.79181	0.13478	-5.8750
GARCH(1)	1.3921	0.056477	24.6497
GARCH(2)	-0.45927	0.054352	-8.4498
ARCH(1)	0.57794	0.059099	9.7792
Leverage(1)	0.14324	0.034096	4.2009

Consequently, the model extracted the filtered residuals and volatilities from the index returns. As shown (Figure 11), the lower graph exhibits the variation in volatility present in the filtered residuals (innovations).

**Figure 11. Filtered residuals and conditional standard deviations**

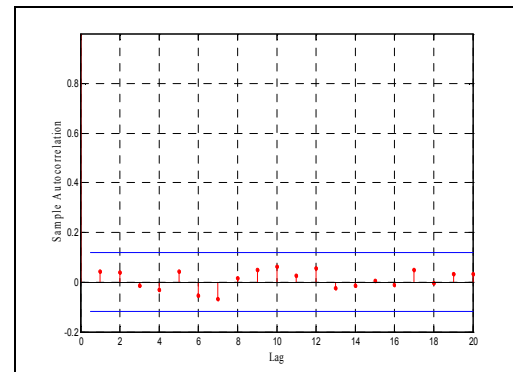


After filtering the model residuals from the return series, we standardize the residuals by the corresponding conditional standard deviation

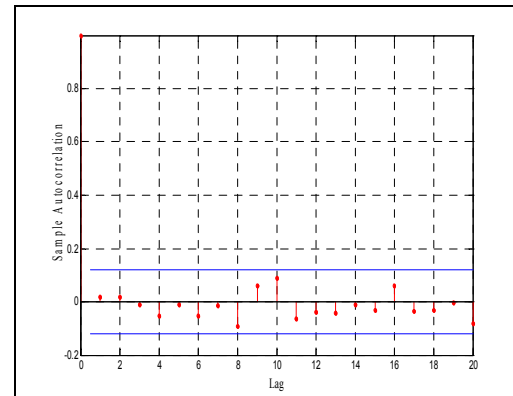
and examine the ACFs of the standardized residuals and squared standardized residuals (Figure 12 and Figure 13, respectively).

Therefore, by comparing the ACFs of the standardized residuals to the corresponding ACFs of the raw returns reveals that the standardized residuals are now approximately i.i.d. Moreover, the chosen model sufficiently explains the heteroscedasticity in the raw returns.

**Figure 12. Sample ACF of Standardized Residuals**



**Figure 13. Sample ACF of Squared Standardized Residuals**



As previously performed, in order to substantiate the graphical analysis, we quantified the correlation of the standardized innovations by performing the Ljung-Box-Pierce  $Q$ -test. In addition, we performed the Engle’s test for ARCH effects.

The results are displayed in Table 5, Table 6 and Table 7, respectively and indicate acceptance of the null hypotheses ( $H=0$ , with highly significant p Values).

**Table 5. Ljung-Box-Pierce Q-test for the standardized innovations**

Lags	H	p	Stat	CV
10	0.00	0.82	5.83	18.30
15	0.00	0.95	7.24	24.99
20	0.00	0.98	8.76	31.41

**Table 6. Ljung-Box-Pierce Q-test for the squared standardized innovations**

Lags	H	p	Stat	CV
10	0.00	0.66	7.71	18.31
15	0.00	0.81	10.20	25.00
20	0.00	0.83	13.99	31.41

**Table 7. Engle's ARCH test for the standardized innovations**

Lags	H	p	Stat	CV
10	0.00	0.71	7.18	18.31
15	0.00	0.81	10.14	25.00
20	0.00	0.81	14.32	31.41

### 3. Conclusions and further research

The analysis of the catastrophe bond market showed that this instrument gained its place within the financial environment and became a robust alternative for the traditional insurance contracts. Moreover, through the development of market indices, the participants of this market proved an interest in making their products, in particular, and the insurance-linked market, in general, more transparent by offering important information.

In the end, the research focused on one of these indices, mainly the Swiss Re Cat Bond Total Return index in an attempt to test for variation in volatility. The identified EGARCH model is satisfactory in explaining the heteroscedasticity in the raw returns. Within the future research one will be considered other catastrophe bond indices and mutual funds.

### 4. References

- [1] Guy Carpenter, "The Catastrophe Bond Market at Year-End 2007: The Market Goes Mainstream", The Catastrophe Bond Market at Year-End study series, 2008, pp. 2-3
- [2] Guy Carpenter, "Catastrophe Bond Market Continues to Improve", February, 2010; <http://www.gccapitalideas.com/2010/02/15/catastr-ope-bond-market-continues-to-improve>
- [3] Guy Carpenter, "Catastrophe Bond Update: First Quarter 2010-Heavy Smoke, Some Fire...Encouraging Conditions Persist", April, 2010, <http://www.gccapitalideas.com/2010/04/13/catastr-ophe-bond-update-first-quarter-2010-E2%80%93-heavy-smoke-some-re%2%80%A6encouraging-conditions-persist/>
- [4] Guy Carpenter, "Chart: Insurance Linked Securities Issuance, By Peril, 1997 Through April 1,2010", April,2010, <http://www.gccapitalideas.com/2010/04/07/chart-insurance-linked-securities-issuance-by-peril-1997-through-april-1-2010/>
- [5] Swiss Reinsurance Company Ltd, "Securitization: New Opportunities for Insurers and Investors", Sigma No. 7/2006, Zurich, Switzerland, 2006, p. 6

## Legal Changes Brought by Order 3055/2009 Regarding the Structure of the Profit and Loss Account in Annual Financial Statements

Carmen Luiza Costuleanu

*Faculty of Economics, University „Petre Andrei” from Iași*  
*ccostuleanu@yahoo.com*

Bulgariu Catalin

*Faculty of Economics, University „Petre Andrei” from Iași*  
*bulgariuc@xnet.ro*

Lupu Diana Viorica

*Faculty of Economics, University „Petre Andrei” from Iași*  
*diana\_viorica@yahoo.com*

### Abstract

*In Romania, the Order 3055/2009 entered into force on January 1<sup>st</sup> 2010 and it repealed the Order 1752/2005 on the approval of accounting regulations in accordance with European directives. Some major steps were taken in order to harmonize the Romanian legislation with the EU legislation based on the collective ability and will to align domestic standards in the economic area with the standards in force of the European Union.*

**Key words:** EU regulations, company's turnover, accounting principles, financial statements.

**JEL classification:** M 41

In Romania, the first accounting regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards were implemented in 1999 but only in some companies listed on the Stock exchange and in some enterprises of public interest. After this first initiative, between 2000 and 2005, the scope of the regulations was extended according to various criteria, among which the most important ones are: the total assets, the turnover and the number of employees. The total value of the assets and of the turnover is expressed in Euro and not in lei.

In Romania, the financial statements drawn up by legal persons encompass the balance sheet, the profit and loss account, the situation of changes in capital, the situation of cash flows,

and explicative notes to the annual financial statements.

The profit and loss account is present both in the balance sheet, by the abbreviated meaning of the financial year's outcomes (account 121), which can be gross or net, and in the annual financial statements, in a detailed form. In the latter form, the profit and loss account encompasses the grouping of expenses and revenues by the nature of the activity that has created them, grouped in operating, financial and exceptional expenses and revenues, the results corresponding to each of these, the gross and final net result of the financial year compared with the data of the previous financial year.

In 1999, the Order 403 of the Ministry of Public Finances produced the amendments to the General Plan of Accounts that were necessary and sufficient for that time; thus, some accounts were repealed, some new accounts were introduced and other accounts changed name. In addition, Order 403/1999 settled the basic rules and principles, the form and content of annual financial statements.

According to legal provisions (Order 3055/2010 on the accounting regulations in accordance with European directives), the following accounting principles must be applied in the recording of operations that involve revenues and expenses: the principle of the financial year's independence that refers to the separation of the current financial year from the previous years and the principle of non-compensation between expenses and revenues. Just as accounting

regulations must be met in the recording of accounting data, in the preparation of annual financial statements, expenses and revenues must be grouped by their nature in appropriate categories. Failure to comply with the regulations in force is punishable according to the gravity of the misdemeanour.

Each entity must adopt its own accounting policy that is all accounting, fiscal and legal decisions, applied internally and externally, that seek to ensure profits and the entity development. Changes in the company policy may be brought by:

- the economic and social context in which the entity operates;
- the acquirement of relevant and reliable data that can lead to an upward evolution on short term and to spectacular results.

The economic benefit translates as the potential to contribute directly or indirectly to the entity's cash flow. This contribution is reflected either by the increase in cash inflows or by the decrease in cash outflows. Thus, the potential can be productive when the asset is used separately or together with other assets to provide services or to produce goods that could be sold by the entity. In addition, the potential may take the form of cash convertibility.

In order to be relevant financial statements must be easily understood by all their users, credible through the elimination of significant errors, and easy to analyse in time and space. All these requirements must be supported from a theoretical point of view by the entity's policies and from a practical perspective by the compliance with the laws on accounting and the other regulations in force in Romania.

In order not to disturb the outcome of the financial year, expenses that belong to other financial years are recorded in the account of 'advance expenses' from which the amounts pertaining to each accounting period are subsequently deducted. Revenues are recorded in the credit of 'advance revenues' thus meeting the same principle, i.e. the principle of the separation in time of financial years. A special stress is put on the recognition and assessment of assets and liabilities and their presentation in financial statements.

In what regards the recognition of revenues from sales, two requirements must be met in order for them to be valid. The quantification of revenues and expenses stipulated by Order

1752/2005 refers to the possibilities of measurement, recognition and assessment of management accounting and financial accounting. These three characteristics described by quantification are provided by Order 3055/2009, i.e.:

- size of revenues can be assessed in a credible manner;
- transaction costs can be assessed in a credible manner.

A new element emerges, that is *the probability that the economic benefits arising from the transaction be generated by the entity.*

"Table 1. Recognition of revenues from sales"

<b><i>Order 1752/2005 – Revenues from sales are recognised when the following requirements are met:</i></b>	<b><i>Order 3055/2009 – Revenues from sales are recognised when the following requirements are met:</i></b>
a) the entity has transferred to the buyer the significant risks and benefits that arise from the ownership of the goods;	a) the entity has transferred to the buyer the significant risks and benefits that arise from the ownership of the goods;
b) the entity no longer manages the goods it has sold at the level that it would normally do if it still owned them, and it no longer has effective control over them;	b) the entity no longer manages the goods it has sold at the level that it would normally do if it still owned them, and it no longer has effective control over them;
c) the revenues and expenses incurred by the	c) the size of revenues can be assessed in a



transaction can be quantified.	credible manner;
	d) it is likely that the economic benefits arising from the transaction be generated by the entity;
	e) transaction costs can be assessed in a credible manner;

The costs supported by the entity related to the construction of systems that provide the facilities necessary for operation are recorded according to their nature, by period, if in the contracts concluded with facility providers it is stipulated that their ownership is going to be taken over by the service or construction work provider.

The final balance of the profit and loss account represents the definitive outcome of the financial year, established at its end and cumulated since its beginning.

In the plan of accounts, the amendments brought by Order 3055/2009 in what regards expenses and revenues refer to the introduction of commercial discount accounts and of accounts of expenses in the area of environmental protection.

„Table 2: New entries and changes in revenue and expense accounts”

<b>Order 3055/2009 new expense accounts</b>	<b>Order 3055/2009 new revenue accounts</b>
new account: 609 – commercial discounts received	new account: 709 – revenues from commercial discounts
new account: 643 – bonus expenses representing the staff’s participation in profits	new account: 712 – revenues from revenues related to costs of services in progress
new account: 644 – expenses on remuneration in	the account name is changed:

equity instruments	711 – revenues related to stocked costs of products
new account: 652 – expenses on environmental protection	

The profit and loss account from annual financial statements is subject to some changes in accordance with the plan of accounts and related to it:

- in line 04, the revenues related to commercial discounts (acc. 709) that are part of the turnover are newly introduced;
- in line 07, the name is changed to revenues related to the costs of production in progress (acc. 711), the previous name being stock variation;
- in line 07, cumulated with the revenues related to the costs of production in progress, the revenues related to the costs of services in progress are newly introduced (acc. 712);
- in line 16, expenses on commercial discounts (acc. 609) are included in operating expenses.

A company’s turnover can be defined as the total amount of revenues produced by its main activity including the revenues from commercial discounts.

Romanian regulations are more and more in line with EU regulations; it can be said that Romania took another important step toward a common framework in the implementation of legal provisions in the field of accounting.

Users of financial statements prepared under these regulations include current and potential investors, employees, creditors, suppliers, customers, and other relevant state institutions as well as the public. They use financial statements to meet part of their information needs. According to stakeholders, needs may include the following information:

- a) Investors. Bidders of risk bearing capital and their advisers are concerned about the inherent risk in trading and profitability of their investments. They need information to decide whether they would buy, keep or sell equity instruments. Shareholders are

concerned in information to enable them to assess the entity's ability to pay dividends.

b) Employees. Staff and their representative groups are interested in information on the stability and profitability of their employers. They are interested in information to enable them to assess the entity's ability to provide remuneration, pensions and other retirement benefits and career opportunities.

c) Creditors. Lenders are interested in information which enables them to determine whether loans and interest will be repaid at maturity.

d) Suppliers and other creditors. Suppliers and other creditors are interested in information which enables them to determine whether what they are owed will be paid at maturity. Suppliers and other creditors are generally interested in the entity on a shorter period than lenders unless they are dependent on the continuity of the entity when it is a major customer.

e) Customers. Customers are interested in information about an entity's business continuity, especially when they have a long-term cooperation with the entity or are addicted to it.

f) State and other relevant institutions. State institutions and other authorities are interested in resource allocation and default activity entities. They require information to regulate the activity of entities, to determine tax policy as a basis for calculating the national income and other statistical-like indicators.

g) Public. Entities may affect the public in various ways. For example, entities may have a substantial contribution to the local economy in many ways, especially by the number of employees and working with local suppliers. Financial statements may help the public, providing information on recent developments and trends related prosperity of the entity and its sphere of activity.

Although not all information needs of users can be met by general purpose financial statements, there is information that may interest all users.

## Conclusions

A company's turnover can be defined as the total amount of revenues produced by its main activity including the revenues from commercial discounts.

Romanian regulations are more and more in line with EU regulations; it can be said that Romania took another important step toward a common framework in the implementation of legal provisions in the field of accounting.

## References

- [1] **Order 3055/2005** on the approval of Accounting regulations in accordance with European directives, published in the Official Journal 766/10.11.2009;
- [2] **Order 1752/2005** on the approval of Accounting regulations in accordance with European directives;
- [3] **Accounting Law** no. 82/1991.

## Fair value assessment – valences and limitations

Lecturer PhD. Cozma Ighian Diana

University of North, Baia Mare, Romania

dianaighian@yahoo.com

Lecturer PhD. Nistor Cristina Silvia

Babes-Bolyai University, Cluj Napoca, Romania

cristina.nistor@econ.ubbcluj.ro

### Abstract

*In recent years, FASB and IASB have intensified research on fair value measurements and planned to further expand the scope of applicability of fair value measurements. However, organizations responsible for formulating the principles, enterprises, social bodies and academia are locked in a dispute over the advantages and disadvantages of fair value measurements, and no consensus has been reached yet. This paper explores the arguments for and against fair value and tries to find out whether advantages are superior to disadvantages of fair value measurements.*

**Key words:** fair value, FASB, IASB, measurement

**JEL Classification:** M4, M41

### Introduction

The concept of fair value caused many debates concerning the meaning of modern accounting as a theory and practice. First, this concept was used for the financial instruments. Today, the tendency is to extend the application of the fair value to many other elements of the financial statements, even to the module of assets and liabilities of a company.

Historical cost accounting was sufficient as long as a company's assets consisted mostly of identifiable tangible assets. With the increased prominence of intangible assets, such as intellectual capital, human resources, brand names, technology advances, or corporate culture, this accounting model resulted in undervaluing and under-recording assets that contributed significantly to the achievement of a company's strategic goals and objectives.

Therefore, the accounting model of the companies that invest an important part of their resources in intangible assets does not reflect their real capacity to generate future profits; consequently this model doesn't reflect the real value of the company. For example, intangible assets that are recorded in the balance sheet - purchased copyrights, patents, and other legal rights - are recorded at historical cost. Other intangible assets, such as brand assets, assets arising from marketing and supplier relationships, and knowledge assets developed from research and development are not recorded at all. Consequently, great disparities between companies' book and market values have been observed, and the users of financial statements have pressed for more relevant fair-value information.

Although recent accounting standards reflect the increasing acceptance of fair value as a measurement attribute, the shift towards the fair value accounting model has not been without controversies. Fair value accounting information continues to be criticized as being less reliable than historical cost, especially when based on subjective assumptions. Estimation errors introduce distortion not only into the balance sheet, but also into the income statement. Furthermore, unrealized changes in fair values from one period to the next, which must now be reported as gains and losses in financial statements, distort the results of operations, if and when they flow through the income statement each period. And finally, fair value accounting requires proper matching of assets and liabilities, which is even more difficult to implement than the

matching of revenues and expenses under a historical cost model.

For the past decade, in order to improve the decision-making relevance of financial statements, the Financial Accounting Standards Board (FASB) has been adding more fair value recognition, measurement, and disclosure standards to the body of U.S. generally accepted accounting principles (U.S. GAAP). The International Accounting Standards Board (IASB) follows a similar approach. As a result, a mixed accounting model has been developed, which is still primarily based on historical cost but with an ever increasing application of fair value accounting.

In present times, the need to replace historical cost with other valuation bases arises from investors, who have a direct interest in assessing the real value of a company, since they have to decide on how to manage their share of capital. This is why the pressure coming from the investors and the accounting regulation bodies has recently led to an evolution of the accounting models of a company, from one based on historical cost towards an accounting model based on the fair value of the assets and liabilities.

Consequently, a shift has occurred in recent years towards using the balance sheet as the primary financial statement conveying information to shareholders, and the income statement reporting economic income as simply the change in value over a period of time.

The extension of the scope of fair value is favored by the development of capital markets and the improvement of the means for data processing. Thus, fair value as valuation basis is strongly supported particularly in countries whose economy is based on the capital market, but also has numerous critics, especially in European countries.

Applying fair value in book-keeping seems to allow for the creation of financial statements that provide third parties with a better assessment of the present and future performances of the company, and therefore provides them with more solid grounds for decision-making.

Several authors [1, 4, 7, 9] provide an analysis of the benefits and criticism related to fair value. The supporters of fair value argue that it is useful as a valuation system – not

necessarily at a general scale – using the following arguments:

*a) it is forecast-oriented*

Fair value allows the best forecasting of the future treasury flows, since it is based on estimates of such flows. This allows financial analysts to make a more correct estimate of the future treasury flows.

*b) it provides more objectivity and accounting neutrality*

As it is determined by reference to external data, either directly, through market values, or, when no active markets exist, through references to models based on parameters resulting from external data, fair value has a “neutral” value, meaning that it is not influenced by the company itself.

It is believed that the amendments made to historical cost, particularly when it comes to adjusting it to the depreciation of the assets, is based on very rough, subjective estimates, subject to the interest or the company’s manager. Whereas fair value is believed to prevent the excessive use of creative book-keeping endorsed by managers [2].

We do not agree fully to this appreciation, all the more so since fair value itself is often times estimated by the accounting professional, employee of the company. Even if a valuation expert is used, an authorized person acting as consultant to the company, just value is still not safeguarded against subjectivism.

*c) it allows for a better comparability of fungible assets, in particular financial instruments*

Using the model of fair value as valuation method allows for a creation of financial statements of assets valued for current values, regardless of the date they were acknowledged in the accounts.

*d) they provide a better perspective and comparison on the present and future performances of the company*

By generalizing the valuation system based on fair value, the new means of quantifying the result (which would also include the latent pluses and minuses generated by fair value valuation), would also improve the degree to which accounting records express the company’s economic value.

*e) it improves the shareholders' control over the managers*

This could be achieved if financial statements were entirely assessed based on fair values. Thus, the managers would have available an important database for calculating and controlling certain indicators that may increase value for the shareholders, such as the Economic Value Added – EVA, or the Market Value Added – MVA).

Furthermore, such financial statements would allow for a better understanding of how much of the global share value results from the company's ability to obtain an asset efficiency higher than the one on the market, and, on the other hand, how much is due to the mere possession of the assets [2].

*f) its low complexity, especially for short-term financial instruments*

For short-term financial instruments, the use of fair value as valuation base is simple if we take into account the existence of numerous market references. The same applies to long term quoted instruments.

*g) it provides coherence for an active management of financial risks*

More often than note, companies manage their rate risks, price risks, and even the risks derived from non-saleable instruments such as swaps. Such management is better ensured by using current values as reference points. Today, numerous groups of companies use fair value in the active management of their price risks.

*h) it has a "much more universal" character than historical cost*

According to the traditional accounting model, which is based on historical cost, anything that doesn't have a cost is not registered in the accounting records. According to this principle, certain financial instruments would not be registered in the accounting records, in particular derivative products which, by definition, do not generally require the presence of financial flow at their origin, which has a negative impact on valuations based on future treasury flows. This gap incurred by the use of historical cost disappears when the valuation is made based on fair value.

*i) provide information for the investors which are useful for decision making*

Generally, an investor assesses the risk that he is ready to accept in exchange for a particular return. The assessment is based on the

information available to him. The information about the market value at the reporting date, the changes in that value provide the investors valuable information for them decision making. Therefore, if an investor knows the market value of a financial instrument and has information about its terms and risks, he has the basics for evaluating the market's expectations. [5].

The critics of fair value show that this concept was introduced to the accounting practice without any thorough theoretical study and without a prior analysis of the consequences of using this principle as basis for the general valuation of assets and liabilities [2].

Indeed, many accounting specialists have certain reserves with regards to fair value, which are the cause – or perhaps the effect – of the multiple aspects involved by this concept. The disadvantages of fair value, as presented in specialized literature, are presented below:

*a) it doesn't always provide reliable information*

If the market specific to a certain asset does not exist or is not active, fair value will be obtained based on valuation models, which are themselves based on a series of estimates and which are subjective and hard to verify. For instance, in the case of the updated value, it is necessary to estimate the life of the asset, its residual value, the treasury flows it will generate in time and, finally, the update rate. Estimates are inherently subjective. Thus, the valuation method incurs an inherent risk, and another risk related to the intentional manipulation of data.

*b) its concrete determination gives rise to serious technical and financial problems*

Thus, if there is no market value available at hand, and specific valuation methods are employed, it is necessary to be familiar with the methodology of asset valuation and to determine future market movements that are not directly observable. On the other hand, and in relation to the above, the cost entailed by obtaining the application of fair value may be high. Without external ratings, fair values must be calculated inside companies, using models whose conception, completion

and control operations are highly expensive, at least relative to the benefits assigned to such values.

*c) it creates difficulties in determining the allocable result*

The new values of assets and liabilities are potential, latent values. Also, using valuation methods based on fair value implies including in the result such “virtual” elements as are generated by the market’s evolution, which are only “potential” gains or losses. Such a result, obtained from adjustments of the elements of the balance sheet in accordance with the market value or estimated value, is inconstant and is generated by causes that, as a rule, cannot be controlled through decisions of the company’s managers.

*d) it benefits one of the categories of users of the accounting information, namely the investors*

And that is because it provides, first and foremost, information on the company’s stock exchange performances, which are not directly relevant to the other users of the accounting information, who would have the right to be supplied with implicit or explicit information specific to their interests. Thus, the other users of the accounting information (banks, suppliers, clients or employees) have different informational requirements with regards to company accounting.

Anyhow, it is difficult for accounting norms and regulators to manage to satisfy the interests of all the users. Even though they claim to be open towards all the user categories, accounting regulation bodies (IASB and FASB) are beneficial mostly to investors, as the norms were created relative to their requirements. In fact, the two regulating bodies are promoters of fair value, supporters of value for the shareholder and of the importance of capital markets which are where value is formed and communicated. It is obvious that investors, while they might not be the main users, are at least the designated users who, it is expected, should have certain privileges with regards to the requirements and supply of financial information. To this aim, they wish to be informed based on fair values. To them, the absence of quick and accurate information on the effects of the markets’ evolutions on companies may increase the degree of uncertainty, which can lead to an increase in the costs of capital for a company.

The Europeans are far more skeptical with regards to the usefulness of fair value for other categories of users of the accounting information, and valuation methods based on fair value are heavily criticized.

In the table below we have summarized the main advantages and drawbacks involved by the use of a valuation system based on fair value:

**Table no. 1** Qualities and limitations of the fair value

Qualities of the fair value	Limitations of the fair value
It allows for an estimate of future treasury flows, an aspect which is highly appreciated by investors. (predictability)	Estimates may affect the reliability of the information provided, since they are not exempt from subjectivism, and the different interpretation of the factors taken into account may lead to covering up intentional mistakes or manipulating the numbers.
For certain items (such as financial instruments), fair value is very easy to determine. (simplicity)	Many elements of financial statements don’t have active markets, and therefore their valuation is completed by means of rather complex techniques. These involve resorting to valuation specialists, which can increase the cost for obtaining the application of fair value.

It ensures the comparability of financial information by valuating similar items in the same manner.	If various valuation techniques are used, the elements taken into account when calculating the fair value may differ from one company to another, which has a negative impact on the comparability of data.
Since it uses data from external sources (market prices), fair value is independent of the decisions of the management and date of the transactions (neutrality).	Only such values are objective and neutral as are established by a valuator who is not the accounting professional employee of the company, and are based on market prices.

## Conclusions

When analyzing the advantages and drawbacks of fair value, one must establish the target, respectively the users of the financial statements. Who benefits from fair value valuation and who doesn't?

Different users may demand different accounting reports, and confusion reigns if issues are discussed at cross purposes. A shareholder might recognize a gain from a fall in the market value of debt as creditworthiness deteriorates, but not the creditor. Bank shareholders might wish to see bank deposits at fair value, but not the depositors. A bank regulator would also be concerned about reporting deposits at less than face value if such reporting affected depositors' confidence in the banking system. While an investor might welcome the information about volatility that fair value accounting reveals, not so a central banker who might be concerned about feedback effects on systematic risk. A bank regulator might be concerned about marking up banks' capital during speculative times with the resulting incentive for profligate lending [10].

The biggest advantages of fair value is that it can reflect timely the profits and losses because of the market risk and the impact of credit

quality, and could be more fairly to reflect the commercial banks' true financial position and operating results, promote financial stability in a certain extent. But at the same time, the measurement from the traditional mode of the transition to fair value model will cause the volatility of assets, liabilities, profit and loss, which in the macroeconomic area may affect the operations of the business company, then gives the banking sector and even the entire financial system a negative impact.

To this limitation of the fair value, one may add the cost for obtaining it, which is by no means low, in the case of many companies, particularly when subject to the valuation are items that are not transacted on an active market.

Empirical evidences show that investors want both measurements. They want reliable and transparent fair value information to determine the actual value of their investment. They also want historical cost information that helps them to determine whether management has discharged the stewardship entrusted to them.

A process can be created and implemented whereby historical cost and fair value information is reported side by side, which will enhance relevance, reliability and comparability. In addition, some actions should be taken to eliminate the current limitations in fair value accounting. These may be:

- Establish more robust accounting, valuation and auditing guidance.
- Provide more education to preparers, auditors and users about fair value accounting.

Therefore, it will not be good for any one if the debate between the two approaches will be ongoing. Rather, focus should be given to implement fair value accounting in reporting all assets or liabilities to reflect their true value without eliminating historical cost accounting.

According to a different opinion [6], the use of fair value does not necessarily lead to a new accounting system, or an accounting revolution, so to speak, but to an evolution of the accounting model. In support of this reserve with regards to the importance of fair value, it is shown that fair value has

coexisted for a while with historical cost, within a mixed accounting system. The difference stands only in the name, given that, in the past, the concept was used under the name of current value.

### References

- [1] Bernheim, Y, Escaffre, L. (1999). „Point de vue. Evaluation á la juste valeur. Un nouveau modéle comptable?“, *Revue Comptabilité Contrôle Audit*, tome 5, volume 2, pp. 25-45.
- [2] Casta, J.F. and Colasse, B. (2001) Juste valeur enjeux techniques et politiques, *Economica, Paris*.
- [3] Christian, Laux and Christian, Leuz The Crisis of Fair Value Accounting: Making Sense of the Recent Debate, *Chicago Booth, Working Paper No. 33* available online at <http://ssrn.com/abstract=1392645>.
- [4] Deaconu, A. (2009) Fair Value. Accounting Concepts, *Ed. Economica, Bucharest*.
- [5] Hague I., Willis W.D. (1999) *Old price or new?*, CAMagazine, February, accesibil on-line la [www.camagazine.com/index.cfm/ci\\_id/5677/la\\_id/1.htm](http://www.camagazine.com/index.cfm/ci_id/5677/la_id/1.htm)
- [6] Gélard G. (2002) *L'IASB 18 mois après*, Revue Française de comptabilité, nr. 348, pag. 31.
- [7] Ionascu, I. (2003) Dynamics of the Tenets of Contemporary Accounting Systems, *Ed. Economica, Bucharest*.
- [8] Matiş, Dumitru & collective (2005) Accounting Bases. Practical and Theoretical Aspects, *Alma Mater, Cluj Napoca*.
- [9] Niculae, Feleagă and Liliana, Feleagă (2006) Valuation Models and Rules in International Accounting, *Theoretical and Applied Economy no. 4*, available online at <http://www.ectap.ro/articole/69.pdf>
- [10] Patrick. A. Casabona, Sylwia Gornik-Tomaszewski Special issue: fair value in financial reporting, auditing, and tax accounting, Review of Bussines, oct 2007, accesibil on line [http://findarticles.com/p/articles/mi\\_hb6451/is\\_4\\_27/ai\\_n29384180/](http://findarticles.com/p/articles/mi_hb6451/is_4_27/ai_n29384180/)
- [11] Stephen H, Penman (2007) Financial Reporting Quality: is fair value a plus or a minus?, *Accounting and Business Research Special Issue: International Accounting Policy Forum*, pp. 33-44.
- [12] Exposure Draft “Fair Value Measurement”, issued by the International Accounting Standards Board, available online at [http://www.iasb.org/NR/rdonlyres/C4096A25-F830-401D-8E2E9286B194798E/0/EDFairValueMeasurement\\_website.pdf](http://www.iasb.org/NR/rdonlyres/C4096A25-F830-401D-8E2E9286B194798E/0/EDFairValueMeasurement_website.pdf)



## Lean accounting, a new global approach

Cretu Laura

Universitatea A.I. Cuza, FEAA

*laura84\_cr@yahoo.com*

### Abstract

*Lean revolution is unstoppable! But before we start the crazy race and transform the whole business into a lean one and the managerial accounting into lean accounting, to align our thinking with lean standards, it is important to take a breath moment to convince ourselves that we know to use these concepts and that we understand their essence.*

*The new engine of the knowledge society and human development are the know ledges and those who have the know-how will hold the economic power. We live in a world where know ledges have become an important factor of production and, therefore, in this article I intend to explain and elucidate the terms that lean accounting operates, I will emphasize the importance of lean approach to the accounting in the process of transforming the company into a lean enterprise, I will define lean accounting and review the lean costing methods and, in the end I will highlight the benefits of using the lean accounting methods and the potential barriers to their implementation.*

**Key words:** lean concept, lean accounting, benefits

**JEL Classification:** M4, M41

### 1. Introduction

Starting with 1980, the European and American factories have faced a radical change. Mass production and scientific management techniques from the early 1900s were challenged by the Japanese manufacturing technique *Just in Time*. This manufacturing concept was adopted worldwide and has become known as *lean production*. In the past 20 years, based on lean production, has developed a new

concept, that of *lean enterprise*, which became quickly a part of the business vocabulary.

The term *lean* was first brought to public attention in 1990 when it was published the book *The Machine That Changed The World* by James Womack, Daniel Jones and Daniel Roos, a description of an extensive system of production developed by Eiji Toyoda and Taiichi Ohno at Toyota Motor Co., in Japan. The Toyota lean manufacturing system has become over the years a model for Boeing, Porsche, Pratt Whitney, Danaher Corporation, Wiremold Company, Pella Windows and others.

*Lean enterprise* concept is based on three simple, but radical ideas: eliminating waste, continuous improvement and respect for people. A lean enterprise produces more with the existing resources by eliminating activities that do not create value. This means that the companies that apply lean thinking have the opportunity to do more with less - less human effort, less equipment, in less time using less space - while providing customers what they want, when they want, where they want at an optimal price in relation to quality.

In order to assist companies in their transformation into "lean enterprise", accounting will have to adapt to the changes and provide relevant, accurate, understandable and timely management information. Therefore, a new Knowledge Society product will take the name of *lean accounting* and will use some new methods and tools designed to simplify accounting systems and to eliminate waste from company activities, while maintaining economic and financial control and a high performance.

## 2. What is the lean concept?

The Knowledge Society, constantly change the customer values. What today only wants tomorrow will become a real need. Technology, which is in a continuous transformation and improvement, produce major changes in customer behavior. Can we now imagine that, in the information society, we could live without mobile phones, internet or e-mail? And yet, some time ago, these things do not even exist.

Adjusting to new economic environment, the Japanese from Toyota cleverly set up a management system that emphasizes the importance of customer and what he wants and value.

The principles underlying lean thinking were set out by James P. Womack Womack and Daniel T. Jones in *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*, a book published in USA in 1996, and they are:

- specify the *value* for each product family, from the final customer's standpoint;
- identify all component activities of the *value stream* for each product family, eliminating as much as possible those loss-making activities;
- ranking value creation activities in a sequence (stream) of clearly identified steps, so that the final product reach the final customer as going through a *continuous flow*, without much interruption, intermediate stops;
- once value flow was established and implemented, any internal or external customer can apply the *system "pull"* to pull the product upstream, on the stream of production;
- when the value have been specified, the value-creating activities identified, the waste eliminated, the value stream set and implemented, you can pass on to the operational process and *improve* it, until it reaches an optimal level, those that the value added is maximum and is eliminated most of the waste.

The simplest definition of the lean concept calls for three fundamentals: *flow*, *pull* and *continuous improvement*.

*Flow* means that the manufacturing processes should work as a continuous flow with minimum disruption. In the lean

language, these continuous processes are called *value streams* and are contrary with the flowcharts of most companies, such departmental and functional organization.

Customer value is provided through the value stream, and in an ideal situation, a value stream contains only *value-add activities*. In lean companies, those activities are defined by the client, and everything that is a *non-value activity* is called *waste* and it is eliminated. As tool for the identification of the activities, events, information and planning time within a value stream, usually it is used *value stream mapping* - VSM. Usually this is a chart that includes all necessary steps to go from receiving an order to supply the product / service requested by a client.

In a lean company, *flow system* concept is applied everywhere: from the first action of the value stream and by the time the product / service reaches the customer.

In a perfect flow system, production process does not suffer any interruption, which means that it will be no need to stock up, there will be no waste, and the equipment will always running. But for this, production process must be perfectly synchronized with the consumption rate of clients. This rate, in the lean language, is called *takt time*. Therefore, considering the takt time value, you can make adjustments on the production process, so that it aligns with customer demand. If demand is bigger than the production capacity, adjustments will be introduced in sense of minimizing the required time to produce a product, and reverse, if demand is lower, then the takt time must increase and the resources allocated to the production process to decrease similarly.

Generalizing, the concept of lean was achieved by applying this paradigm to the processes outside manufacturing, such as healthcare, financial services and construction.

*Pull* concept put to forefront the following idea: the production process should occur in response to actual demand and not following forecasts made on the speed of rotation of stocks. A *pull-type system* is used to manage production flow and to set each tasks when the flow process is initiated. Instead of producing based on forecasts, it will occur only when an order is received. To keep the

system operating at a constant and optimum level, lean practice us use *level scheduling*.

Let's take the example of the supermarket chain Wal-Mart. They implement a Business Process Management system that when customers pass beyond cash registers and the voucher is issued, information regarding the sold products is sent in the upstream of the supply chain and replenishment the triggers. So, as the client consumes a product/service, the pull-type system will replenish their consumed stock. In the lean language, the signal to replace what is consumed is called *kanban*.

The *continuous improvement* refers to the fact that a company should made efforts to reduce waste and the process of improving productivity should be constant and should never have an end point. Employees in an organization must be encouraged and must have responsibilities to improve company products and processes and also be empowered to implement the new changes. *Kaizen* is the lean concept used to address it. The word is Japanese and, in essence, means continuous improvement. Japanese management model has demonstrated many times that progress in small steps, but fast, reliable and lead to long-term, wins. Unlike the western concept which implies a total change at intervals of time, using large amounts of resources, through *kaizen* it is aimed a gradual improvement, slow but continue, with the improvements from day to day.

### 3. What is lean accounting?

Many companies try to implement the lean production methods and acknowledge that management accounting methods are outdated. Traditional accounting system is designed to support older manufacturing processes based on mass production and, with the shift from mass production to lean manufacturing, traditional accounting methods must also be adjusted or changed. Lean accounting is the term generally used for accounting changes that a company needs to support lean thinking and lean manufacturing.

Lean accounting concept has two accepted understandings and may be used in an inappropriate manner. The first sense is the

*accounting for lean* (lean accounting that records changes) and the analysis/determination systems and cost control for lean companies. The second sense is that of *lean accounting* and it is referring to the need for lean principles in the administrative processes of companies. Therefore, it follows that the first fundamental objective of lean accounting can not be other than providing to the production, logistics, marketing, sales, research and development relevant, accurate, fast and useful information, for guiding decisions in the company's lean transformation process. The second key objective will be that of simplifying accounting systems by eliminating waste and unnecessary transactions and still maintaining an economic and financial control of the company.

### 4. Lean accounting principles, practices and tools

To become a lean enterprise, a company must apply the principles of lean management at any sector level, not only at technical, logistical and production level. Therefore, by the point of accounting, the five lean principles are:

- *value*: instead of trying to forecast the standard cost of the product based only on internal calculations and motivating excess production in order to reduce deviations, accounting methods will be based on what costumers values;
- *value stream*: cost accounting focuses on determining the value stream costs and not the individual product; tracking the costs and profitability of the value streams drive to continuously improvement of the company's activities and enables an excellent cost control; lean principles agree that maximum profitability is given by the maximization of the product flow through a process and not by maximizing the use of labor and equipment;
- *flow and pull*: while the traditional accounting system is based on an internal forecast, lean methods starts with the costs of the customer orders (external);
- *continuous improvement*: principles set forth above are intertwined, creating a proactive vision so that lean accounting to

become a real support for strategic decisions; accountant staff works with cross-functional teams to improve their activities and to provide a perspective picture on the entire business.

Brian Maskell in his article *Lean Accounting: What's all about?* [9, p. 37] makes a classification of the main methods and tools used by lean accounting. Among these are:

- *tools* - visual indicators, performance tables, box scores, value stream boards, "Plain English" for preparing the financial statements, value stream maps.

- *methods* - value stream costing, value-based pricing, target costing, capital planning 3P approach; Plan-Do-Check-Act (PDCA) of all problems; Hoshyn deployment policy.; use Sales, Operations and Financial Planning (SOFP) for budget preparation.

A lean production system is characterized by focusing on product family. Physical material flow takes place without obstacles since purchasing materials until finished product is delivered. The flow, at planning level, is extracted from the customer order and, therefore, synchronized with what the market actually requires. So, a lean organization reduce the internal time work, final product is delivered faster to customer and inventory is reduce.

In lean vision, individually product costing represents a waste of time. The only cases where this would be relevant are: the valuation of stocks (in the early stages of adopting lean) and determining the selling price in case of special products.

*Value Stream Costing* is a lean accounting method that replaces traditional methods of cost calculation. Lean accounting collect costs and report them according to the value stream as a whole, and not by product or department. According to lean thinking, cost varies depending on the volume of production. Maximum profitability is given by creating a maximum flow of product through the value stream when the customer makes the request. Value stream costing is calculated weekly and makes no distinction between direct and indirect costs.

*Target Costing* is a lean accounting tool used to understand how the company creates value for its clients and what must be done to increase this value. Target costing is used

when new products are designed and when the value stream team must make further changes to increase the value of the flow.

In lean enterprises budgeting and financial planning is done every month, each value stream, and the process is called *SOFP* (*Sales, Operations and Financial Planning*). The process is fast and efficient. Lean planning have roots in the company's operational needs - marketing activities, sales, production, etc.- and this means that we can have balance and valid reports before closing the month, creating the ability to manage and control the organization proactively.

Routine decisions that management must take are supported by the lean accounting box score. *Box score* is a table that brings together company's financial performance, the operational performance and the capacity of the value streams, here including productive activities and productive capacity that could be used.

Capital planning in a lean company is not based on an analysis of indicators such ROI. When the top management needs to take a decision on a major investment, the method used by lean accounting is the *3P method* (Production, Preparation, and Process). A 3P process takes into account available personnel, production capacity of enterprise and other resources available and proposes several strategies to use and increase their profitability [1, p.30].

## 5. Benefits of lean accounting

Lean accounting followers assign it a number of benefits which worth mentioning. The first would be that lean accounting closely follows lean manufacturing and can report in an exactly way what happens on the production floor. However, this benefit is registered only by companies that are implementing or have implemented lean manufacturing, like Toyota, Boeing, Aero Gear Inc., Danaher and others.

Another advantage is that lean accounting systems collect data by the value stream and not by department.

Lean accounting is representing a new direction to accounting and by adapting to the information society requirements, frequently uses non-financial performance indicators to

help management with vital in formations. Although there are traditional costing methods that use these indicators, lean accounting manages to apply them in three different circumstances: at the work cell level, at the value stream level, or at the company equipment level [8].

Another addition that lean accounting register is the common and current reports and the intelligibility with which they are drawn. It can be understood even by non-accounting managers.

Once lean principles become part of the company daily routine, lean accounting system will reduce the need for the already known data analysis. In other words, a certain amount of inputs, be it made of materials, raw materials or direct labor, will always have the same output of goods/ services and therefore should not be calculated this indicator every time. So, the lean accounting systems eliminate those activities that are not creating value.

## **6. Barriers who might delay the application of lean accounting**

In 2008, on the Manufacturer magazine's website study appeared a study, *Lean Accounting Report 08*, as part of The Manufacturer Industry Research Programme, in collaboration with BDO Stoy Hayward and aiming to examine the popularity and use of lean accounting in lean manufacturing companies from UK. The study was made using a questionnaire with 15 questions. After the researchers received the feedback from participants and analyze them, they reached the following conclusions: 65% of respondents know about lean accounting, yet 49% of them only know the basics and rudimentary notions. Researchers also highlighted that 60% of managers do not understand lean accounting key concepts. The managers believe that the implementation of lean accounting in companies strikes these barriers: company culture (42%), inability to measure benefits (51%); implementation time (32%), accounting staff attitude (30%), top management attitude (18%).

We could say that the lean accounting implementation is about to face the same

difficulties that traditional methods faced some times ago.

The society is constantly developing and thirst for information is difficult to sedate. Although it seems very appropriate today to say that traditional costing methods do not meet the needs of management, we can not deploy some preconceived ideas about the fact that what has survived over time, and here we refer to traditional methods, should not be changed.

In the Knowledge Society, the accounting professional's world is changing very fast. In their attempt to represent the economic reality and its evolution, accounting professionals must keep up with these changes and become multi-valent. In these days the accounting knowledge are not enough. They must learn also from other areas that intersect with it. Only this way they will be able to maintain their position in the economic environment and remain the steadfast pillar of the economy.

Unfortunately, lean accounting is often facing the inability to adjust the accounting staff and with their reluctance towards new.

As a new method, lean accounting and is facing with the recognition from international regulatory bodies, as IASC, FASB and others.

Another difficulty is linked to the costs involved in the implementation of such a system. Like any new investment, a lean accounting system involves some costs of implementation. Sometimes such a system can be expensive, depending on company size and adaptation point to the change.

## **7. Conclusions**

Lean Accounting is right now a work in process, as Brian Maskell told in one of his papers, and is difficult to foresee whether it will develop or not in the current economic context. It is in early stages and probably will be more widely accepted by those companies that have, or are about to implement lean manufacturing. However, while accounting professionals seek ways and learn how to translate the financial impact of adopting lean principles in the financial statements, specialized international forums should develop a plan for implementing lean accounting and strictly comply it with

rigorous requirements of international accounting standards.

## 8. References

- [1] Carroll B.J., *Lean performance ERP project management. Implementing the virtual lean enterprise*, second edition, Auerbach Publications, Boca Raton, 2008
- [2] Foster G., Horngren C.T., JIT: Cost accounting and cost management issues, *Management Accounting*, June, 1987, p.19-25.
- [3] Ionita I., *Managementul calitatii si ingineria valorii*, Editura ASE, Bucuresti, 2008
- [4] Johnson H.T., Lean accounting: To become lean, *Shed Accounting, Cost Management*, Vol.20 (1), January/February, 2006a, p.6-17.
- [5] Kennedy F. A., Brewer P. C., Lean accounting: What's it all about? *Strategic Finance*, vol. 87 (5), November 2005, p.27-34
- [6] Kennedy F., Owens-Jackson L., Burney L., Schoon M., How do your measurements stack up to lean?, *Strategic Finance*, May 2007, p. 32-41.
- [7] Masaaki Imai, *Gemba Kaizen, o abordare practica cu costuri reduce, a menegementului*, traducere in limba romana, Editura Finmedia, 2007
- [8] Maskell B., Baggaley B., *Practical Lean Accounting, A Proven System for Measuring and Managing the Lean Enterprise*, Productivity Press, New York, 2004.
- [9] Maskell B., Baggaley B., Lean accounting: What's all about?, *Target Magazine*, Vol.22 (1), 2006, p. 35-43
- [10] Maskell B. H., Kennedy F. A., Why do we need lean accounting and how does it work?, *The Journal of Corporate Accounting & Finance*, Vol.18 (3), 2007, p.59-73.
- [11] Taiichi Ohno, *Sistemul de productie Toyota, o alternativa la productia de serie*, Editura Finmedia, 2005
- [12] van der Merwe A., Thomson J., The Lowdown on Lean Accounting Should management accountants get on the bandwagon - or not?, *Strategic Finance*, February 2007, p. 26-33
- [13] Womack J. P., Jones D. T., Roos D., *The Machine That Changed the World, The Story of Lean Production*, Rawson Associates, Macmillan Publishing, New York, 1990.
- [14] Womack J.P., Jones D.T., *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*, Simon&Schuster, New York, 1996
- [15] Lean Accounting Report 08, available on [www.themanufacturer.com/uk/](http://www.themanufacturer.com/uk/), in section research & reports
- [16] [www.imanet.org](http://www.imanet.org)

## Taxation of Revenues from Transfer of Real Estate Assets to Own Patrimony

Cucosel Constantin  
North University of Baia Mare  
costin.contab@xnet.ro

### Abstract

*Direct taxes, which are levied individually, represent the oldest form of taxation. They are levied either on certain material assets or types of activities, or on revenue or wealth. Direct taxes are nominative and their amount and due date are established in very precise terms, therefore they are fairer and more desirable than indirect taxes.*

*Direct taxes may take two forms: real or objective taxes, and personal or subjective taxes. The personal ones occur as income taxes and wealth tax.*

**Key words:** direct taxes, asset, real estate, patrimony, levy

**JEL classification:** H71

### 1. Presentation of wealth taxes

Within the fiscal procedures of various countries, wealth taxes occur in different forms [1]:

- *Taxes on wealth proper*
- *Taxes on wealth circulation*
- *Taxes on wealth increases or increases in the wealth's value.*

*A) Taxes on wealth proper* may occur both as taxes levied on the wealth but paid out of the revenue obtained from that wealth, and as taxes levied on the wealth itself. Taxes on wealth proper may take the following forms:

*a) Taxes on real estate assets*, which occur as building taxes and land taxes. The taxation base in this case is either the replacement value or the value stated by the owner, or the capitalized revenues related to the assets at hand. The tax rates are generally low;

*b) The net asset tax*, which is levied on the entire fixed and mobile asset property of a tax-

payer; the tax amount is calculated either using pro rata rates, (in Germany, Austria, Netherlands, etc.), or progressive rates (in Denmark, Sweden, Switzerland, etc.).

*B) Taxes on wealth circulation* are applied to the transfer of property rights over fixed and mobile assets from one person to the other. This category includes the following:

*a) Inheritance tax*, in which case the object of taxation is the wealth received as an inheritance by a physical person. This tax may be calculated either globally, for the entire wealth inherited (the USA, UK, Australia, etc.), or separately, for the share of wealth assigned to each heir (Belgium, France, Sweden, Germany, etc.). The tax is calculated based on progressive rates, and the maximum rate may reach, in some case, up to 80%;

*b) Tax levied on donations*, which was introduced to prevent people from avoiding to pay inheritance tax by claiming the wealth was donated while the person was alive. The tax is applied to the person receiving the donation, called the donee, and is calculated based on progressive rates the level of which depends on the value of the donated wealth, family relationship, time and purpose of the donation, etc.;

*c) Taxes levied on sale-purchase agreements* for real estate assets or movable assets; these occur within onerous wealth circulation procedures, and they are the responsibility of the buyer. To calculate this tax, some countries use pro rate rates, others use progressive ones;

*d) Tax levied on securities* (shares, bonds, etc.);

*e) Tax levied on capital circulation and commercial papers.*

*C) Taxes on wealth increases* (increase of the wealth), are levied on the additional value incurred by certain assets over a given period of time. This category includes the following:

a) *Tax on the added real estate value*, which was introduced in order to levy tax on the additional value incurred by certain real estate assets (land and buildings), over the period of time between purchase and sale, without any expenses incurred by the owner to that aim. The subject of taxation is the seller of real estate assets, and the object is the difference between the selling price and the purchase price;

b) *Tax on wealth increases obtained at times of war*, which are levied on the wealth acquired during or as a direct consequence of war. In some countries this tax was introduced as a tax on the war over-profit, which was calculated either on the profit exceeding the level of that period considered as basis, or on the profit that exceeded a certain rate, deemed normal.

## 2. Wealth taxes in Romania

In Romania, the main forms of wealth taxes are as follows:

- *Taxes on buildings and land*, as taxes on wealth proper
- *Taxes on wealth circulation*:
  - *inheritance taxes*;
  - *taxes levied on donations*;
  - *Taxes levied on the sale-purchase of real estate assets or movable assets*.

The taxes on buildings and land, as a form of tax on wealth proper, are included in the category of local taxes and fees, and are regulated by the Law no. 571/2003 on the Fiscal Code [2].

The *tax on revenues from the transfer of real estate assets to the own patrimony* was introduced beginning on June-1<sup>st</sup>-2005, through the Law no. 163/2005, on approving the Government Emergency Order no. 138/2004 on amending and completing the Law no. 571/2003 on the Fiscal Code [3].

According to these legal provisions, the following were subjected to taxation: revenues obtained from the transfer of the property right over *constructions of any kind and land that comes with them, which have been sold within 3 years (inclusive)* after the date they were acquired, as well as revenues obtained from the transfer of the property right over *lands of any kind, construction-free, acquired after January-1<sup>st</sup>-1990*.

The taxable revenue obtained from the transfer of real estate assets is the positive

balance between the value that these real estate assets, lands and/or constructions, were sold for, on one hand, and their base value on the other hand.

The following were exempted from taxation: asset contributions to the social capital of trading companies, as well as revenues obtained by selling any kind of buildings with the land that comes with them, construction-free lands from inside or outside towns, acquired by the tax payers by any of the following means:

- a) restoration of the property right;
- b) inheritance or donation between relatives down to fourth degree inclusively;
- c) real estate exchange.

The *base value* of real estate assets subject to taxation, *according to the way they were acquired*, was established taking the following into account:

a) the purchase price, in the case of real estate assets acquired through purchase, increased by 5%;

b) the value of the real estate asset, as established in the document, if it was obtained through a donation, exchange, life annuity, payment, adjudication, maintenance agreement, court decision, etc., increased by 5%;

c) for new constructions, their cost at the time of completion, as established through an authorized expert's report, according to the law, plus the value of the land that comes with it;

d) the value resulting from the expert's reports used by the public notary chambers, at the date when the real estate assets were acquired, if their base value cannot be established through the means provided at letters a)-c);

e) the value established depending on the way they were acquired, as established at letters a) and b), for lands located inside or outside town limits, updated as per the economy inflation rate for the last month for which official data is available, as communicated by the National Statistics Institute, if, at the time they were acquired, there were no available expert's reports prepared by public notary chambers. For lands and constructions of any kind, acquired by the tax payers in a way that does not specify the value they were acquired for, the base value is the minimum values established in the first expert's report used by the public notary chambers having jurisdiction over the area where the land is located;



f) the purchase price for assets acquired as per the conditions at letter a) or the value mentioned for assets acquired as per the conditions at letter b), plus the cost of any such works or services as may increase the value of the real estate asset, at the time of their completion, proved through an authorised expert's report, as per the provisions of the law.

The tax was calculated by applying a *10% rate to the taxable income*, determined as presented above.

The public notaries who have endorsed the documents operating the transfer of property right must calculate, cash in and pay the tax *to the state budget no later than the 25<sup>th</sup> of the month following the one when the document was endorsed*.

If the transfer of the property right for constructions or lands has been completed through other procedures between living persons, not involving notaries, the tax payer must submit a statement of the income obtained within no more than 5 days of the sale of the asset, to the fiscal body having jurisdiction over the location of his fiscal domicile. Tax payers whose fiscal domicile is not in Romania have submitted statements of the revenues they obtained to the fiscal body having jurisdiction over the location of the real estate asset at hand.

The Law no. 163/2005 established that, *beginning with January-1<sup>st</sup>-2006*, the income tax for physical persons, for revenues obtained from the transfer of real estate assets from the own patrimony, must be calculated using a *tax rate of 16%*.

The procedure for calculating tax on revenues obtained from the transfer of real estate assets from the own patrimony has been modified, *beginning January-1<sup>st</sup>-2007*, at the coming into effect of the provisions of the Law no. 343/2006 for amending and completing Law no. 571/2003 on the Fiscal Code [4].

Thus, when transferring the property right and its dismembered rights, through legal documents between living persons, on constructions of any kind and the lands that come with them, as well as on lands of any kind, construction-free, the tax owed by the tax payers is calculated as follows:

a) for constructions of any kind and the lands that come with them, as well as for lands of any kind, construction-free, *obtained within 3 years* inclusively:

- 3% up to the value of lei 200,000, inclusively;

- over lei 200,000, lei 6,000 + 2% calculated for the value over lei 200,000 inclusively;

b) for the real estate assets presented at letter a), *acquired more than 3 years ago*:

- 2% up to the value of lei 200,000 inclusively;

- over lei 200,000, lei 4,000 lei + 1% calculated for the value over lei 200,000 inclusively.

The tax *is not due* in the following cases:

a) when the property right on lands and constructions of any kind was obtained by restoring property right on grounds of special laws;

b) when the property right is obtained as a donation between relatives and in-laws of up to the third degree of relations, as well as between spouses.

The tax is not due in the case of property rights and their dismembered rights if they were obtained through inheritance and the procedure is debated and finalized within 2 years of the death of the person authoring the inheritance. If the inheritance procedure is not finalized within the above-mentioned deadline, the heirs owe a tax of 1% of the value of the inherited assets.

The due tax is calculated based on *the value stated by the parties* in the document operating the transfer of the property right or its dismembered rights. If the value stated is lower than the guideline value established through the expert's report prepared at the public notary chamber, the tax will be calculated based on the level of the value established through the expert's report, except in the case of transactions made between relatives or in-laws of up to 2<sup>nd</sup> degree of relation, inclusively, as well as between spouses, in which case the tax is calculated based on the value stated by the parties in the document operating the transfer of the property right.

The public notary chambers must update at least once a year the expert's reports on the circulation value of real estate assets, which will be notified to the territorial departments of the Ministry of Public Finances.

The due tax is calculated and cashed in by the public notary before certifying the document or, if such is the case, after drafting the final inheritance document. The due tax that was cashed in is then paid no later than the 25<sup>th</sup> of the month following the one for which it was

retained. If the transfer of the property right or its dismembered rights is made through a court decision or another procedure, the due tax is calculated and cashed in by the relevant fiscal body. The courthouses that issue definitive and irrevocable decisions notify the relevant fiscal body with the decision and related documentation within 30 days of the court decision becoming definitive and irrevocable. For other procedures, which are executed neither by public notaries nor by courthouses, the tax payer must submit a statement of the income he obtained within 10 days of the date of the transfers, to the relevant fiscal body, in order to have the due tax calculated. When recording rights acquired based on documents certified by public notaries or certificates of inheritance or, if such is the case, courthouse decisions and other documents in the other cases, the actuaries of the land registry offices shall verify that the requirement of paying the tax has been met, in case the tax payer cannot bring proof of having paid this tax, shall refuse to record the rights until such tax is paid.

The tax established as per the conditions above has been *distributed* as follows:

- a) a share of 40% revenue to the consolidated budget;
- b) a share of 50% revenue to the budget of administrative-territorial units having jurisdiction over the real estate assets that were subject to the transfer of rights;
- c) a share of 10% revenue to the budget of the National Agency of Cadastre and Land Registration in order to carry out the activity of real estate publicity.

Through the government emergency order no. 106/2007 [5], which came into effect *beginning January-1<sup>st</sup>-2008, these destinations are modified so that the established tax is paid and retained entirely to the state budget.*

The procedure for calculating, cashing in and paying the due tax, as well as the requirements with regards to income statements, are established through methodological regulations issued through a common order of the ministry of public finances and ministry on justice, taking into account the opinion of the National Union of Notaries Public from Romania.

In case that, after the document has been certified or the final document has been drafted by the public notary for an inheritance procedure, it is found that there were errors or omissions in calculating and cashing in the tax,

the public notary will notify the relevant fiscal bodies of this situation, explaining the causes that led to that error or omission. The relevant fiscal bodies will issue taxation decisions for the taxpayers who must pay the tax, to ensure that the tax is cashed in. The responsibility of the public notary for failing to cash in or for erroneously cashing in the tax is only involved if it is proved that the public notary is guilty of having completely or partially failed to cash in the tax, and that he did so on purpose.

Public notaries must submit bi-annually, tot the territorial fiscal body, an informative statement on the transfers of real estate assets, including the following elements for each transaction:

- a) contracting parties;
- b) value recorded in the transfer document;
- c) the tax on the revenue obtained from the transfer of the real estate assets from the own patrimony;
- d) the notary fees due for the transfer.

### 3. Conclusions

In its initial form, the tax levied on revenue obtained from the transfer of real estate assets from the own patrimony, which was introduced beginning with June-1<sup>st</sup>-2005, was included in the category of *taxes on wealth increases* (increases of the wealth), respectively *taxes on the added real estate value* and it was levied on the additional value registered for real estate assets (buildings, lands) over the period between its purchase and its sale; this tax was calculated by applying a 16% rate (over the period June-1<sup>st</sup>-2005 – December-31<sup>st</sup>-2005 the rate was of 10%) on the difference between the sale price and the purchase price of such assets.

The new methodology for calculating this tax, applicable beginning January-1<sup>st</sup>-2007, establishes this tax as belonging to the category of *taxes on wealth circulation*, which are levied in connection to the transfer of property rights over fixed and mobile assets from one person to another, respectively the category of *Taxes levied on the sale-purchase of real estate assets or movable assets*, which occur when wealth is circulated in an onerous manner.

Currently, in addition to the loss incurred by the dramatic drop in the value of constructions and lands as measured on the real estate market, the seller must also undergo the fiscal burden of

the tax which wouldn't have been owed to the state budget if the initial taxation system had been kept in place.

#### 4. References

[1] Cucoşel, Constantin - Finanţe publice, Editura Risoprint, Cluj-Napoca, 2004

[2] Legea nr. 571/2003 privind Codul fiscal, publicată în Monitorul Oficial nr. 927 din 23 decembrie 2003, cu modificările şi completările ulterioare

[3] Legea nr. 163/2005, privind aprobarea O.U.G. nr. 138/2004 pentru modificarea şi completarea Legii nr. 571/2003 privind Codul fiscal, publicată în Monitorul Oficial nr. 466 din 1 iunie 2005

[4] Legea nr. 343/2006 pentru modificarea şi completarea Legii nr. 571/2003 privind Codul fiscal, publicată în Monitorul Oficial nr. 662 din 1 august 2007

[5] Ordonanţa de urgenţă a Guvernului nr. 106/2007 pentru modificarea şi completarea Legii nr. 571/2003 privind Codul fiscal, publicată în Monitorul Oficial nr. 703 din 18 octombrie 2007

## Analysis and Evolution of School-Related Budget Expenses in the Town of „Viseu de Sus”, Maramures

Cucoşel Constantin  
North University of Baia Mare  
costin.contab@xnet.ro

### Abstract

*In any country, a significant part of the national revenue is made available to cover the expenses incurred by the completion of its functions and tasks. The state, as institution, serves society from a political and social point of view, meaning that it creates the necessary conditions for maintaining public concepts and institutions, as well as the legal, religious, and philosophic ones.*

*Budget expenses are allocated from the state budget so as to cover military expenses, the maintenance of the state apparatus, payment of the public debt, to ensure subsidies, develop the state economic sector, cover social and cultural requirements, as well as research and development ones.*

**Key words:** budget expenses, school-related expenses, degree of completion

**JEL classification:** H52

### 1. The role of public expenses

Public expenses represent the second stage in the distribution of public finances, which is the allocation of public financial resources to various purposes [1]. The actual use of these resources for the completion of targets established through government programmes related to social or economic activities, or other kinds of activities carried out through such programmes is reflected in the public expenses. By means of public expenses, the state covers the public requirements for goods and services deemed to have a higher priority for each given period of time.

The public expenses are a monetary expression of the social and economic relations occurring between the state, on one hand, and the physical persons and legal entities on the other hand, as the state's financial resources are allotted and used so as the state may achieve its functions.

The economic contents of public expenses are often related to their purpose [6]. Thus, certain expenses express a *definitive consumption of gross domestic product*, representing the value of payments made by public institutions in the specific forms of ongoing expenses, whereas other public expenses express an *investment of gross domestic product*, representing the state's participation in financing the gross building of capital, both in the field of material production and in the non-material one.

Since it does not participate directly in the productive activity, the state covers its expenses related to military purposes, maintenance of administrative and police bodies, justice sector, etc., by using some of the national revenue created from material production.

The state completes its two functions – domestic and foreign – by means of a complex and varied system of institutions and entities; amongst them, a permanent army, the police, constabulary, security, justice and public attorney office, administrative bodies, school and church institutions take a particularly significant role. To ensure their maintenance, the state spends yearly large amounts of money.

In order to observe the size of the actual increase in public expenses, one needs to analyze their evolution relative to the progress of gross domestic product (or national income) and obviously, to use the same concepts. The weight

of public expenses relative to the gross domestic product shows the mutations that occurred in the distribution of the gross domestic product, over a given period of time, through the state's intervention.

## 2. Analysis on the execution of school-related expenses over the period 2006-2008

The degree of completion of expenses related to primary education in 2006 [7] is presented in *table 1*; thus, one may see that the highest degree of completion was in the case of other expenses—100%, whereas the provisions for staff-related expenses were completed up to 98.65%, the ones for goods and assets were completed to 79.64%, and the lowest degree of completion was for capital expenses – 53.88%.

*Table 1 Degree of completion for total expenses executed in 2006*

Name of the indicator	Scheduled for 2006	Paid in 2006	%
<b>Total expenses</b>	<b>4,560,000</b>	<b>4,260,114</b>	<b>93.42</b>
Staff expenses	3,729,000	3,678,630	98.65
Goods and services	478,000	380,695	79.64
Capital expenses	330,000	177,789	53.88
Other expenses	23,000	23,000	100.00

The degree of completion of staff expenses in 2006 [7] is presented in *table 2*, where one may see that the amount of staff expenses did not meet the scheduled level, missing the target by 1.35%. Also, one may notice that the money salaries expenses were completed up to 99.74%, whereas contributions were completed up 95.32%.

*Table 2 Degree of completion for staff expenses executed in 2006*

Name of the indicator	Scheduled for 2006	Paid in 2006	%
<b>Staff expenses</b>	<b>3,729,000</b>	<b>3,678,630</b>	<b>98.65</b>
Money salaries expenses	2,807,000	2,799,776	99.74

Contributions	922,000	878,854	95.32
---------------	---------	---------	-------

When analyzing the degree of completion for goods and services expenses executed in 2006 [7] (*table 3*), one will notice that the highest degree of completion was achieved for travelling, relocation and transfers – 141.73; also, the budget amounts for ordinary repairs were exceeded by 119.26%, whereas pharmacy related expenses were completed 100% and it was only the goods and services expenses for that year that didn't reach the budgeted amount, with 34.32%, and the ones related to inventory items, with 16.45%. Zero completion was recorded for expenses related to books, publications and documentary materials.

*Table 3 Degree of completion for goods and services expenses*

Name of the indicator	Scheduled for 2006	Paid in 2006	%
<b>Goods and services</b>	<b>478,000</b>	<b>380,695</b>	<b>79.64</b>
Goods and services	332,000	218,074	65.68
Ordinary repairs	112,000	133,574	119.26
Inventory items	20,000	16,709	83.55
Travelling, relocation, transfers	8,000	11,338	141.73
Books, publications, documentary materials	5,000		0.00
Pharmacy	1,000	1,000	100.00

*Table 4* shows that, in 2006, the expenses related to pre-school education were completed to 100% [7].

*Table 4 Degree of completion for pre-school education expenses in 2006*

Name of the indicator	Scheduled for 2006	Paid in 2006	%
<b>Total expenses</b>	<b>1.002.000</b>	<b>1.002.000</b>	<b>100,00</b>
Staff expenses	840.000	840.000	100,00
Goods and services	92.000	92.000	100,00

Capital expenses	70,000	70,000	100,00
------------------	--------	--------	--------

The degree of completion for primary school expenses in 2007 [7] is presented in *table 5*, and one may notice that staff expenses, capital expenses and other operations were completed at 100%, whereas goods and services expenses were completed up to 91.12%, and the scheduled self-financing was only completed to 57.14%.

*Table 5 Degree of completion for total expenses in 2007*

Name of the indicator	Scheduled for 2007	Paid in 2007	%
<b>Total expenses</b>	<b>4,202,000</b>	<b>4,179,000</b>	<b>99.45</b>
Staff expenses	3,263,000	3,263,000	100.00
Goods and services	259,000	236,000	91.12
Capital expenses	658,000	658,000	100.00
Self-financing	14,000	8,000	57.14
Other operations	22,000	22,000	100.00

*Table 6* shows that in 2007 staff expenses within pre-school education were completed up to 100% [7].

*Table 6 Degree of completion for staff expenses in 2007*

Name of the indicator	Scheduled for 2007	Paid in 2007	%
<b>Staff expenses</b>	<b>3,263,000</b>	<b>3,263,000</b>	<b>100.00</b>
Money salaries expenses	2,564,000	2,564,000	100.00
Contributions	699,000	699,000	100.00

*Table 7* analyzes the degree of completion for goods and services expenses executed in 2007 [7]; one may notice that several categories of expenses have been completed to 100%, such as: expenses related to ordinary repairs, to travelling, relocation and transfers, and books, publications and documentary materials. One may also note that goods and services expenses

were completed to 92.44%, and the ones related to inventory items – 75%

*Table 7 Degree of completion for goods and services expenses*

Name of the indicator	Scheduled for 2007	Paid in 2007	%
<b>Goods and services</b>	<b>259,000</b>	<b>236,000</b>	<b>91.12</b>
Goods and services	238,000	220,000	92.44
Ordinary repairs	5,000	5,000	100.00
Inventory items	4,000	3,000	75.00
Travelling, relocation, transfers	7,000	7,000	100.00
Books, publications, documentary materials	1,000	1,000	100.00

In that which concerns pre-school education expenses for 2007 [7], their degree of completion is presented in *table 8*, where one may note that staff expenses and capital expenses were completed to 100%, whereas goods and services expenses were completed to 81.98% of the scheduled amount.

*Table 8 Degree of completion for pre-school education expenses in 2007*

Name of the indicator	Scheduled for 2007	Paid in 2007	%
<b>Total expenses</b>	<b>918,000</b>	<b>897,000</b>	<b>97.71</b>
Staff expenses	789,000	789,000	100.00
Goods and services	111,000	91,000	81.98
Capital expenses	17,000	17,000	100.00

For the year 2008 [7] the total expenses made for primary school were completed as shown in *table 9*, and, in decreasing sequence, they were as follows: staff expenses– 102.57%, other expenses– 99.53%, capital expenses – 97.25% and goods and services expenses – 84.71%.

*Table 9 Degree of completion for total expenses in 2008*

Name of the indicator	Scheduled for 2008	Paid in 2008	%
<b>Total expenses</b>	<b>4,786,000</b>	<b>4,826,501</b>	<b>100.85</b>
Staff expenses	4,197,000	4,304,823	102.57
Goods and services	412,000	349,020	84.71
Capital expenses	154,000	149,765	97.25
Other expenses	23,000	22,893	99.53

As an analysis of the staff expenses for 2008 [7], *table 10* below present the degree to which they were completed:

*Table 10 Degree of completion for staff expenses in 2008*

Name of the indicator	Scheduled for 2008	Paid in 2008	%
<b>Staff expenses</b>	<b>4,197,000</b>	<b>4,304,823</b>	<b>102.57</b>
Money salaries expenses	3,332,000	3,342,110	100.30
Contributions	856,000	962,713	112.47

In the case of goods and services expenses made in 2008 [7] the degree of completion is presented in *table 11*; one may notice that the highest degree of completion occurred in the case of expenses related to relocations and transfers – 182.28%, but a high degree of completion also occurred with professional training expenses– 144%. The expenses related to ordinary repairs were completed up to 100%, the ones related to inventory items – 98.58%, and the lowest degree of completion was for goods and services expenses – 84.14%.

*Table 11 Degree of completion for goods and services expenses in 2008*

Name of the indicator	Scheduled for 2008	Paid in 2008	%
<b>Goods and services</b>	<b>412,000</b>	<b>349,020</b>	<b>84.71</b>
Goods and services	350,000	294,492	84.14
Ordinary repairs	30,000	30,000	100.00
Travelling, relocation, transfers	6,000	10,937	182.28
Inventory items	6,000	5,915	98.58

Professional training	2,000	2,880	144.00
Other expenses	17,000	4,796	28.21

The expenses related to pre-school education in 2008 [7] were completed to a degree of 87.31%, out of which 89.31% for staff expenses and 63.07% for goods and services expenses (*Table 12*)

*Table 12 Degree of completion for pre-school education expenses in 2008*

Name of the indicator	Scheduled for 2008	Paid in 2008	%
<b>Total expenses</b>	<b>1,100,000</b>	<b>960,410</b>	<b>87.31</b>
Staff expenses	1,016,000	907,430	89.31
Goods and services	84,000	52,980	63.07

Following the analysis of the expenses related to primary schools and pre-school education, the progress of these expenses is presented in *tables 13* and *14* below.

*Table 13 Evolution of primary school expenses over the period 2006 – 2008*

Name of the indicator	2006	2007	2008
Total expenses	4,260,114	4,179,000	4,826,501
Staff expenses	3,678,630	3,263,000	4,304,823

The value progress of expenses for pre-school education over the period 2006-2008 is presented in *table 14*.

*Table 14 Evolution of pre-school education expenses over the period 2005 – 2008*

Name of the indicator	2006	2007	2008
Total expenses	1,002,000	897,000	960,410
Staff expenses	840,000	789,000	907,430

### 3. Conclusions

Following the analysis of expenses related to primary schools and pre-school education, as presented above, we shall analyse the progress of these expenses in *tables 13 and 14*.

*Table 13 Evolution of primary school expenses over the period 2006 – 2008*

Name of the indicator	2006	2007	2008
Total expenses	4,260,114	4,179,000	4,826,501
Staff expenses	3,678,630	3,263,000	4,304,823

The evolution in terms of value of the expenses related to pre-school education over the period 2006 – 2008 is presented in *table 14*

*Table 14 Evolution of pre-school expenses over the period 2005 – 2008*

Name of the indicator	2006	2007	2008
Total expenses	1,002,000	897,000	960,410
Staff expenses	840,000	789,000	907,430

As it may be observed in the data presented above, the expenses related to *primary schools* in 2007 have dropped relative to 2006 by 1.9% with respect to total expenses, and 11.3% with respect to staff expenses, but total expenses rose in 2008 relative to 2007 by 15.5%, respectively the staff expenses increased by 31.9%.

The same tendency applied to the expenses related to *pre-school* education, which saw a drop in 2007 relative to 2006, by 10.5% for total expenses, respectively 6.1% staff expenses, followed by an increase in 2008 relative to 2007 of the total expenses by 7.1%, respectively staff expenses by 15.0%.

### 4. References

- [1] Cucușel, C, – „Finanțele publice”, Editura Risoprint, Cluj-Napoca, 2004,
- [2] Georgescu, F, – Finanțe publice, Ediția a II, Editura Didactică și Pedagogică, București, 1999,
- [3] Gorcea, C, – Lexicon fiscal și bugetar, Editura Economică, București, 1996,
- [4] Hoanță, N, – Economie și finanțe publice, Editura Polirom, Iași, 2000,
- [5] Neagu Gabriela, „Cheltuieli cu educația - analiză comparativă”
- [6] Văcărel Iulian, „Finanțe publice”, Editura Didactică Și Pedagogică, 2006
- [7] Conturile de execuție bugetară ale Centrului de execuție bugetară Vișeu de Sus pe perioada 2006 - 2008



## Leasing – original technique of financing investments of small and medium enterprises facing the current economic situation

Cusu Dorinela

„Ovidius” University of Constantza  
cusudorinela@yahoo.com

Ionescu Alexandra

„Ovidius” University of Constantza  
al3xandra\_ionescu@yahoo.com

Horga Gabriela

„Ovidius” University of Constantza  
gabihorga@gmail.com

### Abstract

*Any organization is obligated to adapt, to the business environment, maintaining in the same time, the internal cohesion and reducing to minimum the uncertainty that characterizes the internal and external transformations of the environment. This phrase refers to the sustainable activity that enterprises must develop day by day. In this direction, each participant in the economic activity, should identify the instruments, that lead to the development wanted in the company and especially to the funds, necessary for the progress. An analysis of the financing sources available for each enterprise, in achieving the plans for expansion, is a good start.*

**Key words:** sources of financing, leasing, vehicle, equipments, real-estate.

**JEL classification:** D92

### 1. Introduction

The process of choosing a mean of financing is a combination between science and art. Entrepreneurs must take into account many factors that can influence their economic activity. They must estimate the financial resources that they need in order to turn their company to a high level in the business environment.

Depending on the stage in the life cycle of a company, financing needs are different and the possibilities for finding appropriate sources differ also. At the launch, the

enterprises have difficulties regarding the capital required to start their business, because at this point they represent a high risk for creditors and investors. The result of this situation is that most companies at the beginning are financed from own resources of the entrepreneur, such as savings, personal loan, but also resources provided from the family and friends. In the stage of development and growth, when firms are usually financial established, companies have multiple funding sources as a result of the customers and suppliers acquired. At this point the company can apply for a credit. In the decline stage, when the demand, sales and profits fall, also the financing possibilities are reduced.

Potential sources of funds, to finance business activities, depending on the need to return the amount financed, are divided in: repayable and non - repayable.

Non-repayable funds are provided from European Union (European Funds, Structural Funds), the World Bank.

Repayable funds come from internal sources of financing, represented by financial institutions such as banks, microfinance institutions, investment funds, leasing companies, credit on trade effects, credit from suppliers and customers, and from external sources of financing, from international financial institutions, such as the World Bank, European Investment Bank.

## 2. Leasing – original technique of financing

Generally speaking, **leasing** is a long-term financing operation practiced by a financial company and having as a juridical support, a lease contract.

According to the definition of the leasing operation, it is a triangular operation involving three partners having complementary interests: *the supplier* (a simple vendor or even the producer, interested in selling their asset, who will close a sales agreement with the financier of the leasing operation, assuming the typical obligations of a seller, such as delivering and installing the ordered asset at the established date and place and offering a warranty of compliance of the product to the specifications), *the financier* (which can be a financial institution or a bank specialized in placing capital in medium or long term investments, in optimum profitability conditions) and *the lessee* (or user, who has the interest of using a product without investing too much in acquiring it, thus being able to direct their own funds elsewhere).

As the Romanian economic sectors, requires modernization of the equipments, machinery and vehicles used, the leasing activities played a key role in financing new investment projects, especially after 1990.

Also, leasing can be useful to boost the development of some sectors, governors can promote tax breaks for leasing operations. Leasing can be an effective mean of developing underdeveloped regions.

In the same time, leasing represents a way to create funding sources for financing investments, proving to be one of the most effective means of financing productive investment and providing extra security to the capital holder. The state encourages financing investment through leasing operations.

Noteworthy is that the lease transaction is structured so that, this operation eliminates the difficulties faced by operators, regarding financing investments, such as the long period for obtaining a credit.

## 3. Past and present issues in the evolution of leasing

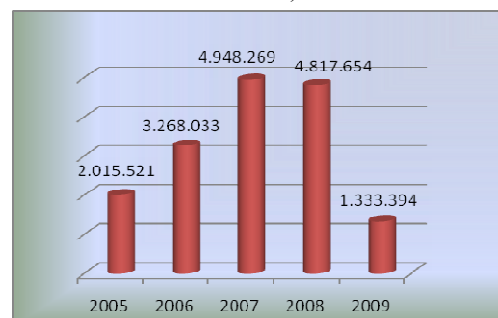
Lease financing developed as an important credit form after 1970. As leasing operations developed, we witnessed specific forms of organization, trade and financing.

The first leasing company established in Romania was S.C. Mister D. Leasing S.R.L. in 1994, but the first legislative support for leasing in Romania appeared in 1995, and in 1997 was issued the first Leasing Law – GO 51 / 1997, ratified in 1998. In February 1996 appears the **Association of the Leasing Companies of Romania (A.S.L.R.)** and in March 2004, the **Association of Leasing and Non-Banking Financial Services (A.L.B.)**, non-profit organizations both members of LEASEUROPE (an organization controlling around 80% of the European leasing industry). The purpose and objectives of A.S.L.R. and A.L.B. are to defend and represent the interests of the leasing companies of Romania.

If, at the beginning, the leasing market of Romania was equaled to the car leasing market, this association began to fade over time, although car leasing still has the main share of the respective domain. The evolution of leasing was due mainly to the fact that this sector has immense potential, but also to the opening of international companies' branches in Romania.

## 4. An analysis of the Romanian leasing market

„Chart no.1. Romanian leasing market (000 EURO)”



Source: Reports of A.L.B.

We can affirm that the leasing market has grown visibly between 2005 and 2007. Despite this growth, the percentage rate of growth decreased from one year to another as follows:

- 2005-2006: 62%
- 2006-2007: 51%

Leasing market represented in 2005 less than 1% of GDP in 2006, about 3% of GDP and in 2007 4% of GDP. The value recorded in 2008 signifies a reduction of 2.6% of the leasing market, because the real estate sector was blocked.

The leasing market recorded a slowdown, right from the third trimester of 2008, especially on the automotive and real estate leasing sectors, show the official data from A.L.B. During the final months of 2008, the drop of new cars sales – as an effect of the pollution tax, and the increase of financing costs, had a negative effect on the car leasing market.

In 2009, the leasing market recorded a slowdown, with 72 percentages, reaching approximately, 1,33 billion EURO. This situation is caused first of all because, of the slowdown recorded in the automotive market, like we mentioned before, and secondly because of the slowdown recorded in the equipment leasing market. Due to present economic situation, the incomes of the leasing societies, fell significantly, as they concluded in 2009, a small number of contracts.

Leasing companies can maintain their profitability rate in the context of the world crisis, by providing a diversified operational leasing offer, by providing closed period promotions, quality services. The companies must pay attention to their exploitation costs and direct their investments to cost-effective domains.

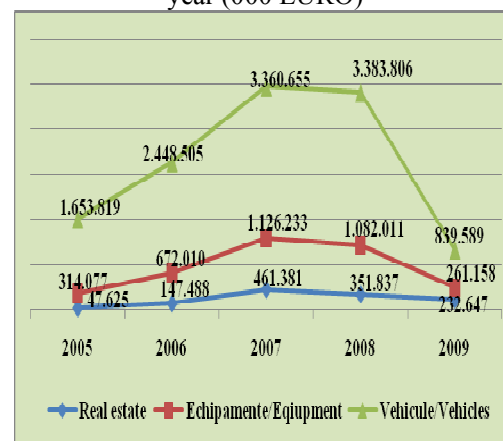
The world crisis may represent a development opportunity for operational leasing, second-hand leasing, medical and agricultural leasing. The representatives of the operational leasing companies claim that many firms are to turn to this segment during the crisis, in order to reduce their car fleet maintenance costs. In the case of operational leasing, the maintenance costs for cars are predictable during the entire period of the contract.

## 5. Romanian leasing market year to year

We are now going to make an analysis of the leasing market, starting from the three sectors financed by leasing: transports, equipments and real-estate and put a stress on the situation recorded in the last two years when there were major changes due to economy's cyclic nature. We are also going to take into account the category of the leasing company (independent, captive, or bank subsidiaries), the origin of the financed product (domestic, European Union, or imported), the category of the user (public, corporate, retail), the duration of the leasing contracts. The data used is taken from the reports of the two above mentioned associations: A.L.B., A.S.L.R.

Chart no. 2 presents the economic sectors financed through leasing operations between 2005 and 2009: vehicles, equipments, and real-estate.

Chart no.2 . Romanian leasing market year to year (000 EURO)



Source: Reports of A.L.B. and A.S.L.R.

## 6. Automotive leasing

The automotive leasing market, registered an increase between 2005-2007 (48% between 2005-2006, 37% between 2006-2007). In 2008, the increase is difficult to observe, the analysis indicating an increase of only 1%. The situation, is getting worse in 2009, when we assist, at a slowdown of approximately 75%, in this sector, the incomes reaching the value of 839.589.000 EURO.

In 2009, as we can notice from the chart no.2, 55% of the total value of the automotive leasing market is obtained from cars' financing, 21% from heavy commercial vehicles, 16% from light commercial vehicles and 2% from other types of vehicles.

If we analyze the destination of the automotive financing according to the user's category, we shall notice that in 2009, 91% of the total financing went to the corporate sector, 8% to the retail sector and only 1% to the public sector.

According to the leasing companies' category, in 2009 the following situation was recorded: over half of the automotive financing was given by leasing companies subsidiaries of banks (63%), the rest being shared by independent leasing companies (13%) and captive leasing companies (24%).

Moving further on with our analysis and taking into account the duration of leasing agreement, we can note that as the duration of the contract is longer, the value of the financing increases. Firstly, 26% of the financing is destined to the contracts of five years, secondly – contracts of four to five years (24%) and thirdly, contracts of three to four years (23%).

If we take into account the origin of the financed asset, over the past year, leasing companies financed 80% Romanian assets, 10% EU assets and 10% imported assets. Based on these results, we can affirm that the slowdown registered on the automotive leasing market is caused by the absence of contracts concluded with external partners this year.

## 7. Equipment leasing

Equipment leasing does not comprise just a greater risk, but also a larger profitability. The proof is offered by the companies specialized on different categories of equipment. Lately, there have appeared companies oriented exclusively on agricultural devices, medical equipment, IT, food industry and wood processing. The assertion of such companies on the market is not accidental; it is based on several conditions. Among these, there is the experience of the company and of the staff in the destination industry for the financed

assets, the knowledge of governmental programs to support these sectors, a territorial sales and service network and strategic partnerships with domestic and foreign suppliers and financiers. Therefore, the equipment leasing sector grew considerably over 2005-2007:

- 2005-2006: 114%; 357.933.000 EURO
- 2006-2007: 68%; 454.223.000 EURO

The situation changed in 2008 when there was a reduction in equipment leasing of 4%, that is 44 222 000 EURO. In 2009 the equipment leasing market, follows the same trajectory, like the automotive leasing market. In 2009 the equipment financing were divided as follows: 22% in constructions, 8% in IT and software, 8% in metallurgic industry, 4% in food industry, 5% in medical equipment, 9% in agricultural equipment, 3% in wood processing, and 41 % in other sectors. The equipment field was downsized by the great incidence of sophisticated fraud. The lack of access at the Banking Risk Central, as well as the lack of adequate judicial procedures, increased the volume of financial fraud losses.

## 8. Real estate leasing

The construction sector had an unprecedented boom in Romania over the past few years, in both civil and industrial sectors. This led to an increase in construction equipment leasing volume, but it also created the basis for the development of real estate leasing, as an efficient alternative for real estate projects financing.

Nevertheless, real estate leasing in Romania is still at its initial phase, as it had a low leasing market share of only 17% in 2008. This is due to the legislative deficiencies that do not allow real estate leasing to be clearly delimited from other types of leasing and, due to the lack of real estate specialized companies concentrated to explain to the potential clients the advantages offered by this financing form.

The legislative problems regarding the transfer of a building that is the object of a lease contract and the large amounts of money needed to be invested are responsible for the low market share of this type of leasing. The development of real estate

leasing depends greatly on the existence of a balance between the long term funds attraction (15-20 years) and the placement thereof.

The field specialists believe that the new Fiscal Code should also comprise an analysis of the fiscal implications for the real estate leasing, as there are problems in VAT refunding and some legislative imperfections related to the ownership transfer of the asset at the end of the lease contract.

Starting in 2005, real estate leasing has a new strong “adversary” which is the lack of trust from the part of the clients for this type of financing, due to the dispute in which it was implicated the only company on the Romanian market, specialized in real estate leasing (the Romanian branch of the German company MTS Leasing,), and caused damage among 500 clients, both private persons and companies.

When we analyze the evolution of the real estate leasing over 2005-2007, we may say that it was about to become an increasingly viable alternative to real estate credit. We notice a growth of over 200% over this period. But the situation recorded in the last two years, annuls these suppositions as the financing of the real estate sector is about 232 million EURO, with a drop of 34% in 2009, compared with 2008 (see chart no. 2). This year, the financing of the real estate sector is dominated by the industrial and commercial building category with a total of 57%, office spaces class A, B and C with 26%, the residential sector 18% and the hotel sector 7%, while the rest of 4% is represented by land acquisitions. On the background of the international crisis, the real estate leasing market was significantly affected starting with July, 2008.

### 9. Concluding remarks

Generally speaking, **leasing** is a long-term financing operation practiced by a financial company and having as a juridical support, a lease contract.

Lease financing developed as an important credit form after 1970. As leasing operations developed, we witnessed specific forms of organization, trade and financing. The first leasing company established in Romania was S.C. Mister D. Leasing S.R.L.

As the Romanian economic sectors, requires modernization of the equipments, machinery and vehicles used, the leasing activities played a key role in financing new investment projects, especially after 1990.

From the analysis carried out, we observe that the Romanian leasing market had an oscillatory trend over 2005-2008. If during 2005-2008 there were growths of over 50%, in 2009 we assist a decline of 72%.

From the research made on the Romanian leasing market year to year, it results that the automotive sector recorded the highest values over the entire analyzed period, including 2009. Equipments and real estate recorded an ascending trend between 2005 and 2007, but the equipment sector declined in 2009 with 76% and the real estate with 43%, as a result of the blockage of the real estate and the request for construction equipment. The decline of new vehicles sales – as an effect of the pollution tax and the increased financing costs – had a negative consequence over the automotive leasing market.

As a conclusion, leasing companies are going to concentrate on the dynamic sectors of the economy in order to maintain their profitability rate in 2010. Leasing companies must develop operational leasing, reduce their costs, and make cautious investments, to cover the decline registered in the automotive and real estate sectors business, that begun in 2008.

### 10. References

- [1]Basno C., Dardac N., Constantin F., „Monedă, credit, bănci”, Editura Didactică și Pedagogică, București, 2001.
- [2]Clotici D., Gheorghiu Gh., „Operațiunile de leasing”, Editura Luminița Lex, București, 1998.
- [3]Constantin F., „Relatii financiar international”, Editura Didactică și Pedagogică, București, 1997.
- [4]Dobre E., Munteanu I., “Finanțele întreprinderii”, Editura Muntenia, Constanța, 2004.
- [5]Epure Dănuț Tiberius, “ Coordonate europene privind firmele si mediul de afaceri, Editura Libertatea”, Panciova - Novi Sad Serbia, 2007
- [6]Epure Dănuț Tiberius, „Expansiunea întreprinderii și mediul de afaceri”, Editura Ex Ponto, Constanța, 2005.
- [7] www.alb.ro
- [8] www.aslr.ro

# The Impact of the UE Integration on Inflation Phenomenon in Romania

Damian Monica

“Alexandru Ioan Cuza” University of Iași  
m0nicadamian@yahoo.com

## Abstract

*Integration into the UE had generated a series of costs and benefits for the member states, with a major impact on the macro-economical level. From the perspective of the inflation rate, Romania has followed the scenario of those states that had adhered in 2004. This paper will analyze the inflation process in the pre as well as the post accession period, the factors that determine the inflation in the context of the EU accession, as well as the analysis of the correlation between the inflation rate and the main macro-economical indicators.*

**Key words:** Integration, inflation process, main macro-economical indicators.

**JEL Classification:** E3, E31

## 1. Introduction

The adoption of the single currency implies carrying out the nominal convergence criteria provided in the Maastricht Treaty, namely: the medium inflation rate is to not outgrow by more than 1.5% the average of the first 3 states to register the best results in the field where prices are concerned, the budget deficit is to not surpass 3% of the GDP, the public debt is to not disrespect the fluctuation limits foreseen by the currency exchange mechanism of the European Monetary system by more than 60%, the long-term interest rate is to not exceed by more than 2% that of, at most, 3 member states that have scored the best results in the price field. Out of all these criteria, the first remains the critical point for the Romanian economy. Not fulfilling these criteria involves the lack of sustainability in the process of macro-stabilizing the Romanian economy. [4].

Inflation is a macro-economical process, which communes with the main macro-

economical indicators. The inflation phenomenon has become a major preoccupation for the monetary authorities in various countries of the world, especially at the beginning of the 21<sup>st</sup> century, reality which determined that the objective to diminish inflation down to a tolerant level become, in time, the most important objective of monetary policy.

Inflation might become the biggest barrier in the way of Romania's adoption of the single European currency, at the initially scheduled date, given the fact that it is a process hard to control by the state in the context of the current economical crisis, being that many active companies on the Romanian market will be tempted to compensate the drop of the sales capacity through applying pressure on prices.

## 2. Factors that determine inflation in Romania

Low inflation is a key component of long-term sustainable economical growth and of ensuring convergence with European economies. In this context, in August 2005, BNR, decided to calibrate the monetary policy, based on the inflation rate, going to the strategy of aiming the inflation. As such, in 2005 the recorded inflation rate was 8, 6%, that being the second year in which Romania was situated on the manifestation plane with only one digit. The disinflation process continued throughout 2006, in December 2006 recording an annual inflation rate of 4.87%, slightly below the agreed target of 5% despite the overspill in demands, which constituted a deterrent agent. This evolution was determined by the descending evolution of volatile prices (down to -2, 51% in December), especially dramatic drops recorded by vegetable and fruit prices and decrease of oil prices on international markets. Also, governed prices recorded a 4 point drop. The advantageous impact on consumership prices was also

sustained by the appreciation in the national currency in proportion to the euro, the exchange rate recording a growth of just 9, 6% in

December 2006, compared to the 19.1% that was reached in the same period of the previous year.

Table no 1. Annual growth of prices

	2006				2007				2008				2009			
	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
CPI total	8,41	7,11	5,48	4,87	3,66	3,80	6,03	6,57	8,63	8,61	7,30	6,30	6,71	5,86	4,94	4,74
Gov. prices	12,94	10,14	9,50	10,20	6,87	8,65	7,28	4,97	8,50	5,37	7,67	7,38	7,78	7,70	4,70	3,40
Vol. prices	14,00	11,00	3,07	-2,51	-3,88	-0,29	10,57	12,56	17,29	16,31	7,93	2,49	4,16	2,29	1,00	4,30

Source: National Bank of Romania

If in the first semester of 2007 the inflation rate in Romania had a descending trend, down to 3, 8%, in the second semester this changed its evolution and at the end of the year the inflation rate was 6, 57%. The evolution of the first semester was due to the appreciation of the national currency in respect to the euro and the decreases registered by the fuel prices and to some of the governed prices of the first trimester, 3.33% difference compared to the end of the previous year.

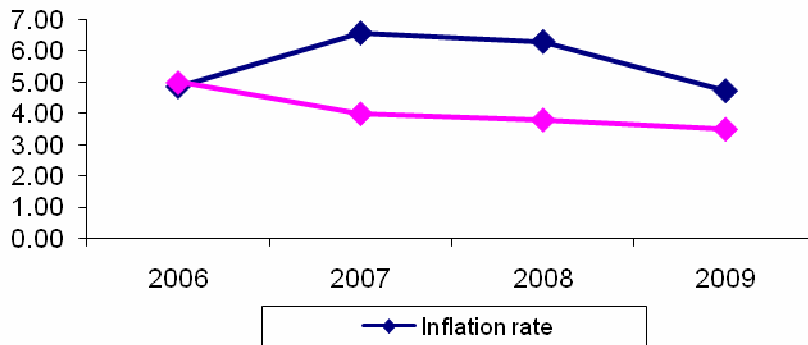
The inflation rate changed its trajectory starting with the 3<sup>rd</sup> trimester, following the influence of the significant growth of volatile prices. These recorded an almost double dynamics as opposed to the inflation rate, consequence of the side effects induced by the production decrease in vegetables and fruit. Governed prices have lessened their contribution to the inflation rate, because of the stability of power energy prices and the lower spread adjustments applied to heat energy prices, natural gas and water, sewage and sanitation services.

The inflation rate of this year has exceeded the superior limit of the target that was established for this year by 1, 57%.

Another agent that determined the evolution of inflation in the year 2007 was the harmonization of the financial legislation with the EU acquis, in what excises are concerned.

The inflation process was accelerated in the first semester of 2008, reaching its maximum level, 9, 04%, in July, before it being mitigated to 6,3% in December. In the period between January and July 2008, the inflation bite was determined supply-wise, generated by the tensions present on the agro-alimentary market (consequence of the production decrease of 2007), and on the other hand, by the international impact of the growth of oil and natural gases listings. The influence of these 2 factors was diminished in the second semester, but pressure persisted demand-wise, which led to the superior limit of inflation to be outgrown by 1.5%.

Figure 1 The deviation between the inflation rate and its target

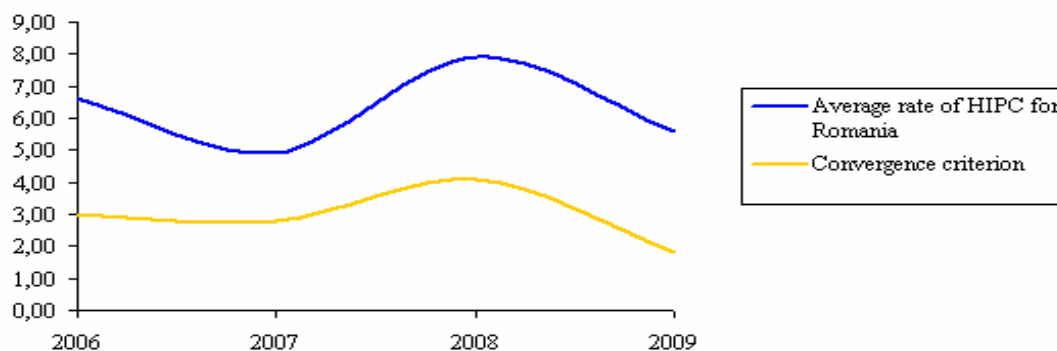


The inflation rate has changed its descendant trajectory recorded in the second part of the previous year, reaching 6, 71% at the end of the first trimester of 2009. The evolution was due to the growth of oil listings on the international markets and the pressures exerted by volatile prices, the registered variation being that of 4,34% compared to the 2, 49% at the end of year before that. Starting with the second trimester, the prices' growth rhythm slowed down until October, being subsequently mitigated by the cigarette producers' decision to outmatch the inflation impact of the exchange rate that would be applied on excises. The dynamics of volatile prices has had an unfavorable influence on the inflation rate, the growth having been determined by the growth rhythm pertaining to fuels (from 2, 4% in September, to 13, 2% in

December), while the growth rhythm of governed prices slowed. The acceleration of the disinflation process was determined by the appreciation of the national currency as opposed to the euro. The deviation between the inflation rate and the target set for this year was diminished, as can be seen in figure 1. From the graphic we can see that the accelerated rhythm of inflation ( 1,7% more) took place in 2007 along with Romania's accession to the EU.

From the perspective of the nominal convergence criterion, referring to the inflation, the divergence between the average variation of the harmonized index of consumership prices and the average inflation rate of the best performing 3 member states of the EU, had registered a decrease in 2007, as can be seen in figure 2, following that in future years the divergence would grow up to 3,8%.

Figure 2 The nominal convergence criterion





Although it saw a descendent trend starting with 2008, the inflation level in Romania has recorded the highest values in the EU, outgrowing the inflation rate in the EU by a lot.

As a macro-economical process, inflation is generated by a series of factors that compete, be it even with different intensities, over shorter or longer periods of time for its implementation and sustenance. The inflation mechanism generated by these factors, in itself, influences the evolution of all the markers of real economy.

The use of the monetary policy instruments (the exchange rate, the money supply, the interest rate) has a certain effect on inflation as well as inflationary expectations.

We will analyze the influence of these factors on the inflation rate with the help of the correlation parameter and the determination parameter.

The correlation parameter measures the intensity of the link between the determining

factors and the interest rate, and we will determine the weight by which it influences the factors over the inflation rate with the help of the determination parameter.

### **2.1. The influence of the monetary supply on the inflation rate**

The influence exerted by the monetary supply on the inflation rate is direct, as certified by Fisher's formula:

$$M \times V = P \times Q$$

M – monetary supply

V – the rotation speed of money

P – price growth index

Q – the gross domestic product

If the rotation speed and the GDP are immutable, any change in the monetary supply will translate into a change, of similar magnitude, of the prices index. In Romania, the control over the monetary supply represents the most important monetary instrument for the cease of inflation [10].

Table no 2. The monetary mass and the inflation rate during 2006-2009

Date	Monetary mass (x)	Inflation rate (y)	X <sup>2</sup>	X * Y	Y <sup>2</sup>
	<i>Annual fluctuation (%)</i>				
2006T1	30,40	8,40	924,16	255,36	70,56
2006T2	26,60	7,11	707,56	189,13	50,55
2006T3	22,70	5,48	515,29	124,40	30,03
2006T4	28,10	4,87	789,61	136,85	23,72
2007T1	28,80	3,66	829,44	105,41	13,40
2007T2	22,40	3,80	501,76	85,12	14,44
2007T3	28,20	6,03	795,24	170,05	36,36
2007T4	33,70	6,57	1135,69	221,41	43,16
2008T1	34,80	8,63	1211,04	300,32	74,48
2008T2	38,90	8,61	1513,21	334,93	74,13
2008T3	31,10	7,30	967,21	227,03	53,29
2008T4	17,50	6,30	306,25	110,25	39,69
2009T1	15,40	6,71	237,16	103,33	45,02
2009T2	11,70	5,86	136,89	68,56	34,34
2009T3	10,70	4,94	114,49	52,86	24,40
<b>Total</b>	<b>381,00</b>	<b>94,27</b>	<b>10685,00</b>	<b>2485,00</b>	<b>627,58</b>

Source: National Bank of Romania

In order to establish the type or correlation between the two variables we will calculate the parameters a and b from the following system of equations:

$$\begin{aligned} na + b\sum x_i &= \sum y_i \\ a\sum x_i + b\sum x_i^2 &= \sum x_i y_i \end{aligned}$$

By replacing the data in the table we will have:

$$\begin{aligned} 15a + 381b &= 94,27 \\ 381a + 10685b &= 2485 \end{aligned}$$

$$r_{y/x} = \frac{n\sum x_i y_i - \sum x_i y_i}{\sqrt{[n\sum x^2 - (\sum x_i)^2][n\sum y^2 - (\sum y_i)^2]}} = \frac{15 * 2485 - 2485}{\sqrt{(15 * 10685 - 145161)(15 * 627,58 - 8886,83)}} = 0,48$$

The correlation parameter's value of 0,48 indicates a weak connection between the monetary supply and the inflation rate.

In order to determine the weight of the influence of the monetary mass on the inflation rate we will calculate the determination parameter.

$$R^2 = (r_{y/x})^2 = (0,48)^2 = 0,23$$

The value of the determination parameter shows that only 23% is the influence of the monetary supply on the inflation rate, the rest representing the influence of other factors.

## 2.2. The influence of the interest rate on the inflation rate

Using the same correlation indicators to determine the influence of the interest rate on the inflation rate during 2006-2009 we have reached the following results:

- The value of the regression parameter "b" is 0,8475, which indicates that between the interest rate and the inflation rate there is a direct correlation.
- The correlation parameter between the two variables is 0,65, which signifies a average intensity bond.
- The weight of the influence of the interest rate of the inflation rate, measured through the determination parameter is 42,25%, the rest 57,75%

By solving the system of equations we obtain the following values: a=4 and b=0,09. The b parameter shows that in a growth of 1% of the monetary supply, the inflation rate grows by 0,09%. Its positive value indicates that there is a direct correlation between the monetary supply and the inflation rate.

The intensity of the connection between the two variables is measured with the help of the correlation parameter.

representing the influence of others factors.

It is a known fact, found in specialty literature, that the rise of the interest rate discourages crediting, which equals a drop in demand. A low demand will have an impact on the inflation, as it will decrease. BNR establishes the interest rate for the monetary supply based on the objectives considered. To support economic growth during the economical crisis, National Bank of Romania has reduced the interest rate from 10,25%, registered value in the second semester of 2008, during the period of financial turbulence intensification, down to 8% at the end of 2009.

The bond between the **exchange rate** and the inflation rate is one of the most controversial economical topics in Romania. The advocates of maintaining a fixed exchange rate blame the depreciation of the national currency, calling it a major cause of the inflation. The BNR governor believes that the exchange rate is determined by the evolution of inflation and not the other way around [10].

However, the exchange rate has an influence on the inflation rate through import prices. Thus, from 2005 and until mid-2007, the significant appreciation of the national currency as opposed to the euro has lead to a drop in import prices, which fostered the disinflation process. The depreciation of the Leu compared to the Euro,

beginning mid-2007, determined the growth of import prices which amplified the inflation bite.

### 3. The effects of the European integration on the Romanian economy

The efforts put in by Romania toward the accession to the EU on January 1<sup>st</sup> 2007, resulted in a positive economical evolution. Thus we can state that in 2006 there was an acceleration of the economical growth (from 4,3% to 7,7%) and of the disinflation, as well as a drop in the unemployment rate.

Some specialists agree that moderate inflation can contribute to the full occupancy of the work force, the economical growth and stable financial markets [7]. Also, in specialty literature there is speak of certain "beneficial" consequences of moderate inflation, for production as well as for the economical mechanism. Therefore, moderate inflation constitutes a stimulant factor for the economical growth [5].

In Romania, moderate inflation has stimulated **economical growth**, the GDP reaching 9,3% in the second trimester of 2008. The impact of the financial crisis on the national economy was very strong, fact which determined a sudden drop of the GDP, starting with the second semester of 2008, the indicator recording negative values throughout 2009.

Inflation and unemployment represent 2 macro-economical phenomena, whose evolution depends on the macro-economical stability of that certain country. Specialty literature mentions that, on a short-term, there is an inversely proportional relation between the inflation rate and the unemployment rate. In Romania, during the analyzed period of time, the **unemployment** rate has evolved in a manner opposite to the inflation rate. The ascendant trend of the unemployment rate in the period starting 2006 and up to the 4<sup>th</sup> trimester of 2008, was influenced by the domestic demand for work places and the migration of the work force abroad. The intensification of the uncertainties regarding the effects of the financial crisis on the national economy and on the external partners, postponement of investment projects has lead to the lert

growth of the unemployment rate, reaching 7,5% at the end of 2009.

The growth of the **budget deficit** exerts a negative influence on the inflation process, in the sense that the 2 macro-economical indicators follow the same evolution path. Even so, the weight of the general budget deficit consolidated in the GDP between 2008 and 2009 has recorded an accentuated growth (120% in 2008), while the inflation rate saw a descendant trend.

The inflationary phenomenon, along with other factors, contributes to the growth of the current account deficit, due to massive imports made by the country in question for the coverage of the insufficient national production [8]. Thus, Romania's **current account deficit** followed the same evolution as the inflation rate, growing in the same proportion in 2007, waiting upon the drop of the current account deficit by a much higher percent than that of the inflation rate due to the effects of the financial crisis, felt in the 4<sup>th</sup> trimester of 2008, which had repercussions on the internal and external demand, thus determining the decrease of the current account deficit by 2 points as opposed to the previous year, the descending trend of the current account deficit was highly accentuated in 2009, reaching 4,3%.

### 4. Conclusions

Romania's integration into the EU has lead to an accelerated growth of consumership goods' prices in the year of the integration, similar to that recorded by member states that adhered in 2004, followed by a drop of the inflation rate, the inflation rate target representing the main objective of the monetary policy in Romania.

From the perspective of the factors that influence it, we might conclude that there is appositive bond between the monetary supply (M3) and the inflation rate, as was identified by economist Irving Fisher, exerting a moderate influence on the inflation process. The monetary supply constitutes the main monetary device on which NBR acts in order to reach the inflation target.

From the analysis made, we find that the fact that the interest rate exerts a direct influence on the inflation rate, although in specialty literature it is identified as being an indirect bond.

The results of the study show that during the period analyzed, Romania registered positive results in the consolidation of the macro-economical stability up to the 3<sup>rd</sup> trimester of 2008, the negative impact of the financial crisis changing the trajectory of the economical indicators.

## 5. Bibliography:

[1] National Bank of Romania, „Cash Flow”, <http://www.bnro.ro/Publicatii-periodice-204.aspx>

[2] National Bank of Romania, „Reports on inflation,” <http://www.bnro.ro/Publicatii-periodice-204.aspx>

[3] National Bank of Romania, „Annual reports”, <http://www.bnro.ro/Publicatii-periodice-204.aspx>

[4] Dinu Marin, Socol Cristian, „A sketch of the egression from periphery”, Theoretical and Enforced Economy, 2006

[5] Foster Edward, „Cost and benefits of inflation”, Studies in monetary economics, Federal Reserve Bank of Minneapolis, 1972, Minneapolis

Price stability is as much a purpose in itself, as it is a means for the monetary policy, as it contributes to the achievement of a sustainable economical growth as well as macro-economical stability.

[6] Frant Florin, Minica Mirela, „Price stability for Romania. Respect of the reference value”, The Annals of the Economical Sciences Faculty Oradea, 2009, pp.340-345

[7] Poole William, Wheelock David, „Stable prices, stable economy”, The Regional Economist, 2008

[8] Pop Cohut Ioana, „Inflation in the Second Half of the XX Century”, Economica P.H., 2005, Bucharest

[9] Popa Cristian coord., „The Direct Targeting of Inflation in Romania”, 2009

[10] Isărescu Mugur, „Economical reflections. Contributions to the theory of macro-stabilization.”, Romanian Academy P.H., 2006, Bucharest

[11] [http://epp.eurostat.ec.europa.eu/portal/page/portal/publications/collections/news\\_releases](http://epp.eurostat.ec.europa.eu/portal/page/portal/publications/collections/news_releases)

[12] <https://statistici.insse.ro/shop/>

## Comparison between CPI and HICP in Romania

Damian Monica

“Alexandru Ioan Cuza” University of Iași

m0nicadamian@yahoo.com

### Abstract

*Measuring the inflationary process, as a macroeconomic phenomenon, is done in several ways. National Institute of Statistics calculates every month the consumer price index (CPI) and the harmonized index of consumer prices (HICP), dates which are transmitted to the European Commission of Statistics. This document will analyze the differences between these 2 indices, weighting system used to compute the 2 indices, and also the contribution of goods and services price dynamics at the annual inflation rate in Romania in 2006-2009.*

**Key words:** consumer price index, harmonized index of consumer prices, inflation rate

**JEL Classification:** E3, E31

### 1. Introduction

An important element in assessing a country's economic evolution, in a certain period of time, is that concerning the way in which the consumer prices have developed. The measurement of consumer prices evolution is made by some price indices, of which the most used one is CPI. This is also called “retail price index”(in England) or “Cost of living index” (in Germany).

CPI is one of the macroeconomic indicators which have a major impact on social and monetary policy decisions. In this way, each country has developed national methodologies that ensure a truthful reflection of price trends from one period to another.

Need for data comparability at European level, on the evolution of consumer prices, led to

the adoption of Board Rules no.2494/1995 concerning harmonized indices of consumer prices.

There are differences at conceptual level between CPI and HICP, so we find necessary to present the differences between these two concepts.

### 2. Conceptual differences between CPI and HICP

CPI measures overall changes in prices for goods bought and tariffs of services used by the population in a certain period (current period) from the previous period (base or reference period). CPI is calculated only for the elements which are contained in the direct consumption of the population ,being excluded: consumption from own resources ,expenses for investment and accumulation, interest paid on loan ,insurance rates, fines, taxes etc. and also expenditures paid for agricultural production work of individuals households [5].

Romania's UE accession involves increasing importance given to HICP ,because the nominal convergence criteria on inflation, which needs to be made for adopting the euro, is expressed in terms of HICP. European Central Bank aims to keep inflation low, but close to 2%, over the medium term.

HICPs are economic indices built for measuring the changes in time of the goods and services prices bought by households. HICP measures inflation in euro area to implement monetary policy in the euro area and to evaluate the convergence's inflation according to the Maastricht criteria.

The harmonized index is based on “internal” principle of the consumer concept, taking into account the consumption of all households in the

economic territory of the country ,regardless of income, nationality ,social or residential status ,except for foreign embassies in Romania ,taking

This is a major conceptual difference from the CPI which uses the principle of "national" consumption; abide by residents' consumption expenditures whether performed inside or outside the country. Consumer spending abroad refers to tourist and transport services abroad.

Another difference between the two indicators refers to the using by HICP of the concept "net expense reimbursements" for drugs (amounts deducted offset)and of insurance premiums (deducted compensation).

Price changes for owner-occupied dwellings are excluded from the calculation of the HICP , while in the consumer price index these fluctuations are included in some countries.

Regarding the calculation of the two indices, both CPI and HICP are Laspeyres indices with fixed base, however being differences in the weighting schemes.

into account also expenditure of foreign visitors in Romania.

$$\text{Indicele Laspeyres} = \frac{\sum q_0 p_1}{\sum q_0 p_0}$$

where:

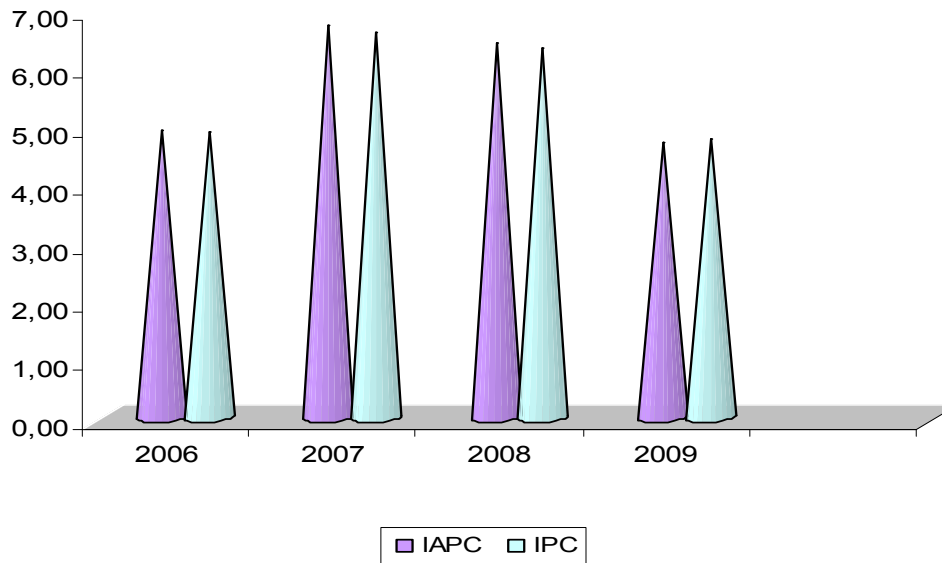
p0 is the price of a product during the (reference)

P1 is the product price in the current period

q0 is the quantity of product sold during the base period

Although between CPI and HICP national definition there are conceptual differences ,the impact of them on the final result is negligible, as can be seen in Figure 1.

Figure 1 . Evolution of the inflation rate in Romania during 2006-2009 according to HICP and CPI



Each member country of the European Union calculates the two indices, each of them serving a different purpose:

- CPI is used in monetary policy, social policy (minimum wage, indexation, social welfare, pensions) and fiscal and budgetary policies;

- HICP serves to inflation's comparability at European level and for setting policy at

Weights used to calculate CPI and HICP come from the same source, being determined by the structure of expenditure Household Budget Survey by analyzing the average monthly expenditure of a household to purchase goods and payment of services necessary to their needs, adjusted by including costs incurred by Romanian tourists outside Romania. The use of different weights would not allow a fair comparability between Member States of the European Union. For year  $t$  are used weights derived from the structure of the household average expenditure in year  $t-2$ .

Share of product groups is determined by their importance in average household budgets. To maintain the relevance of the index, reflecting changes in consumer habits, weights are updated periodically.

### **3. Structure of consumer price indices and contribution of dynamics of goods prices and services to inflation rate**

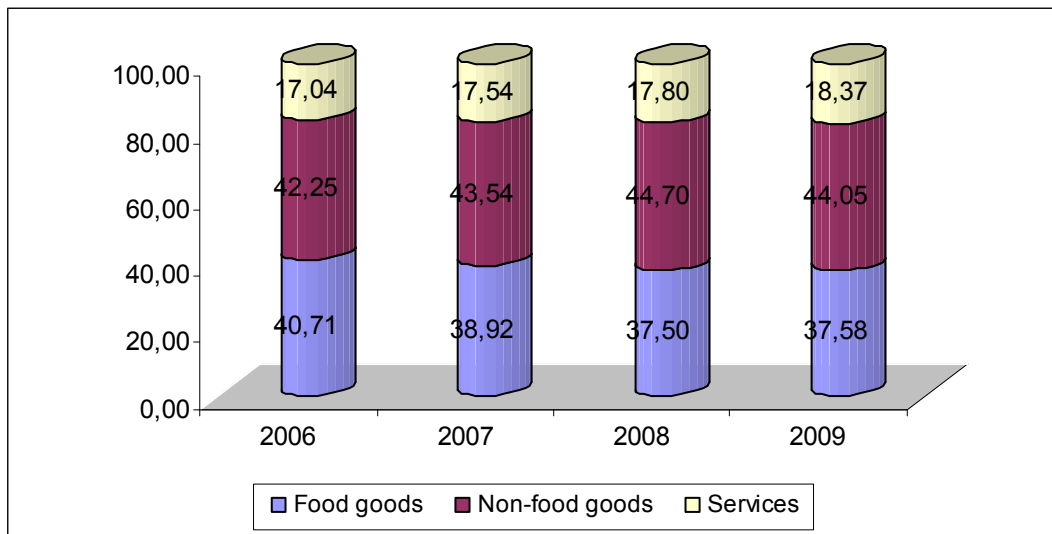
To calculate HICP is used COICOP classification (Classification of Individual

European level.

Consumption by Purpose), and for the CPI, the nomenclature used is divided into 3 levels of aggregation (groups, positions and types), namely: (i) the group of food, (ii) group non-food products and (iii) services group.

The impact that the price variation has on HICP depends on the average amount spent by households for that product. The bigger the share of goods and services in the consumption basket is, the bigger the impact on HICP. In Romania, food and non-food goods have a high share in the consumer basket, while services have a small share of approximately 17.68%, hence the impact on CPI. According to data from the National Statistics Institute, in 2006-2009 period, the weights used for the CPI calculation showed insignificant variations. If the share of food in 2006 was 40.71%, thereafter it decreased by 3.13 percentage points, while the share of non-food goods recorded an upward trend, reaching a value of 44.05% in 2009. The same trend was followed by services in the period 2006-2009, the share of services in the consumer basket raising by 1.33%.

Figure 2. Evolution of weights used in calculating the CPI in the period 2006-2009

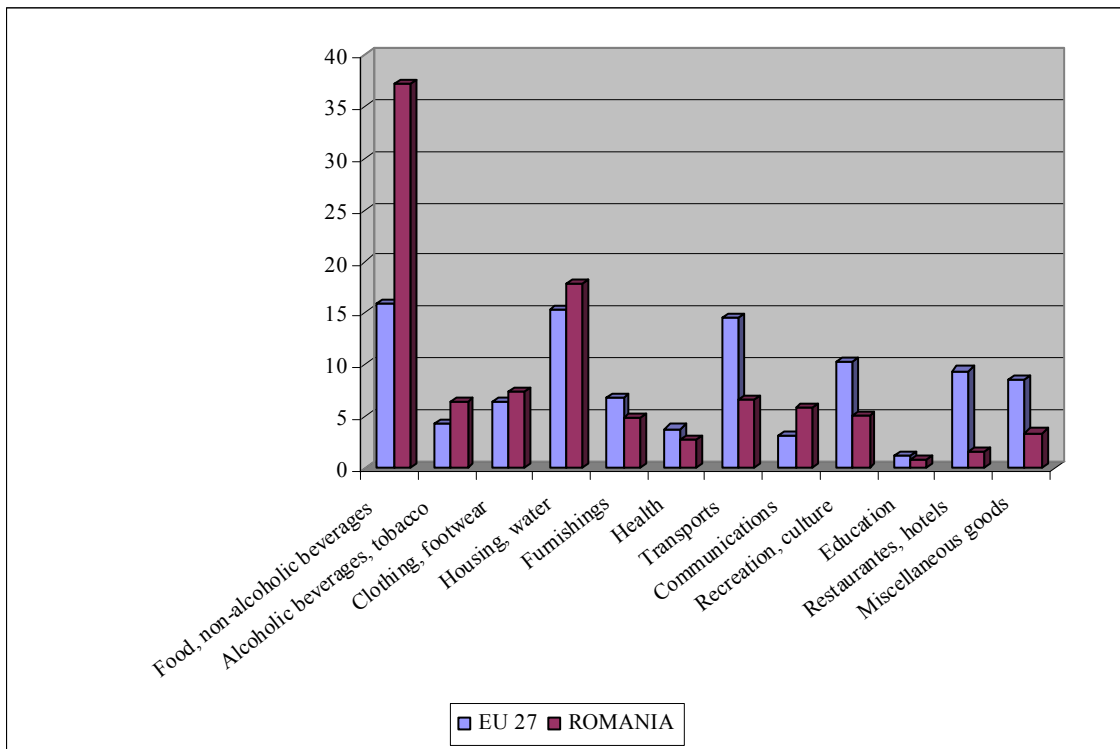


According to the classification of individual consumption by purpose, used in calculating the HICP, in Romania, food and soft drinks have a high share in the consumer basket (37.25% in 2009) versus the value recorded in the European Union (15.93%). Any change in prices of these groups, because

they hold great weight in the consumer basket, will lead to an increase in general price index, as can be seen from Table 1. Regarding maintenance of the dwelling, their share in the consumer basket is the second as value after the food products.



Figure 3. Share in the consumer basket of 2009 HICP components



In the graph we can see the spread between the consumption basket weights recorded in Romania and EU-related to hotels and restaurants (7.81%), recreation and culture (5.24%), transport (8.06%),

which means, assigning a larger part of consumer spending at EU level to above mentioned destinations. Note that both at EU level and in Romania the expenditure on education have the lowest share

Table 1. Contribution to annual inflation rate in Romania

Year		Food goods.	Non – food goods	Services	CPI total
2006	Cart share (%)	40,71	42,25	17,04	4,87
	annual growth of prices	1,07	8,33	5,12	
	<b>Contribution to inflation interest</b>	<b>0,44</b>	<b>3,52</b>	<b>0,87</b>	
2007	Cart share (%)	38,92	43,54	17,54	6,57
	annual growth of prices	9,14	3,60	8,55	
	<b>Contribution to inflation interest</b>	<b>3,55</b>	<b>1,56</b>	<b>1,49</b>	
2008	Cart share (%)	37,50	44,70	17,80	6,30
	annual growth of prices	6,02	5,96	7,71	
	<b>Contribution to inflation interest</b>	<b>2,25</b>	<b>2,66</b>	<b>1,37</b>	
2009	Cart share (%)	37,58	44,05	18,37	4,74
	annual growth of prices	0,38	7,72	6,86	
	<b>Contribution to inflation interest</b>	<b>0,14</b>	<b>3,40</b>	<b>1,26</b>	

Source: NIS, author's calculations

In 2006, the increasing of non-food goods prices by 8.33% contributed to the increasing of inflation interest by 3.52%, following that in 2007 and 2008 the contribution to inflation interest to be relatively low. Due to the significant share of non-food goods in the consumption basket of 44.05% and 7.72% increase in their prices, consumer price index increasing at 104.74% in 2009 is mostly attributable to the impact that they had. Accelerating inflation in the integration year at 6.75%, it was due to the contribution of food to 3.55%, before cooling it in 2009 at 0.14%. Regarding services, because of a low share in

the consumption basket, dynamic's services prices contribution at the increasing of CPI is relatively small.

#### 4. Conclusions

Before the euro becoming the common currency, each country measured the inflation based on specific national procedures and methods. With the introduction of the euro, came the need to measure inflation across the euro area, which allow comparisons between countries, with HICP happen.

The harmonized index of consumer prices and consumer price index measures inflation faced by consumers, a macroeconomic phenomenon of great importance in the evaluation of a national economy stability. HICP is used to determine whether a country is ready to join the euro area. National Institute of Statistics calculates both the consumer price index for domestic needs and the harmonized index of consumer prices for comparability at European level.

Both indicators are based on weights in the consumer basket of goods and services determined by analyzing the average expenditure of households. Thus, Romanians spend almost 40% of total consumption expenditure on food while the European share of food in the basket consumption is much lower (16%).

## 5. Bibliography

- [1]European Central Bank, „The inflation and euro”,<http://www.ecb.int/ecb/educational/hicp/html/index.ro.html>
- [2]National Bank of Romania, „Comparative analysis between harmonized indices and national indices of consumer’s prices in the Romania’s case”, 2007, <http://www.bnro.ro/Analize-4012.aspx>
- [3] National Bank of Romania, „Comparative analysis between harmonized indices and national indices of consumer’s prices calculated according national definition: the main conceptual differences”, 2007, <http://www.bnro.ro/Analize-4012.aspx>
- [4]European Commission, „HICP-CPI differences”,  
<http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/introduction>
- [5]National Institute of Statistics, „ Monthly Prices Bulletin”,  
<http://www.insse.ro/cms/rw/pages/index.ro.do>
- [6]National Institute of Statistics, „The consumer’s prices indices calculation for 2008”
- [7]National Institute of Statistics, „How to measure the consumer’s prices indices evolution? 2006,  
<http://www.insse.ro/cms/rw/pages/listaArhivaCom.ro.do>
- [8]National Institute of Statistics, „Press Releases”<http://www.insse.ro/cms/rw/pages/listaArhivaCom.ro.do>
- [9]National Institute of Statistics, „ The improvement and harmonization of the calculation methodology for consumer’s prices indices in Romania”, 2010

## Financial Crisis: causes and consequences

Magdalena Dediu  
Alina Dobrea  
Dunarea de Jos University  
[magdadediu@yahoo.co.uk](mailto:magdadediu@yahoo.co.uk)  
[dobrea.alina@gmail.com](mailto:dobrea.alina@gmail.com)

### Abstract

This paper models the global financial crisis as a combination of shocks to global housing markets and sharp increases in risk premia of firms, households and international investors in an intertemporal (or DSGE) global model. The model has six sectors of production and trade in 15 major economies and regions. The paper shows that the shocks observed in financial markets can be used to generate the severe economic contraction in global trade and production currently being experienced in 2009. In particular the distinction between the production and trade of durable and non durable goods plays a key role in explaining the much larger contraction in trade than GDP experienced by most economies.

The results show that the future of the global economy depends critically on whether the shocks to risk are expected to be permanent or temporary.

**Keywords:** Global Financial Crisis, International Trade, DSGE models.

**JEL classification:** G15

### 1. Introduction

The collapse, sent a wave of fear around world financial markets. Banks virtually stopped lending to each other. The risk premium on interbank borrowing rose sharply to 5 per cent, whereas typically it was close to zero. Although authorities scrambled to inject liquidity into financial markets, the damage was done. The risk premium on corporate bonds shot up even more to over 6 per cent. Large CAPEX projects were shelved, the corporate sector virtually stopped borrowing, trade credit was hard to get and, with falling demand, particularly for investment goods and manufacturing durables like cars, trade volumes collapsed.

*CAPEX or Capital expenditures are expenditures creating future benefits. A*

*capital expenditure is incurred when a business spends money either to buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond the taxable year. Capex is used by a company to acquire or upgrade physical assets such as equipment, property or industrial buildings.*

The result is that the global financial crisis has seen the largest and sharpest drop in global economic activity of the modern era. In 2009, most major developed economies find themselves in a deep recession. The fallout for global trade, both for volumes and the pattern of trade has been dramatic. The OECD predicts world trade volumes could shrink by 13 percent in 2009 from 2008 levels.

Governments have responded with an easing of monetary and fiscal policy that in turn have their own effects on activity and financial and trade flows. The downturn in activity is causing unemployment to rise sharply and, with it, a political response to protect domestic industries through various combinations of domestic subsidies and border protection. There is potential for protectionism to rise further.

The objective of this paper is twofold: to model the global financial crisis and explore the differences between a sharp rise in global risk that is permanent versus one that expected to be temporary and second, to show the impact of the policy response, especially the fiscal response. To do this, a dynamic, intertemporal general equilibrium model that fully integrates the financial and real sectors of the economy is used to unravel and understand the mechanisms at work. The model incorporates wealth effects, expectations and financial markets for bonds, equities and foreign exchange as well as trade and financial flows. It is a suitable tool to analyse the impact of the crisis and policy responses on global trade and financial flows.

The paper is organized as follows. In the next section, the main features of the Gcubed model that is used in this analysis are described briefly as the model is documented in full elsewhere. In section 3, the simulations to represent the financial crisis are described and the justification for the size of the shocks chosen. It turns out five shocks are needed: three for the crisis itself and two for the subsequent policy responses which covers monetary and fiscal stimulus.

In section 4 we explore the impact of the crisis and unpick some of the mechanisms at work by initially surmising what would have happened had the United States alone been affected by the crisis. We also explore the critical role of the reappraisal of risk premiums, in particular whether the shocks are permanent or temporary.

The effects of the massive policy response are addressed in Section 5. It turns out that most of the monetary easing is already captured by the endogenous monetary policy rule incorporated into the model, but not so the fiscal stimulus deployed around the world so we concentrate on this aspect in this section. Finally, in section 6, some of the main insights are highlighted and discussed.

## 2. The model

The *G-cubed model* is an intertemporal general equilibrium model of the world economy. The theoretical structure is outlined in McKibbin and Wilcoxon (1998) 4. A number of studies—summarized in McKibbin and Vines (2000)—show that the G-cubed modelling approach has been useful in assessing a range of issues across a number of countries since the mid1980s.

5 Some of the principal features of the model are as follows:

§ The model is based on explicit intertemporal optimization by the agents (consumers and firms) in each economy<sup>6</sup>. In contrast to static CGE models, time and dynamics are of fundamental importance in the G-cubed model. The MSGCubed model is known as a DSGE (Dynamic Stochastic General Equilibrium) model in the macroeconomics literature and a Dynamic Intertemporal General Equilibrium (DIGE) model in the computable general equilibrium literature.

§ In order to track the macro time series, the behaviour of agents is modified to allow for short run deviations from optimal behaviour either due to myopia or to restrictions on the ability of households and firms to borrow at the risk free bond rate on government debt. For both households and firms, deviations from intertemporal optimizing behaviour take the form of rules of thumb, which are consistent with an optimizing agent that does not update predictions based on new information about future events. These rules-of-thumb are chosen to generate the same steady state behaviour as optimizing agents so that in the long run there is only a single intertemporal optimizing equilibrium of the model. In the short run, actual behaviour is assumed to be a weighted average of the optimizing and the rule of thumb assumptions. Thus aggregate consumption is a weighted average of consumption based on wealth (current asset valuation and expected future after tax labour income) and consumption based on current disposable income. Similarly, aggregate investment is a weighted average of investment based on Tobin's  $q$  (a market valuation of the expected future change in the marginal product of capital relative to the cost) and investment based on a backward looking version of  $Q$ .

§ There is an explicit treatment of the holding of financial assets, including money. Money is introduced into the model through a restriction that households require money to purchase goods.

§ The model also allows for short run nominal wage rigidity (by different degrees in different countries) and therefore allows for significant periods of unemployment depending on the labour market institutions in each country. This assumption, when taken together with the explicit role for money, is what gives the model its "macroeconomic" characteristics. (Here again the model's assumptions differ from the standard market clearing assumption in most CGE models.)

§ The model distinguishes between the stickiness of physical capital within sectors and within countries and the flexibility of financial capital, which immediately flows to where expected returns are highest. This important distinction leads to a critical difference between the quantity of physical capital that is available at any time to produce goods and services, and the valuation of

that capital as a result of decisions about the allocation of financial capital. As a result of this structure, the G-cubed model contains rich dynamic behaviour, driven on the one hand by asset accumulation and, on the other by wage adjustment to a neoclassical steady state. It embodies a wide range of assumptions about individual behaviour and empirical regularities in a general equilibrium framework. The interdependencies are solved out using a computer algorithm that solves for the rational expectations equilibrium of the global economy. It is important to stress that the term ‘general equilibrium’ is used to signify that as many interactions as possible are captured, not that all economies are in a full market clearing equilibrium at each point in time. Although it is assumed that market forces eventually drive the world economy to neoclassical steady state growth equilibrium, unemployment does emerge for long periods due to wage stickiness, to an extent that differs between countries due to differences in labour market institutions.

In the version of the model used here there are 6 sectors (energy, mining, agriculture, manufacturing durables, manufacturing nondurables and services) and 15 countries/regions as set out in Table 2.2.

## 2.2 Countries

United States	China
Japan	India
United Kingdom	Other Asia
Germany	Latin America
Euro Area	Other LCD
Canada	East Europe & Former Soviet Union
Austria	OPEC
Rest of ORCD	

## 3. Simulating the effects of the crisis Events leading up to the crisis in 2008—the baseline

The focus of this paper is on disentangling the many influences of the financial crisis on the global economy and in particular to see how well the model can explain the macroeconomic and

sectoral responses to the crisis in confidence that we model through risk shocks. The ‘crisis’ is defined here as the bursting of the housing market bubble in late 2007, the ensuing collapse in the subprime mortgage market and related financial markets and the subsequent collapse which resulted in a sharp increase in risk premia around the world.

The problem in precisely modelling the crisis is that there are already shocks in the baseline that affect subsequent global dynamics independently of the crisis. Here we are focussing only on the additional shocks from the crisis. The problem is that some of the seeds of the financial crisis were sown in the decade before the crisis. There were a series of large global events, such as the bursting of the dotcom bubble in 2001 and the rapid growth of China, that were already reshaping the pattern and level of world trade before the 2007 – 2008 financial crisis hit. Some of these events, like the large disparities between savings and investment in China (a surplus) and in the United States (a deficit) led to large differences between exports and imports for each nation so that large current account surpluses were accumulating in China and large deficits in America. Some people attribute these growing global imbalances as contributing causes of the crisis, and there is some truth in that. But the focus of this study is on the impact of the crisis itself on world trade and not on trying to disentangle the various contributing factors to the crisis, as important as that issue is.

Therefore, besides population and productivity trends shaping the baseline for the world, some of the key events over the last decade influencing the baseline would be:

§ First, there was the Asian financial crisis of 1997 -98, which saw Asian economies generate large current account surpluses that had to be invested offshore to keep their nominal exchange rates low. Capital flowed out of Asia into US dotcom stocks driving up equity prices.

§ Next was the bursting of the dotcom bubble, which saw the booming NASDAQ over 1998–2000 burst in 2001.

§ Fearing a downturn and possible deflation, the US Federal Reserve eased monetary policy in 2001 in a series of steps to 2004. Some argue that they eased too much for too long.

§ But, with easy credit and a rising housing market, a boom in house prices followed and a period of high growth in credit and leveraged loans. Risk premia hit low levels and leveraged deals became common as investors chased yields in an environment of lax regulatory oversight.

§ Rising demands from China (and, to some extent, India), plus a booming world economy saw commodity prices rise across oil, minerals and food from late 2004 to late 2007. The shock to the global economy from this commodity price boom was as big as the first oil shock in the 1970s .

§ Rising prices and inflation caused monetary authorities to tighten policy from mid 2004 to June 2006.

Each of these major events set up their own dynamics for the course of the world economy and helped shape the underlying baseline. Some of these events such as the easing and tightening of monetary policy are endogenous to the model and already incorporated in the baseline. It is important to appreciate that the results reported here are *deviations* from baseline from the financial crisis, as defined here. What is important is the relative contribution of different effects and to disentangle the impacts of the financial crisis on the global economy in the short to medium run.

#### ***The five shocks to represent the crisis and the policy responses***

The above events have led to the now well known global downturn. All official forecasting agencies, such as the IMF and OECD, have described this downturn and so will not be expanded here. As the IMF notes ‘Global GDP is estimated to have fallen by an unprecedented 5 per cent in the fourth quarter (annualized), led by advanced economies, which contracted by around 7 per cent’ 10 . Japan has been particularly hard hit with a fourth quarter GDP (2008) plummeting by 13 per cent. Demand for durable goods has been particularly hard hit. With the downturn there has been a sharp upturn in savings by households (and commensurate reduction in consumption), driven by a reappraisal of risk by households and a loss of net worth with falling house prices and equity prices. So shocks need to be devised to account for three things;

§ The bursting of the housing bubble and loss in asset prices and household wealth with

consumers cutting back on spending and lifting savings.

#### ***Three main shocks capture the onset of the global financial crisis:***

1. The bursting of the housing bubble causing a reallocation of capital and a loss of household wealth and drop in consumption.
2. A sharp rise in the equity risk premium (the risk premium of equities over bonds) causing the cost of capital to rise, private investment to fall and demand for durable goods to collapse.
3. A reappraisal of risk by households causing them to discount their future labour income and increase savings and decrease consumption.

#### ***Shock 1: The bursting of the housing bubble***

Falling house prices has a major effect on household wealth, spending and defaults on loans held by financial institutions. Events in the United States typify a global phenomenon. From 2000 to 2006, house prices in some areas doubled to subsequently collapse. These changes in some areas have generated dramatic news headlines but, overall the United States index of house prices has fallen by 6.2 percent in real terms from the 1 st quarter 2008 to the same quarter in 2009 .

While house prices were rising so strongly, credit was supplied liberally to meet the demand as perceptions of risk fell. The rising wealth boosted confidence and spending. The housing bubble was a global phenomenon centered mainly on the Anglo-Saxon world.

The investment decision by households is modelled analogously to how we model the investment decisions of firms within an intertemporal framework subject to adjustment costs for capital accumulation. The household invests in housing to maximize consumption from the stream of future service flows that housing provides. This stream of services is analogous to a production function based on inputs of capital and a productivity term. We model the housing part of the crisis as a fall in the productivity of the service flow from the housing stock. This fall in expected future productivity of housing means that the Tobin’s  $q$  for housing drops when the shock occurs. The drop in housing productivity in the United States is assumed to be 10 per cent lower in 2009 and is calibrated to give, along with the other shocks, a drop in house prices in the US of the order of 6 per cent, roughly what has been observed for the

last year 15 . A plausible scenario is where productivity returns to 'normal' by 2013.

*Shock 2: Rising equity risk premia*

The surprise upswing in commodity prices from 2003 but most noticeable during 2006 and 2007 led to concerns about inflation leading to the sharp reversal in monetary policy in the US. This tightening in US policy also implied a tightening of monetary policy in economies that pegged to the US dollar. It was the sharpness of this reversal as much as the fall in US houses prices and the failures of financial regulation that led to the financial problems for 2008 - 09. Lehman Brothers' failure was primarily due to the large losses they sustained on the US subprime mortgage market. Lehman's held large positions in the subprime and other lower rated mortgage markets. But mortgage delinquencies rose after the US housing price bubble burst in 2006 - 07. In the second fiscal quarter 2008, Lehman reported losses of \$2.8 billion. It was forced to sell off \$6 billion in assets. The failure of Lehman Brothers in September 2008 and effect on risk premiums across markets can be seen clearly on chart 3.3.

**Permanent versus temporary shock**

– The initial rise in the equity risk premium since the collapse of Lehman Brothers has been of the order of 8 percentage points. But what will matter for the results is whether the initial rise in equity risk premium continues into the future and is indicative of a 'new state of affairs' by business or whether it turns out to be transitory. Arguments can be made either way. At the time of the crisis there was plenty of commentary, some of it from official institutions, about dire consequences and parallels drawn to the Great Depression. But the policy response was also massive with the clear intention of getting things back to 'normal' as soon as possible. Hence under this shock of a rise in equity risk premium, to see the difference it makes, we model two scenarios; one where the risk premium is permanently higher by 8% and the other a scenario where the risk premium falls by half in year 2 and then is back to baseline by year 3. We label the first one 'permanent' and the second 'temporary'.

*Shock 3: A rise in household risk*

The reappraisal of risk by firms as a result of the crisis also applies to households. As households view the future as being more risky, so they

discount their future earnings and that affects their savings and spending decisions. As with the previous shock, we model two scenarios: one permanent and the other temporary. The increase in household risk in the United States is assumed to be 3 percentage points in the permanent scenario and returning to zero by year three in the temporary scenario.

**3.3 Permanent versus temporary shock**

– The initial rise in the equity risk premium since the collapse has been of the order of 8 percentage points. But what will matter for the results is whether the initial rise in equity risk premium continues into the future and is indicative of a 'new state of affairs' by business or whether it turns out to be transitory. Arguments can be made either way. At the time of the crisis there was plenty of commentary, some of it from official institutions, about dire consequences and parallels drawn to the Great Depression. But the policy response was also massive with the clear intention of getting things back to 'normal' as soon as possible. Hence under this shock of a rise in equity risk premium, to see the difference it makes, we model two scenarios; one where the risk premium is permanently higher by 8% and the other a scenario where the risk premium falls by half in year 2 and then is back to baseline by year 3. We label the first one 'permanent' and the second 'temporary'.

*Shock 3: A rise in household risk*

The reappraisal of risk by firms as a result of the crisis also applies to households. As households view the future as being more risky, so they discount their future earnings and that affects their savings and spending decisions. As with the previous shock, we model two scenarios: one permanent and the other temporary. The increase in household risk in the United States is assumed to be 3 percentage points in the permanent scenario and returning to zero by year three in the temporary scenario.

**4. Effects of crisis without a fiscal policy response**

*Mechanisms at work*

To appreciate the mechanisms at work from the three shocks an illustrative scenario where permanent shocks affect the United States *alone* is shown in chart 4.1. The bursting of the housing bubble has the biggest negative impact



on real consumption, which being roughly 70 percent of the domestic economy, has the biggest negative impact on real GDP. The permanent loss in wealth causes consumption to fall sharply and because the housing shock is assumed to be permanent, consumption is permanently lower in all periods. The financial shock has the largest negative impact on stock market values from baseline in 2009 and an equally large impact as the bursting of the housing bubble on investment. The equity risk shock causes a shift out of equities into other domestic assets, such as housing and government bonds as well as to asset purchases overseas. The shift into government bonds drives up their prices and pushes down real interest rates substantially. This surprisingly raises human wealth because expected future after tax income is discounted at a much lower real interest rate. Thus in the US, the equity shock alone is positive rather than negative for consumption in the short run. Investment on the other hand falls sharply. The equity shock reduces US investment by about 20 percent below baseline. The rise in equity risk implies a sharp selloff of shares due to a large rise in the required rate of return to capital. The higher equity risk premium implies that the existing capital stock is too high to generate the marginal product required from the financial arbitrage condition and investment falls and, over time, due to the existence of adjustment costs, the capital stock falls and potential output is permanently reduced.

### **5. Conclusions**

This paper has explored the impact of three major shocks representing the global financial crisis on the global economy. For the crisis itself three shocks are needed to capture the observed drop in asset prices and reduction in demand and trade. It is necessary to simulate the bursting of the housing bubble centred in the United States and Europe, but extending elsewhere, rising perceptions of risk by business as reflected in the equity risk premium over bonds and rising perceptions of risk by households. The paper has also explored the difference between a permanent and a temporary loss of confidence.

The policy response has been dramatic. So the analysis has included a monetary easing across the globe and a fiscal stimulus of varying proportions across countries and regions. Simulating the effect of the crisis itself (that is ignoring the policy responses not already built into the model such as endogenous monetary

policy rule) on the United States alone (the 'epicentre' of the crisis) shows several things. Had there not been the contagion across other countries in terms of risk reappraisal, the effects would not have been as dramatic. The adverse trade effects from the United States downturn would have been offset to some degree by positive effects from a global reallocation of capital. Were the US alone affected by the crisis, Chinese investment could have actually risen. The world could have escaped recession.

When there is a reappraisal of risk everywhere including China, investment falls sharply – in a sense there is nowhere for the capital to go in a global crisis of confidence. The implication is that if markets, forecasters and policy makers misunderstand the effects of the crisis and mechanisms at work, they can inadvertently fuel fears of a 'meltdown' and make matters far worse.

The bursting of the housing bubble has a bigger effect on falling consumption and imports than does the reappraisal of risk, but the reappraisal of risk has the biggest effect on investment. Rising risk causes several effects. The cost of capital is now higher and leads to a contraction in the desired capital stock. Hence there is disinvestment by business and this can go on for several years – a deleveraging in the popular business media. The higher perception of risk by households causes them to discount future labour incomes and leads to higher savings and less consumption, fuelling the disinvestment process by business.

When there is a global reappraisal of risk there is a large contraction in output and trade – the scale of which depends on whether the crisis is believed to be permanent or temporary. The long run implications for growth and the outlook for the world economy are dramatically different depending on the degree of persistence of the shock. As expected, the effects of the crisis are deeper and last longer when the reappraisal of risk by business and households is expected to be permanent versus where it is expected to be temporary. This difference and a third scenario where agents unexpectedly 'switch' from one scenario to the other is explored in McKibbin and Stoeckel (2009b). The dynamics for 2010 are quite different between the temporary scenario and the expectation revision scenario even though the shocks are identical from 2010 onwards.

## References

1. **Henderson, D.W., and W. McKibbin (1993)**, "*A Comparison of Some Basic Monetary Policy Regimes for Open Economies: Implications of Different Degrees of Instrument Adjustment and Wage Persistence*," CarnegieRochester Conference Series on Public Policy, 39, pp 221-317.
2. **McKibbin W. and W. Chanthapun (2009)** "Exchange Rate Regimes in the Asia Pacific Region and the Global Financial Crisis", background paper for the Asian Development

- Bank Project on Quantifying the Costs and Benefits of Regional Economic Integration"
3. **McKibbin W. and P. Wilcoxon (1998)** "The Theoretical and Empirical Structure of the Gcubed Model" *Economic Modelling*, 16, 1, pp 123-148
  4. **Obstfeld M. and K. Rogoff (1996)** *Foundations of International Macroeconomics* MIT Press, Cambridge MA.
  5. **OECD (2009)**, *Fiscal Packages Across OECD Countries: Overview and Country Details*, Paris, 31 March

## Some Aspects Concerning Global Performance Reporting in Romania

Deju Mihai

Solomon Daniela Cristina

University "Vasile Alecsandri" of Bacau, Faculty of Economic Sciences

comatbacau@zappmobile.ro

solomon\_daniela@yahoo.com

### Abstract

Worldwide social and economic disparities, financial and political instability, major corporate scandals, global warming of the planet imposed unprecedented change in the economy, facilitating the transition from the concept of performance to "**global performance**". Concerning to global performance reporting on national level, we appreciate that the information submitted is insufficient and lets to the assessment of each entrepreneur the manner in which these aspects of environmental and social performance must be reported

**Key words:** global performance, sustainability performance, sustainable development

**JEL Classification:** P1, P17

### 1. Introduction

New approach known as the "**triple bottom line**" (**TBL**), "**sustainability performance**" or "**performance globale des entreprises (PGE)**" (in French) has captured public attention in recent years determining a large part of companies to change their attitudes, values, orientation favouring the formation of a responsible vision concerning reporting that should include three aspects - economic performance, social performance and environmental performance.

Such "sustainable" reporting is possible by applying the guidelines provided by The Global Reporting Initiative (GRI) which entered in October 2006 in their **third generation** named **GRI G3 Guidelines**, and which appears to be the best "**compatibility standard**", generally accepted standard of sustainable reporting.

### 2. Global performance – multidimensional concept

Companies must implement *sustainable development* coordinates. Microeconomic dimension of macroeconomic concept of sustainable development is represented by *Corporate Social Responsibility (CSR)* which requires "a firm's stance and attitude to voluntarily integrate into their current strategy and activity, concerns (projects and actions) on social nature, for a cleaner and friendlier environment, in terms of ensuring the economic success of the business that is done." [1].

The key issue for sustainable development is the reconciliation between two human aspirations:

- need for further economic and social development;
- protection and improvement of environment (*the only way for welfare of both present and the future generations*).

Global tendencies imposed a new approach concerning enterprise's performance that should focus on three coordinates - **economic, social and environmental** respective - "**global performance**" ("**performance globale des entreprises - PGE**", "**sustainability performance**" or "**triple bottom line - TBL**") designed to meet the current requirements of all users, managers, investors, shareholders, customers (consumers), employees, state.

*Economic dimension* is inevitably linked to the two pillars of *sustainable development* - *social performance and environmental performance*. Actions in the economic - financial sphere of a company have impact on social environment but especially on the natural environment, the major concern being to operate in such a way as to leave future

generations a world that offer them better terms.

**United Nations** demonstrated a continuous concern for social and environmental problems, requiring firms to follow the *10 principles* defined in 2008 by the Global Compact [7].

Companies must adopt, to sustain and promote the fundamental values of human rights, the work rules (standards), the environment and fight corruption.

The financial dimension is very well represented in the reporting of business performance, says a global survey [2] realized by Deloitte Touche Tohmatsu in December 2006 to which attended 175 directors and members of the Board of Directors.

Current reports often do not provide a complete picture of company performance, particularly in social and environmental impact. In terms of monitoring *financial performance* most of surveyed companies (87%) were assessed as excellent (43%) or good (44%). But, in sharp contrast, as regard to *non-financial performance*, only 29% describe it as excellent (5%) or good (24%).

In an attempt to extend the applicability area of *non-financial performance* parameters, companies face different **obstacles** [2]:

- *unclear responsibilities regarding non-financial performance factors;*
- *time constraints;*
- *poorly developed methodology for analyzing non-financial performance;*
- *lack of familiarity with instruments for measuring non-financial performance;*
- *lack of comparative data evaluation (lack of comparable data from competitors on the characterization of non-financial performance)*
- *fear that these parameters could provide too much information to competitors.*

However, many companies will improve in time, business performance and financial results through a *balanced mix of financial and non-financial objectives*, and correct identification of issues and commitments such as employment, innovation, customer satisfaction is considered to be art rather than science.

### 3. Reporting global performance in Romania

Like the rest of the world, Romania should contribute to the creation of a sustainable

society, which would develop without affecting its environment, and the future of next generations. For this, we need people who understand that a proactive attitude can make a difference and can help improve present and future living conditions.

According to the results of the study *International Survey of Corporate Responsibility Reporting 2008* realized by KPMG and recently published [4], Romania shows a weak responsiveness to the *domestic enterprises* level with regard to the information related to sustainable performance, while *multinational companies* that invested in Romania are more active in this direction of reporting.

Study results showed that Romanian companies are less mature than most companies in the world when it comes to *voluntary reporting* of non-financial information.

Few are the companies that have assimilated and implemented new reporting model, the company *Holcim Romania* being a good example. Since 1997 the company has invested over 390 million euro in environmental protection, of which only 57 million euro in 2006 and is the first company in Romania that implemented since the beginning of 2004 the integrated management systems "Quality - Environment - Safety", holding therefore triple certification: quality management (ISO 9001), environmental management (ISO 14001) and occupational health and safety (OHSAS 18001) by compiling since 2002 an annual report *Corporate Sustainable Development Report* [3] on the global performance reporting with the principles of social responsibility.

The study also shows that most companies in the world can quantify aspects of social responsibility and can report it, and in future will spread in all countries and sectors until the youngest players.

Reporting global performance is at the beginning of the road in Romania, successful initiatives of several companies are commendable in this respect, such as:

- The "**Green office**" - internal recycling program of Cosmote company that aims to reduce the amount of used paper, moderate use of energy and water; the program had

results in reduction the company's operating costs with a direct effect on improving economic and financial performance.

▪ **The resources efficiency and conservation Program** of PepsiCo - included in the annual program of social responsibility, which aims to reduce water consumption, fuel and electricity with real impact on the environment but also on improving economic efficiency.

There are many companies in Romania who want to be (perceived as) responsible through involvement in environmental activities, but which have no backup strategy, in this respect they must focus on *one strategy and direction "green"*.

From the 1<sup>st</sup> of January 2010, under new accounting regulations in Romania approved by OMFP 3055/2009, it becomes possible the separate *accounting and reporting of costs concerning environmental protection* (in general chart of accounts, a new account was created "652. *Expenditure on environmental protection,*" in the group "65 *Other operating expenses*", which keeps track of environmental costs, for the period) for:

- *air protection;*
- *wastewater management;*
- *waste management, protecting soil, groundwater and surface water;*
- *protecting biodiversity and landscape;*
- *other environmental protection activities.*

Administrators' report prepared for each financial exercise by the *board* may include, "when is necessary and to the necessary extent to understand the entity's development, performance or financial position, together with the analysis of *financial indicators* and analysis of *non-financial indicators - key performance*, relevant to specific activities, including information about *environmental issues* and *employees*", without being presented a model of non-financial performance reporting and analysis.

Romanian companies listed on the Bucharest Stock Exchange (BSE) have the obligation to prepare an *annual report* which must provide the following aspects of environmental performance [5]:

- *to describe the environmental issues that may affect the use of assets by the issuer;*
- *to assess aspects concerning the impact of basis activities of the issuer on the environment.*

*In conclusion*, we appreciate that the new approach to performance was the result of an accumulation of *factors* influence among which we mention [6]:

- *globalization phenomenon*, which leads to *limiting the role of the state*, multinational companies development, the extend of cross-border trade with major consequences on the management of financial, human, material and information resources;
- *implementing new information technologies* which allow the achievement, processing and transmission (dissemination) of information in useful time; universal language XBRL, the Internet make possible the implementation of G3 guide by any interested organization (all information is transmitted electronically and not on paper and therefore a saving of resources is accomplished);
- *the growing interest of managers* to know all aspects of company performance, especially the issues of non-financial performance;
- *the interests of investors and suppliers* increasingly concerned about the moral conduct of firms;
- *diversification of consumers needs* facilitated the emergence of new, organic products;
- *employee's concerns* about working conditions, job stability; incentives offered by other companies obliges the company to make attractive offers, under competitive labour market conditions but not least to maintain an ongoing dialogue.

#### 4. Conclusions

*We outline the special importance that should be granted to the presentation of "global performance" ("sustainable performance") as a new approach to company performance that should focus on three dimensions - economic, social and environmental. Because of its complexity, the evaluation mechanisms used by businesses today fail to measure and integrate in a balanced manner the three dimensions of sustainable development. Existing*

*instruments assess each dimension of the global performance separately or in the best measure of interaction between these two.*

*The implementation of **sustainable reporting** until the level of small and medium firms will allow close monitoring of global performance, will restore confidence and insure transparency and liquidity necessary in financial markets so they can perform their critical functions of circulatory system of the modern economy. From the above considerations, it therefore requires that the application of social responsibility will not remain at the stage of choice but an **obligation** for every organization.*

## 5. Bibliography

- [1] Ciuca, V. and Atanasiu, D., Manifestarea responsabilității sociale a întreprinderilor, 2007, [http://www.opendrum.utt.ro/rse\\_ue/docs/RSE-2007.pdf](http://www.opendrum.utt.ro/rse_ue/docs/RSE-2007.pdf), accessed on 15 July 2009.
- [2] Deloitte Touche Tohmatsu. 2007. In the dark II: What many boards and executives STILL don't know about the health of their businesses, <http://www.deloitte.com>, accessed on 23 July 2009.
- [3] Holcim România, Corporate Sustainable Development Report, available on [http://www.holcim.com/CORP/EN/id/-1610627732/mod/7\\_8/page/publication\\_second\\_list.html](http://www.holcim.com/CORP/EN/id/-1610627732/mod/7_8/page/publication_second_list.html), accessed in March 2009.
- [4] KPMG, International Survey of Corporate Responsibility Reporting 2008, available on [http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008\\_v2.pdf](http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008_v2.pdf), accessed in May 2009.
- [5] National Commission for Movable Values (NCMV), Regulation. 1 / 2006 on issuers and movable values transactions, Order published in the Official Monitor of Romania no. 312/06.04.2006.
- [6] Solomon, D. C., "Present tendencies in enterprise's performance appreciation: Sustainability performance", Romanian Economic and Business Review (REBE), volume 4, number 4, Romanian-American University, Bucharest, 2009, p. 179
- [7] United Nations Global Compact. 2008. The Ten Principles, <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>, accessed on 23 July 2009.

## Long-Term Financing Alternatives

Dobre Elena  
"Ovidius" University of Constantza  
elenadobre2006@gmail.com

### Abstract

Companies need capital to ensure the proper development of their activity. Most of the times, the long-term capital needs of a company outrun its possibilities to cover these needs through equity funds. Consequently, the need for long-term capital implies external long-term financing. Possibilities are many, but a company should choose to finance its assets in that way that would better benefit its future financial situation. The capital policy structure plays an important role in this latter sense, as the company should first establish whether its capital structure policy calls for equity, debt or a mix of these two. Long-term financing mainly refers to stock or bond issues or leases. The purpose of this article is to analyze the last two of these possibilities by making a short description of these financial instruments, together with a parallel between costs that each instrument would generate for the company.

**Key word:** financing, long-term debt, leasing

**JEL Classification:** D 92

### 1. Introduction

When a company's capital requirements exceed its ability to generate cash internally, the company must raise funds externally. Businesses usually finance long-term assets with long-term capital. Every time a company raises funds externally, it must decide which type of securities to issue.

There are several aspects that need to be taken into consideration before issuing securities, but needless to say, transaction costs seem to play the first role. Therefore, transaction costs are proportionately smaller for larger issues, due to the fact that the fixed cost is spread out over a larger issue. In cases of

relatively smaller issues, the variable costs are greater. Economies of scale make larger issues more attractive. Larger issues can also help promote relatively liquid secondary market for the bonds.

Debt, stock (common and preferred) and leases are the main sources of external long-term corporate financing. The total amount of common stock issued at any time is sensitive to the stock market conditions. Therefore, in periods of relatively strong demand for common stock, companies try to take advantage of the rising markets. Consequently, new-issue activity tends to increase during periods of rising share prices. Correspondingly, companies are usually reluctant to sell new issues of common stock when the share price is low by historical standards.

Similarly, the volume of fixed income security issues (preferred stock and debt) tends to vary with the level of long-term interest rates. During periods of rising long-term interest rates, companies tend to favour short-term borrowing. Then, if and when interest rates fall, many companies start replacing the short-term debt with long-term fixed-income securities.

When a company plans to issue long-term debt, it should consider whether issuing domestic or international bonds, and, if it plans to issue domestic debt, which type of debt would be suitable. In any of these cases, it may be possible to obtain a modest reduction in the total cost of the transaction with short-term debt management. Still, a company should not issue debt when conditions look volatile and temporary bad. Therefore, issuers should remain flexible regarding timing in order to prevent temporary factors from adversely affecting their cost of borrowing.

## 2. Long-term debt innovations

Companies that wish to raise funds externally by issuing long-term debt must offer attractive debt opportunities to potential lenders. Debt contracts must be designed to meet the needs of both borrowers and lenders, as the principle of Two-Sided Transactions applies in this case. Compared to traditional debt instruments such as secured or unsecured debt, most debt innovations in the bond market refer to some form of risk reallocation. Risk reallocation adds value by transferring risks away from issuers or investors to others better able to bear them. If a company can design a security that would suit the risk-return preferences of a particular class of investors, risk reallocation may be beneficial. Investors with a comparative advantage in bearing some types of risks will pay more for purchasing innovative securities that will allow them to specialize in bearing the respective risks. Recent debt innovations in the bond market referring to risk reallocation include issues of commodity-linked bonds, collateralized mortgage obligations, floating-rate notes, credit-sensitive notes and extendible notes.

Developed in response to the rising and increasingly volatile prices on the international markets, commodity-linked bonds involve the dependence of the principal repayment, and in some cases the coupon payments, on the price of a particular commodity (especially oil or silver), or on a specified commodity price index. This type of security enables the producer of a commodity to limit its exposure to a negative evolution of the commodity prices that would eventually affect its revenues. By issuing commodity-linked bonds, a company can increase its debt capacity by shifting the debt service burden from periods when the commodity producer is least able to pay to periods when it is most able to so.

For example, an oil producer could issue an oil-indexed bond with interest payments that will float the same way the level of oil prices floats. Investor's yields would be significantly lower, but both investor and the company could later have potential benefits. Firstly, the after-interest cash flow of the issuing company would be more stable than the cash flow recorded if the company issued a fixed-rate debt, which would

eventually have a positive influence by reducing the default risk. Secondly, investing in an oil-indexed bond could be attractive to investors that want to speculate on oil prices evolution, an opportunity not otherwise available in the commodity futures or options market. In this latter sense, securities innovations involving risk reallocation add value by completing the market.

In cases of collateralized mortgage obligations issues, reinvestment risk is reallocated in a different way, respectively the same way the principal and interest payments are passed through pro-rata from investors in mortgage pass-through certificates to certificate holders. Considering the fact that the mortgagor has the option of requesting prepayment at par value after a short period of time, investors have to ensure against prepayment risk, as this risk would seriously affect them. It is obvious that, if interest rates drop, mortgages will be bought back, which would mean a premature return of the principal and a lower reinvestment rate for investors.

Addressing this prepayment risk, collateralized mortgage obligations impose that the mortgage payment stream is shifted from a portfolio of mortgages into several debt instruments. The resulting debt instruments are prioritized in terms of the right to receive principal payments. Resuming, unless full payments of the foregoing series is made, holders of the next series will not be able to receive principal payments. The mortgage prepayment risk is therefore transferred to the lower-priority classes, while uncertainty regarding timing of full repayments of debt obligations is significantly reduced for the higher-priority classes.

## 3. Protective covenants

Debt issues contain covenants that impose restrictions on the long-term bond issuer. Protective covenants are contained in a financial contract that is designed to protect the bondholders. In cases of public debt issues, the bond indenture, as the contract is called, presumes a trustee that acts as an agent for the bondholders and monitors the issuer's compliance with the provisions of



the indenture. For a private issue, the bond agreement, specify the maturity, principal amount, interest rate, mandatory redemption schedule and other elements, but, in many cases, they include a number of restrictive covenants. These covenants often spell financial tests that must be met before the borrower can act in one of these directions:

- Incur additional indebtedness - debt limitation;
- Use cash to pay dividends or make share repurchases - dividend limitation;
- Mortgage assets - limitation on liens and/or a negative pledge clause;
- Borrow through one of its subsidiaries - limitation on subsidiary borrowing;
- Sell major assets - limitation on assets dispositions;
- Merge with another company or sell substantially all its assets to another company - limitation on merger, consolidation or sale;
- Sell assets and lease them back - limitation on sale and leaseback.

Debt limitation covenants prohibit a borrower from issuing additional long-term debt if it would cause the issuer's interest coverage ratio (EBIT to total interest) to fall below 3 times (the interest coverage test), or if it would cause its ratio of tangible assets to long-term debt to fall below 1.5 times (the asset coverage test). A dividend covenant restricts cash dividends or share repurchases to \$10000000 plus 50% of cumulative earnings, less the cumulative amount already used for this purpose, since the date of issuance of the bonds.

Any covenant can restrict the company's flexibility. For example, the interest coverage test can restrict the company's ability to issue new debt. Let's suppose the company's earnings before interest and taxes (EBIT) are \$45 million, and interest is \$11 million. We will determine how much additional 5% debt the company can incur without reducing the interest coverage ratio below 3 times.

First of all, if interest expenses rise to \$15 million, the interest coverage ratio (ICR) will be 3 times:

$$\text{ICR} = \$45 \text{ million} / \$15 \text{ million} = 3$$

Therefore, the extra \$4 million of interest (we have assumed that interest expenses increased from \$11 million to \$15 million) will allow the company to issue an additional debt amounting \$80 million:

$$\begin{aligned} \text{Additional debt} &= \$4 \text{ million} / 0.05 \\ &= \$80 \text{ million} \end{aligned}$$

Bond indentures and bond agreements also specify events on default. In case the issuer fails to pay interest or to repay principal promptly, defaults on another debt issue or fails to adhere to one of the covenants imposed, the lenders can demand immediate repayment of the debt. Often, however, bondholders will try to negotiate before pursuing default proceedings, because they usually do not want to take ownership of the company.

#### 4. Leasing versus borrowing

Leasing is an alternative to debt. The reason is that the company must make its leased payments in order to continue to use the leased asset. Failing to do so, the lesser can reclaim the asset (because legally speaking, he is the owner) and sue the lessee for not paying.

Failing to make a lease payment has the same consequences as failing to pay interest or repay principal on outstanding debt. In case a company fails to make a lease payment, the lesser is considered a creditor for the company and can force the lessee to go bankruptcy. Therefore, when making a financial analysis of a company, its lease payments obligations are included in the same risk category as the company's interest and principal repayment obligations.

In order to compare leasing with borrowing, we will assume that the company's total after-tax obligations will be exactly the same either using leasing as a financing possibility, either issuing debt. Hereinafter, we will determine which one of these alternatives provides the greater financing amount considering the particular after-tax payment stream.

Suppose a company has a coal mine project under consideration, with a total cost of \$100 million. The project involves, among other purchases, three electric shovels, which cost \$10 million each. The company expects the shovels to be worth \$500000 each after 10 years of use. The company's cost of debt, considering a 100% debt financing with no over collateralization, is 12% before taxes. The project's weighted average cost of

capital (WACC) is 15%, and the marginal income tax rate is 40%.

The required return for computing the present value of the lease payments and the depreciation tax deductions is the lessee's after-tax cost of identically secured debt. The reason for this equity of costs is due to the fact that both lease and debt payments of the company belong to the same class of risk.

In order to determine the net advantage to leasing, it is necessary to first calculate the forgone depreciation tax deductions per year (FDTD):

$$\begin{aligned} \text{FDTD} &= (\$1000000 - \$500000)/10 \\ &= \$950000 \text{ per year.} \end{aligned}$$

Consequently, the related tax savings forgone per year (RTSF) would be:

$$\begin{aligned} \text{RTSF} &= \$950000 \times 40\% \\ &= \$380000 \text{ per year.} \end{aligned}$$

Therefore, the net advantage to leasing (NAL) for the company would be of -\$54236, determined as follows (calculation is made assuming that lease payments are made at the end of each period, rather than in advance, respectively at the beginning of each period):

$$\begin{aligned} \text{NAL} &= \$10000000 - \$9930644 - \\ &\quad \$123592 \\ &= - \$54236 \end{aligned}$$

Hence, the net advantage to leasing is negative. The main reason for this negative value would be the company's ability to use tax deductions associated with ownership of the assets. Considering these facts, the company should better borrow and buy the shovels rather than lease them.

Moreover, by determining the internal rate of return (IRR), we will evaluate the cost of lease financing (after-tax cost). The internal rate of return is the discount rate that makes the net advantage to leasing equal zero:

$$0 = \$10000000 - \Sigma[\$1427000/(1+\text{IRR}) - \$500000/(1+\text{IRR})]$$

Solving this equation, the resulting IRR is 0.0758 or 7.58%, greater than the 7.20% cost of identically secured debt. Accordingly, the company should borrow and buy the assets.

## 5. Concluding remarks

Long-term financing is often used by companies to ensure adequate capital for funding activities such as purchasing assets, performing large-scale projects or increasing

facilities.

Raising funds externally by issuing long-term debt involves a series of risks, such as prepayment risks or risks involving negative evolution of prices. Recent innovations in the bond market have made possible a particular form of risk reallocation, in order to assure investors against several risks they would be exposed to, and therefore make bonds more attractive. Commodity linked-bonds and collateral mortgage obligations are two of these bond innovations that address a particular risk of the investor.

Most of the today's debt issues contain protective covenants that restrict the issuing company's area of action. Financial tests must therefore be met if the company wants to further finance its activity or make other actions that would eventually affect its financial situation. As shown, an additional debt can be incurred by a company only after achieving the interest coverage ratio.

Referring to leasing as a long-term financing alternative, it provides an affective way of obtaining long-term assets. Still, when compared to debt, leasing would not be the best solution for a company, as the costs of financing assets through leasing are greater than the after-tax cost of identically secured debt. In consequence, debt is the cheapest alternative to long-term financing, but it should not be used excessively, as it could as it could lead to an increasing financial risk for the company, and therefore affect its economic situation, by boosting costs of all financing sources.

## 6. References

- [1] Keown Petty, Scott Martin, Foundations of Finances – The Logic and Practice of Financial Management, Prentice Hall Inc. Publishing, 1998.
- [2] Douglas R. Emery, John D. Finnerty, John D. Stone, Principles of Financial Management, Prentice Hall Inc. Publishing, 1998.
- [3] Oswald D. Bowlin, John D. Martin, David F. Scott, Guide to Financial Analysis, McGraw Hill Book Company, 1980.

## Financial Instrument for the Environment – LIFE+

Ion Dobre\* and Daniela Hîncu\*\*

\* Faculty of Economic Cybernetics, Statistics, and Informatics, Bucharest Academy of Economic Studies,  
E-Mail: [dobrerio@ase.ro](mailto:dobrerio@ase.ro)

\*\* Faculty of Management, Bucharest Academy of Economic Studies, E-Mail: [d\\_hincu@yahoo.com](mailto:d_hincu@yahoo.com)

### Abstract

The LIFE programme was adopted in 1992 to support the implementation of Community policy and legislation in the field of the environment. For period 2007-2013 the new financial instrument is LIFE + has as objective to contribute to the development, implementation and updating of Community environmental policy and environmental legislation, also seeks to facilitate the integration of the environment into other policies, and achieve sustainable development in the European Union.

**Key words:** environmental project, financial instrument, best practices, European Union.

**JEL classification:** O19, Q50

### 1. Introduction

Environmental protection is justified for at least two reasons: ecological systems are the only ones able to secure the regeneration of the natural fund of resource and to maintain the environmental conditions and human activities have negative repercussions on the functioning of these systems.

Progresses made in this direction depend on the possibilities to provide appropriate financial support. Since the economic system does not have the mechanisms needed to integrate ecological costs, the rational administration of financial resources is the alternative to make available the funds needed for environmental protection. The European institutions are highly interested in environmental protection being among the most active ones at international level. This interest led to the development of highly effective financial tools that will be analyzed in our paper.

The LIFE program represents the outcome of continuous seeking of efficient means for the allocation of financial resources in environmental protection. The Habitat and Birds directives represented the main driving force in the improvement of this instrument, which is organized

in three pillars. The paper aims to present the patterns of these pillars and to outline their effects on project design. There are also proposed several models of projects as best practices.

### 2. Measures to be financed by life+

For the 2007-2013 period the new financial instrument is LIFE +. This has as objective to contribute to the development, implementation and updating of Community environmental policy and environmental legislation, also seeks to facilitate the integration of the environment into other policies, and achieve sustainable development in the European Union. The following measures may be financed by LIFE+ if they satisfy the eligibility criteria set

- operational activities of NGOs that are primarily active in protecting and enhancing the environment at European level and involved in the development and implementation of Community policy and legislation;
- developing and maintaining networks, databases and computer systems directly linked to the implementation of Community environmental policy and legislation, in particular when improving public access to environmental information;
- studies, surveys, modelling and scenario building;
- monitoring, including the monitoring of forests;
- capacity building assistance;
- training, workshops and meetings, including the training of agents involved in forest fire prevention initiatives;
- networking and best-practice platforms;
- information and communication actions, including awareness-raising campaigns and, in particular, public awareness campaigns on forest fires;
- demonstration of innovative policy approaches, technologies, methods and instruments;
- specifically for the nature and biodiversity component:

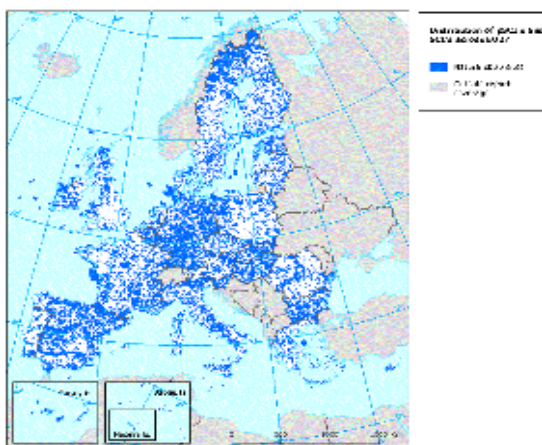
- site and species management and site planning, including the improvement of the ecological coherence of the Natura 2000 network,
  - the monitoring of conservation status, including setting up procedures and structures for such monitoring,
  - the development and implementation of species and habitats conservation action plans,
  - the extension of the Natura 2000 network in marine areas,
  - the purchase of land, provided that:
    - the purchase would contribute to maintaining or restoring the integrity of a Natura 2000 site,
    - land purchase is the only or most effective way of achieving the desired conservation outcome,
    - the land purchased is reserved in the long term for uses consistent with the objectives set out in Article 4(2),
    - the Member State concerned shall, by way of transfer or otherwise, ensure the long-term reservation of such land for nature conservation purposes.

### 3. Life+ components

#### *LIFE+ Nature and Biodiversity*

The specific objective of LIFE-Nature is to contribute to the implementation of Community nature protection legislation: the “Birds” Directive (79/409/EEC) and the “Habitats” Directive (92/43/EEC), and in particular the establishment of the “Natura 2000” network for the in situ management and conservation of Europe’s most remarkable fauna and flora species and habitats.

The Natura 2000 Network is an ecological network of natural areas designated to conserve Europe’s rich but vulnerable habitats and species.



Source: EEA,2009  
Fig. 1 Natura 2000 Network

The network includes over 20,000 sites from all member state Collectively the cover a substantial area: almost a fifth of Europe’s land and water.

The specific objectives of LIFE+ Nature and Biodiversity

- to contribute to the implementation of Community policy and legislation on nature and biodiversity
- to contribute to the consolidation of the knowledge base for the development, assessment, monitoring and evaluation of Community nature and biodiversity policy and legislation;
- to support the design and implementation of policy approaches and instruments for the monitoring and assessment of nature and biodiversity and the factors, pressures
- and responses that impact on them, in particular in relation to the achievement of the target of halting biodiversity loss within the Community by 2010 and the threat to nature and biodiversity posed by climate change;
- to provide support for better environmental governance by broadening stakeholder involvement, including that of NGOs, in consultations on, and the implementation of,
- nature and biodiversity policy and legislation.

In the box below is presented an example of project aims to maintain the actual conservation status of the species in several Natura 2000.

#### *Box 1 Example LIFE+ Nature and Biodiversity Project*

##### **Best practices and demonstrative actions for conservation of Ursus arctos species in Eastern Carpathians, Romania**

**Total Budget:** 515,066.00 €

**Life Contribution:** 386,300.00 €

**Duration:** 15-JAN-2010 to 20-DEC -2013

*The project aims to maintain the actual conservation status of the species in several Natura 2000 sites by applying best practices and demonstrative activities and promoting them at national and European level. Preventing the decline of brown bear population in the area is a key objective.*

*Overall the project targets to promote a friendly cohabitation between bears and humans based on gathering more information on the bears’ hibernation and feeding habits and searches for an active protection of hibernation dens from highly disturbing human activities such as logging. Measures will include banning human activities at critical periods, extending of the Animal Rescue*

*Mobile Unit team's activity as well as increasing the capacity of the Bear Cub Rehabilitation Center. The project will set up several demonstration agriculture, livestock and farm protection systems using equipment and substances that keep bears away and will introduce a new "bear friendly" eco-label.*

Source:

<http://ec.europa.eu/environment/life/project/Projects>

A proposal for project must either be a *LIFE+ Nature* or a *LIFE+ Biodiversity* It cannot be a mixture of both.

*TABLE 1 The key differences between LIFE+ Nature or a LIFE+ Biodiversity projects*

<b>LIFE+ Nature</b>	<b>LIFE+ Biodiversity</b>
exclusively in relation to the objectives of the Birds and Habitats Directives	not restricted to the Birds and Habitats Directives, but is in relation to the Commission Communication "Halting the loss of biodiversity by 2010 – and beyond"
best practice and/or demonstration	demonstration and/or innovation
long-term, sustainable conservation measures and investments in Natura 2000 sites, species and habitats	demonstration of the feasibility of measures in favour of biodiversity monitoring, evaluation and active dissemination of these measures are an integral part of the project
land purchase and long-term lease or compensation eligible	only short term lease or compensation are eligible
infrastructure and equipment costs 100% eligible (public bodies and NGOs)	infrastructure and equipment costs only partially eligible (depreciation)

Source: LIFE+ Nature and Biodiversity Guidelines for applicants 2009

*LIFE+ Environment Policy and Governance* supports technological projects that offer significant environmental benefits, for example process or efficiency improvements.

This part of LIFE+ also helps projects that improve the implementation of EU environmental legislation, that build the environmental policy knowledge base, and that develop environmental information sources through monitoring (including forest monitoring).

The LIFE Regulation defines five areas eligible for funding:

- land-use development and planning,
- water management;
- reduction of the environmental impact of economic activities;
- waste management;

- reduction of the environmental impact of products through an integrated product policy.

The specific objectives of LIFE+ Environment Policy and Governance shall be, in relation to the objectives of the 6th EAP, including for the priority areas of climate change, environment and health and quality of life, and natural resources and wastes:

- to contribute to the development and demonstration of innovative policy approaches, technologies, methods and instruments;
- to contribute to consolidating the knowledge base for the development, assessment, monitoring and evaluation of environmental policy and legislation;
- to support the design and implementation of approaches to monitoring and assessment of the state of the environment and the factors, pressures and responses that impact on it;
- to facilitate the implementation of Community environmental policy, with particular emphasis on implementation at local and regional level;
- to provide support for better environmental governance by broadening stakeholder involvement, including that of NGOs, in policy consultation and implementation.

*Box 2 Example of LIFE+ Environment Policy and Governance Project*

**Waste Network for sustainable solid waste management planning and promotion of integrated decision tools in the Balkan Region,**  
**Perioda** 01-JAN-2009 to 31-DEC - 2011  
**Total Budget:** 869,451.00 €  
**Life Contribution:** 431,742.00 €  
*The BALKWASTE project aims to spread awareness of the EU waste strategy and policy and its implementation in Member States to the whole Balkan region, using Romania and Bulgaria as case studies.*  
*The following results are expected:*

- A 60% diversion rate from landfilling for the municipal wastes;
- A 50% reduction of landfilling of biodegradable wastes;
- At least three new waste management plants in the region in each case study region;
- Training of personnel to use the decision support tool (software developed by the project to assist decision making in waste management);
- Support to 10 decentralised waste management authorities;

- A procedure for monitoring the performance of waste stakeholders;
- Raised awareness among stakeholders;
- Development of a Balkan Waste Network.

Source:

<http://ec.europa.eu/environment/life/project/Projects>,

LIFE+ Information and Communication co-finances up to 50 percent projects that spread information about environmental issues, such as climate change and conservation. This strand of LIFE+ can also support forest fire prevention awareness and training campaigns.

The specific objectives

- o to disseminate information and raise awareness on environmental issues, including forest fire prevention;
- o to provide support for accompanying measures, such as information, communication actions and campaigns, conferences and training, including training on forest fire prevention.

*Box 3 Example of LIFE+ Information and Communication project*

**Promoting green products , Romania**

*The main objective of the project is to conduct an awareness-raising campaign, in order to promote the production and consumption of green products – those products that conform to the EU eco-label scheme and other environmental protection related tools and initiatives (e.g. EMAS, Energy Star, Carbon Neutral).*

*Duration 01-JAN-2010 to 31-DEC -2012*

**Total Budget: 1,269,503.00 €**

**Life Contribution: 618,700.00 €**

*The specific objectives of the project are to:*

- Make the business argument to producers regarding green products;
- Raise consumer awareness of green products;
- Increase the recognisability of green products;
- Increase preference for green products by showing the environmental and financial benefits.

Source:

<http://ec.europa.eu/environment/life/project/Projects>,

During the period 2007-13, the European Commission will launch one call for LIFE+ project proposals per year. The financial envelope for the

implementation of LIFE+ shall be set at EUR 2 143 409 000 for the period from 1 January 2007 to 31 December 2013.

#### 4. Conclusions

Public and/or private bodies, actors and institutions may receive financing through LIFE+. At least 50 % of the budgetary resources for LIFE+ dedicated to action grants for projects is allocated to measures to support the conservation of nature and biodiversity.

At least 78% of LIFE+ resources are used to fund action grants for projects. The maximum rate of co-financing of action grants is 50% of eligible costs. However, for projects concerning the protection of priority habitats or priority species, LIFE+ may finance up to 75% of eligible costs. At least 50% of the funds allocated to action grants for projects are reserved for nature conservation and biodiversity. In addition, at least 15% of the funds allocated to action grants for projects are reserved for cross-border projects.

Co-financed projects must be distributed proportionately by the Commission. The Commission establishes indicative annual allocations for the periods 2007-2010 and 2010-2013 based on the total population and population density of each Member State, and the area of sites of Community importance in each Member State and the proportion of a Member State's territory covered by sites of Community importance. Additional funding may be allocated to land-locked Member States.

#### 5. References

- [1] European Commission, "LIFE+ Nature and Biodiversity", Guidelines for applicants, <http://ec.europa.eu/environment/life/project/Projects>, 2009.
- [2] European Commission "Financial Instrument for the Environment", Regulation nr. 614/2007.
- [3] I. Ioan, "European environmental policy. Historical milestones", Jurnal de petrol și gaze, nr.2, 2009.
- [4] I. Ioan, "Instrumentul european de finanțare a protecției mediului – L.I.F.E.", in "Dezvoltarea durabilă Schimb global Ecosisteme", ASE Publishing, Bucharest, 2006.
- [5] C.V. Rădulescu, I. Ioan, "Sustainable forest management", Scientific Workshop The Economic and Ecological Dimension – Development Demand in the Third Millennium, Quality – access to success, vol.10, nr.99, 2009.



# The Accounting Image of Public Entities from the Perspective of Suppliers-Users of Accounting Information Local Public Administration Sector

Ph.D Student Dragu Gabi Georgiana  
Universitatea "1 Decembrie 1918 Alba Iulia"  
georgiana.dragu@yahoo.com

## Abstract

*According to position document no.11 "Economic and Monetary Union", Romania has committed to report after the European System of Accounts ESA 95. The exploratory study was used to enframe the issue into the general context. The data was collected by means of empirical experiment. The purpose of this research was to present the current image of accounting information delivered to the users/used by their suppliers. A particular issue was highlighting the necessity of shifting focus from the examination of financial statements' annexes to the analysis of annotations and the evaluation of unused prefinancing at the end of 2009 simultaneously.*

**Key words:** European System of Accounts, accounting information, financial statements.

**JEL Classification:** M41, O13.

## 1. General background

The need for relevant, objective information emanates from the entity's relation with the field of activity and requires an adequate offer. The accounting information delivered systematically by the practitioners of economical entities should be subservient for all the users of accounting products. The market of these information represents the intersection of this type of information demand and supply. The informational demand represents not only the informational necessities of various users, but also the pressures they make upon the information generator system. The informational supply represents not only the information obtained within the accounting informational system available for various users, but also their

delivery means and forms

In comparison to other informational sources, the accounting information are highly credible. This credibility is attained by the auditors who are responsible for the certification of synthesis documents presented to the users by the managers.

## 2. Romanian background

In the case of Romania, national accounting is attempted to be positioned between two accounting cultures – the traditional continental accounting and the anglo-saxon accounting. Due to the communist indoctrination, customs and the many legislative changes, the Romanian accountant that works in the public system demonstrates an aversion to change and he still needs to be said what/ how/ when to act.

The International Accounting Standards (IAS/IFRS/IPSAS) bare a cultural knowledge difficult to assimilate, they are based on the professional reasoning (that was not taken into account during the centralized period) and principles according to which a single problem might have multiple solutions (a fact that leads to controversies when confronted with the control board that might have some other solution). However, no matter their form, the International Accounting Standards are permanently changing, are becoming more and more complex therefore the Romanian accountant must become an international one, holding to the principles and conditions of international accounting.

To converge means „to tend toward an intersection point, a common conclusion or result” [1].

In the accounting domain, convergence is a relatively new term, introduced in 2001 by

the International Accounting Standards Board in the context of defining the objectives. One of these objectives states the following: „To collaborate actively with the national standards' regulation boards in order to identify qualitative solutions so that national accounting standards achieve the convergence with the accounting standards established by IASB” [2].

„According to the Romanian explanatory dictionary the conformity is defined as “a relation between two resembling or identical entities, matching, congruence, identity. The accounting conformity is the process that determines the congruence between the presented regulations' content and the elaboration of financial statements, representing an attunement of the national regulations to the regulations presented by the regional and international accounting standardization boards”. We adhere to the following conclusion according to which „Convergence represents the integration on a national basis of IAS/IFRS/IPSAS principles and theoretical background, respectively embracing some of the accounting processes stipulated by the international standards whereas standardization within accounting domain designates the consistency among and attunement to the accounting standards of various states in the european level” [3]. The objectives of the accounting standardization include[4].

“... to ensure the settlement of accounting practices and therefore contribute to accounting enhancement”;

“... to allow the accounting information users to make rational decisions based on the accounting information”;

“... to act as a moderator among the various participants in the economical field, especially among accounting information suppliers and accounting auditors that certify the quality of information thus ensuring the social credibility of the accounting information”;

“... to allow the consolidation of accounting information at society's groups level”;

“... to allow the elaboration of national statistics”.

According the review of materials dealing with performance in public institutions made by Eugeniu Țurlea in the article "Performance of

public sector entities, between present and future" two different opinions are emphasized.

The following authors Bouckaert & Balk, Jones & Pendlbury, Likierman wonder whether it is appropriate, possible and necessary to measure performance in public bodies.

They bring in supporting their opinion as an argument the difficulty of defining the concept, the impossibility to establish as an indicator of measurement, that its value decreases as valuable management tool, if not used properly.

On the other side, it is presented the positive opinion of the author Robert & Colibert.

Robert and Colibert sustain the public sector's performance measurement on the basis of engagements' accounting.

In their opinion, the performance concept simply means that current entities' revenues must be compared with current expenditures with the purpose of expenses' coverage as well as for surplus.

The authors believe that accrual accounting represents the most secure and feasible performance measurement instrument.

Their opinion is based on the recognition of the correlation between expenditures and revenues which are being related to the same practice.

The most eloquent influence in favour of adopting the accrual accounting is apparent in case of New Zealand which moved from a surplus result (based on cash accounting) of 1 billion dollars, during the first year new system way of reporting (based on accrual accounting) to ten times smaller surplus.

Regarding the economical account, in many European Union's states the financial account is referred to as accrual due to lack of data and is characterized by the registration of revenues and expenses' commitments, ratified as to integrate the financial dimension of economical values based on the management of the economical accrual. Using the single-entry strategy, the Romanian public institutions register the revenues and expenses automatically based on the economical accrual for the reference period.



The managerial circuit regarding the commitments activity is based on the principle of separating the attributions of the people that have the capacity of credit release authority from the attributions of the people that have the capacity of accountants.

### 3. The Romanian subsectors' reporting

According to the position document no. 11 "Economical Monetary Union", Romania has committed to report after the European System of Accounts ESA 95.

The introduction of subsectors' reporting is based on the 2009 internal and external reporting requirements established by the enactment of the Order of the Ministry of Public Finances no. 629/2009 regarding the approval of the Methodological Norms for the elaboration and deposition of public institutions' financial statements and also on some 2009 monthly financial reports with subsequent modifications and addenda (Order of the Ministry of Public Finances no. 2290/2009, Order of the Ministry of Public Finances 2941/2009).

The accounting information user deals with two types of subsector organization:

-once the public institutions' reports are distributed into subsectors each one is assigned the annex for the affiliation subsector

once the public institutions' reports are distributed into subsectors each one is assigned the annex for the affiliation subsector

- Annex 40a "Public institutions' assets and debts statement from central administration"
- Annex 40b "Public institutions' assets and debts statement from local administration"

Annex 40c "Public institutions' assets and debts statement from the social insurance domain (public assistance, social security, health insurance)"

The classification of public institutions is necessary in order to circumscribe the Public Administrations' area, its division into subsectors, but is also necessary for defining the modalities of the financial statements' aggregation.

The ESA 95 handbook divides the public administrations' sector into four sectors

- Central Administrations (S.1311),- Intermediate Administrations (S 1312), do not exist within Romanian subsectors.- Local

Administrations (S.1313),- Social Insurance Funds (S.1314).

Analyzing the structure of S.13 sector is necessary for evaluating the classification of the institutions into the above mentioned subsectors and assessing the transactions made by/ within public administrations.

It should be noticed the difference between public sector and public administrations resulting from the modalities of institutions' clasification. According to ESA 95, an institution is included into S.13 subsector based on its financing modalities and on its committment to the so called 50% criteria. Since this criteria is strictly statistical, the inclusion or exclusion of an institution into the public administrations' list is not entirely based on its economical and legal profile.

In the case of Romania, the institutions are included into the public administrations' area based on two elements:

- financing modalities
- legal statute

The most difficult resource to manage is the time. Time cannot be: stocked. Time cannot be: traded Time cannot be: bought. Time cannot be: sold Time can only be used..Today, for a good manager, it is not enough to know how to do, but to make others acknowledge as well.

The information is obtained, a precise meaning is given to the operational context to turn it into a helpful piece of information to their job, unfortunately to find good information, at the right time, for the right person, has become a difficult task as sequel to the immense volume of information.

The management of knowledge has to be replaced by a management of competencies. This involves the idea of integrated approach, know how to do (expertise) and the behaviour (ability, to know how to be).

"The expertise combines the experience of knowing what to do at the highest level, deep compression of mechanisms and processes implemented, a more intuitive capacity for diagnosis and vision for actionIt is about a sequence of steps leading to outside information, knowledge and expertise in the end [5].

The complexity of public sector that is

characterized by activities by the development and implementation of public policies and providing services not being directly connected with the resources available and required quality creates difficulties in establishing performance criteria.

For analyzing the performance measurement markers (in accordance with the activity specificity of public entities) other markers than financial ones must be considered.

By 28 February 2009, for 5 of the 7 operational programmes, the rate of rejected exceeds 50%.

Of the amount allocated for the period 2007-2009, 22% was absorbed through the contracted projects, but only 2,3% of the amount was effectively paid. Of the amount allocated for 2007-2013, only 6,3% was absorbed by 28 february 2009.

The analysis of each operational programme shows major intervention areas and even entire priority axes for which there are no approved projects that could attract funds. For example, for the program POS-CCE, only one priority axe was accessed and for POS-DCA no project met the conditions in order to be approved

The authorities of local public administration who run the social services, the managers of public social security services organized under the regulations of the Law no. 47/2006 regarding the national social security system as well as the chief executives of services' legal entities are responsible as employers for the reorganization of social services under the law, within the approved standard costs (e.g. standard cost for maternal centers, standard cost for protected buildings, standard cost for social centers etc.)

In order to manage its dependency, the manager tends to respond with priority to requirements of developing groups that control resources. As resources are limited in time and money, the organization cannot simultaneously equally treat all requests.(Nekka H 2005) [6].

The competition cannot be created or destroyed, it is only transformed, and if it disappears in a certain part of life it appears, logically, in the same amount into another area .

Even though the national norms do not give a comprehensive definition, it is still mentioned that the patrimony result is an economical one, representing the institution's financial

performance, respectively the patrimony deficit and surplus.

Although it is considered an economical result (the patrimony result), according to the economical theory by which the economical result represents the difference between the total revenues and the opportunities of all production means (entries) used during a certain period of time, including the unrealized elements acknowledged in equity but which do not transit the patrimony result account, it does not cover the entire area of the phenomenon.

From analyzing the financial reports' components reflecting the performance, further guidelines can be inferred:

- from analyzing the patrimony result account, the image of performance building follows;
- from analyzing the execution-revenues accounts, both estimated budgetary revenues/credits and the performed ones follow;
- from analyzing the execution-revenues accounts and expenditures, column cash payments result (cash accounting)

The latter are reflected as the entity's way of financing and persistence assurance and are found in the treasury's cash flow report (cash report).

The financial reports must provide real time useful information to the users, respecting the cost-benefit rapport.

From this point of view, the accounting information users may encounter difficulties due to the coexistence of:

- patrimony result – budgetary execution result
- payments' result – treasury's cash flow

The most frequent confusions are those of not levying:

- the difference between the accounted, estimated and effectively cashed revenues
- the difference between payments (cash payments of available/financing creditor turnover) and the fact that the budget regards them as payments and accountancy regards as payments the 6th category "Chart of Accounts".

The models of entity's performance presentation are the ones recommended by

IPSAS 1 “Presentation of financial statements” including, among others:

- the net assets’ statement – equity change  
the treasury’s cash flow statement

The financial performance statement/ profit and loss account reveals the entity’s financial performance through the surplus/deficit outcome as a difference between revenues and expenditures.

In this analysis, special attention must be given to:

- how the classification of expenses is made according to their nature and function
- how the correlation is made between the patrimonial account outcome – expenses execution account(s) according to their source of financing and pooling in the patrimonial outcome.

In a correlated way, attention must be given to the exceptions where the balance sheet’s patrimonial result is different from the one in profit and loss account (territorial administrative unites consolidating schools’ financial statements, infusion centres that have multiple funding).

Performance must be regarded on each source of funding related to the specific field of activity.

Allocation of costs by destination requires distribution involving the use of professional reasoning,

Unlike the other public institutions, in the case of territorial administrative units the cash surplus from the current activities is transferred to the working capital at the end of the year.

Synthesized, the information on these influences is presented in the notes which, in turn, depend on professional reasoning applied, depending on the accounting policies adopted. For instance, according to annex “Annotations (Analysis report) to the centralized financial statements of Bucharest – proper activity – in 31.12.2008 Expenses”

The surplus in 31.12.2008 representing 104.717.888 lei includes the local cash budget at the state treasury representing 104.717.279 lei (transferred at the end of the year into the cash working capital) as well as the sum of 609 lei remaining at the end of the year in the account of Fixed Fund Administration (cashed in on 31.12.2008), but reimbursed at the end of 2009 to the local budget.

For the conformity, we find the same amount in the annotation regarding “The achievement of revenues and expenses highlighted outside the local budget in 31.12.2008”

“The total of achieved revenues do not include the 2007 balance accounts, carried over in 2008 and the working capital includes the local budget surplus as well (104.717.279) which was transferred to the cash working capital, a surplus that was also returned to the annual account of the local budget (Annex 13)”.

To correlate the reported sum within the working capital, we additionally examine Annex 21 “Revenues, Expenses and Surplus of Local Budgets in Territorial Administrative Units” and we find the amount of 104.717.888 (104.717.279+609) in the surplus column.

#### 4. Conclusions

To conclude, it should be noted that in order to facilitate the understanding of the set of financial statements elaborated at the end of a certain period, the focus should be shifted from the crossed examination of the multitude of annexes to financial statements to the analysis presented by their annotations.

In order to adjust the way of highlighting the sums representing unused prefinancing at the end of 2009 and their transfer to the working capital within the units subordinated to city halls according to the final legal regulations, it is necessary that they have the possibility to use the account 131 “Working capital”.

The dynamic environment in which public entities operate, the downward trend of public resources, poorly presented objectives, public distrust (though declining), are a challenge for public accounting as a factor in performance.

#### 5. References

1. Ristea M., Synchronic and Diachronic in International Accounting Attunement, from the Accountant Career Congress, Bucharest, 3 – 4

September 2004, CECCAR Publishing, Bucharest, 2004

2. Pop A., From Standardization to Convergence in Accounting, from Romanian Accountant Career Congress, Bucharest, 3 – 4 September 2004, CECCAR Publishing, Bucharest, 2004

3 Alecu Georgeta, Bojaniu O., Convergences and Attunements of Accounting in Public Institutions, ASE Publishing 2009, p.102

[4]. Feleaga N., Taming the Accounting Jungle – Concept and Standardization in Accounting, Economica Publishing, Bucharest, 1996, p. 179

[5]. (Nekka H “Les contours theoriques d’un nouveau cadre pour la gestion des hommes ” XVIIe Congrès de l’AGRH- Le travail au cœur de la GRH IAE de Lille et Reims Managment School 16 et 17 novembre 2006, Reims) ;

[6].Nekka H. “Le DRH de demain et la création de valeur ” Revue management et avenir 2005/2, N° 4, p. 139-156.

## 6. Bibliography

1) Briciu Sorin, 2006 ,– “Managerial Bookkeeping – Theoretical and practical”

Economic Publishing House ;

2) Buzdugan Cornelia and, 2007 “Administrational bookkeeping” the CECCAR Publishing house community;

3) Dascalu Cornelia and, 2007 “Convergence of public bookkeeping of Romania on the International Bookkeeping Standards for Public district” CECCAR Publishing house community;

4) Lungu Camelia, 2007, Bookkeeping Theory and Practice regarding Preparing and Presenting the financial Situation CECCAR Publishing house

5) Jianu Iulia. “Evaluating, presenting and analyzing enterprise’s performance.( An approach from the perspective of International Standards of Financial Reporting)” CECCAR Publishing house 2007

## 7. Legislation

1. The law of bookkeeping no. 82/1991, republished with all changes and supplements in Romania’s Monitorul Oficial no. 48, since 14th of January 2005.

2. General frame for preparing and presenting the financial situations;

## The Relationship Between Environmental Accounting and Sustainable Development

Ducu Corina

*Constantin Brâncoveanu University, Pitești*

corina\_ducu@yahoo.com

Ioneci Mihaela

*Constantin Brâncoveanu University, Pitești*

IONECI\_MIHAELA@yahoo.com

Enache Tasica Daniela

*1 Decembrie 1918 University, Alba Iulia*

petresex@yahoo.com

### Abstract

The specific dimensions of sustainable development are interconditioned, but in the present paper we intend to emphasize the importance of the ecological dimension. The role of the natural environment in achieving the economic activities is vital, but its quantification possibilities are reduced. In this situation, the concept of sustainable development can be complemented by environmental accounting, in an attempt to more clearly present the negative effects on the environment generated by the economic activities. Measuring these effects and their inclusion in the national accounting system are more difficult to achieve, but the importance of protecting the natural environment to provide an opportunity for the future generations, determines us to try to look for and find appropriate solutions.

**Key words:** environmental accounting, sustainable development, environment

**JEL classification:** M 41, N5

### 1. Introduction

The constant struggle for development and increase of the competitiveness between states should be conducted in conjunction with the concept of sustainable development. This concept implies the compatibility of four systems: the economic, the environmental, the human and the technological one, so that to ensure meeting

the current needs, without compromising the ability of the future generations to meet their own needs.

### 2. Content

Sustainable development requires the detection and calculation of some indicators to analyze the phenomenon as a whole, *particularly in the environmental dimension.*

An instrument used for this purpose can be represented by environmental accounting. This actually has a double representation [3]:

- environmental accounting is a tool necessary for recording, storing and organizing the environmental data of physical and/or monetary type;
- environmental accounting is a source of information for analysis and which integrates special indicators defined to assess the effects of the human activity on the natural environment.

Conceptually, environmental accounting is known, but its application is more difficult to accomplish. Even though specific indicators to the natural environment are generally used and calculated, they are not presented as forming a unified whole called environmental accounting.

At first glance it seems a new concept discovered to present it purely theoretically, because the classical concept of accounting lead us to believe that the use of environmental accounting is unimportant.

Just like sustainable development, environmental accounting also examines the macroeconomic activities, but they are

influenced and conditioned by the multitude of activities at microeconomic level.

In conclusion, environmental accounting can be applied both at macroeconomic and microeconomic level. At microeconomic level, the analysis of the firms primarily seeks to examine the negative externalities. At macroeconomic level it supplements the information provided by the gross domestic product, because this indicator does not include the matters relating to the natural environment.

The need to supplement the information provided by the macroeconomic indicators of results lies in the existence of the market failures and of the externalities. In such cases by the information provided by environmental accounting some market failures can be corrected.

The natural environment is a source for the economic resources and the space in which all the economic activities take place. However, it is not measured by the gross domestic product. The gross domestic product should also present how the value-added was obtained, namely to reflect the effects of the economic activity on the natural environment.

The limits of the GDP are those activities which cannot be measured using this indicator. Among these we mention: **the unreported and unrecorded activities** (the underground economy or the black market); **the activities that are not carried out on the market** (the non-marketed services, such as housework, voluntary work); **the on one's account activities that cause pollution**, these not being reduced from the gross value-added [4].

In the context in which the above-mentioned activities are not included in the calculation of the GDP, we must admit that some of the quantified economic activities lead to the deterioration of the natural environment, to the reduction of the natural resources. These activities determine the increase the GDP of a country, but also lead to the respective country's depletion of assets.

The need to record such information was the starting point to calculate an indicator called the green GDP. The green GDP is determined by subtracting from the conventional GDP the depreciation of the natural resources. The indicator thus determined indicates to what extent an economic activity increases the national wealth or its reduction, by using the natural resources.

In 2004, in China, the use of the green GDP as a macroeconomic indicator was announced. Two years later, the first report on this indicator was published. The results obtained showed that the economic losses caused by pollution were of 66.3 billion U.S. dollars or of 3.05% of the national economy. The indicator was no longer calculated because it was obvious that the readjustment of the GDP means the reduction of its growth to acceptable levels, even zero in some regions.

The economist Serge Latouche said that if we want to adjust the GDP with the damage produced to the natural environmental and with all the consequences on the natural and cultural patrimony, then we obtain zero or even negative growth.

These examples come to strengthen the belief of some economists that it makes no sense to calculate this indicator. Those supporting this belief are economists who are used that the values recorded by the GDP to be positive and obviously the higher they are, the more they demonstrate the performances of the respective economy.

In the present context when the focus is on sustainable development such concerns are childish and do not fit in the new world order. The development of a company without taking into account its effects on the natural environment no longer has the desired purpose. The claim that "sustainable development is the current development, but without jeopardizing the development of the future generations," no longer has a point.

The national accounting system cannot yet capture all the aspects of the relationship between nature and economics. The national accounting system performs the assessment of goods and services, whether they are sold or not on the market, both for the production prices and for the market prices. The goods and services which are outside the market represent goods and services produced and used in households. They may be evaluated either based on the production cost or based on the prices of similar products on the market.

In the national accounting system the use of the natural environment in economic activity is not included. The possible losses suffered by the future generations because of the irrational use of the natural resources at present are not recorded in the production

accounts of the national accounting system, but they are nevertheless recorded as “other changes in the assets”. [2] There are economists who find it difficult to quantify the effects on the natural environment and for strictly pragmatic reasons to continue to determine the macroeconomic indicators of results as before.

Despite the difficulties of including the negative effects on the environment caused by the human activities, we believe that developing and implementing the concept of environmental accounting is a step in supporting sustainable development. The argument in favour of this statement is represented by the following classification of the most polluting countries.

Table no. 1. Polluting countries

State	Total emissions (Million metric tons of emissions)	Emissions per capita (Tons per capita)
China	6017	4,58
USA	5902	19,78
Russia	1704	12
India	1293	1,16
Japan	1246	9,78
Germany	857	10,4

Source: [www.capital.ro](http://www.capital.ro) “The top of the most polluting countries in the world”, January 2010

In the ranking of the most polluting countries depending on the total emissions China detaches itself, being followed very closely by the U.S.A. The rating is totally different if we use as criteria the emissions per capita, when the U.S. appears on the first position, followed by Russia and Germany.

The concerns for the integration of the natural environment in the system of indicators have occurred since 1990. Since then we have desired the environmental indicators and the “green” accounting to provide man’s implications on the natural environment. The European Union has included among its missions the economy - environment relationship, detailed by the communications of the European Commission (Commission Communication on Environmental Indicators and Green National Accounting).

### 3. Conclusions

In conclusion, environmental accounting can be considered part of the classical accounting, since the latter aims at “measuring, evaluating, knowing, managing and controlling its own assets, debts and capitals, as well as of the results obtained from the natural and legal persons’ activity. Environmental accounting must meet the same end but concerning the current assets and debts, that will be paid by the future generations, given that some of the natural environment is being used irrationally in the contemporary period.

### 4. References

- [1] Feleagă Liliana, Feleagă N. – „Contabilitate financiară, o abordare europeană și internațională”, vol. I, Editura Infomega, București, 2005
- [2] Popescu I., Bondrea A., Constantinescu Mădălina – „Dezvoltarea durabilă. O perspectivă românească”, Editura Economică, București, 2005
- [3] Roșca Elisabeta (coord.) – „Dezvoltarea regională în contextul integrării în Uniunea Europeană”, Editura Economică, București, 2006
- [4] Stiglitz J.E., Walsh C. E. – „Economie”, Editura Economică, București, 2005
- [5] Todea N. – „Teorie contabilă și raportare financiară”, Editura Aeternitas, Alba Iulia, 2009
- [6] Legea contabilității nr.82/1991
- [7] [www.capital.ro](http://www.capital.ro)

## The Leasing – Source of Financing Investments. Modern Forms of Leasing Contracts

PhD. ec. Dumitrean Ioan  
University 'Al. I. Cuza' Iasi  
The Faculty of Economics and Business Administration  
The Doctoral School of Economics  
ioan.dumitrean@feaa.uaic.ro

### Abstract

*One of the main reasons that leasing is a financial alternative so popular in the world is the one that synthesizes its own „philosophy”: It's not ownership of the assets but their effective use is the one leading to profit. The key aspect is the proper use of capital resources: the investment of money in what generates „business” and brings profit, like publicity, the superior qualification of the staff, stocks, exploring new markets, research, development, instead of blocking them by purchasing fixed assets.*

*This article aims to approach the leasing as a source or as a financing alternative investments, to highlight the benefits given by that to the three parties involved in a lease - the lessee or the user of the lease, the lessee or the leasing company and the good or the assets supplier which are the subject lease. There are also the main modern forms of leasing which are more common in business finance.*

**Key words:** leasing, investment, lessor, financial leasing, operating leasing, full pay out leasing, cross-border leasing, buy and lease, sale and lease back, cession-bail, leasing adosse, experimental leasing, time-sharing leasing, renting, credit-bail d'actions, master leasing, wet-lease, leveraged lease.

**JEL Classification:** M4, M41.

### 1. Introduction

As known, the leasing first appeared in the United States of America in 1877, the American Company Bell Telephone Comp operations (this company moved to "renting phones", instead of selling them), and gradually penetrating other countries, mainly in

Europe (United Kingdom, France, Belgium).

The first form of leasing born from the need of getting a finance in order to pursue a productive activity, appeared in 1950 throughout the U.S., when the manager of a food factory in California received a profitable order, but he had no funds to purchase necessary equipment to honor the order. In this situation, that manager was sent to a financial institution, requesting it to purchase needed equipment and the immediate rental to his firm. After closing the transaction in these conditions and the delivery of the ordered products by customer, the food company manager, encouraged by the benefits and the advantages achieved by the used method, founded the first specialized leasing company called *United States Leasing Corporation* [4].

In 1952 a company was established a special company dealing with leasing. Later, in Europe have developed regulations that define the contractual relationship based on leasing and specifies what operations it includes. In the United States the leasing was regulated by the Uniform Consumer Credit Code and the Uniform Commercial Code.

The leasing was determined in its appearance by objective causes. Thus, in the U.S., the UK and in other countries were difficulties in financing business because of the rigidity of existing forms and processes. Businessmen felt the need to equip their commercial companies with modern equipment, while the equipment of facilities was outdated, especially as a result of their obsolescence influence. The make purchase of goods from the seller (supplier) in order to rent them to those customers who needed them has appeared as a saving and effective formula [2].

The term "leasing" comes from the verb 'to lease from English which means "to rent". Etymologically, the word "lease" is of French



origin, coming from the older "Lais", derived from the verb "laisser" (leaving another), which has its origins in Latin "laxare".

The leasing is an agreement transferred by the lessor, in return for payment or a series of payments, the right to use a good for an agreed period of time.

The lease is the contract whereby one party called the lessor (the beneficiary) transmits forward over of a specific period of time, the right to use the personal goods whose owner is another party called the lessee (user), at his request, for periodic payments known as rate lease (rent) and at the end of the lease, the lessor is obliged to respect the user right option [1]:

1. to buy the asset (the guaranteed residual value);
2. to extend the lease;
3. to cancel the lease.

## 2. Leasing - financing alternative investments

Without being itself a source of financing investments, the leasing creates the opportunity for business to dispose of certain assets without being required to buy (without becoming their owner). For the user (direct investor) the leasing is a way of investment finance that do not affect the debt capacity and it is not a loan in the classic sense of the word. Hence, it is required to register separately in the accounting the rent corresponding to the leasing operations.

Unlike an ordinary rental, the leasing gives the lessee the right to become owner of the property at the end of the contract at a specified price. Such a lease appears an interesting alternative of a source of investment financing [5], as a substitute for loan [5].

Determining the costs involved with leasing (credit bail or cessionbail) is a rather complex operation. This aspect is particularly important in determining the structure of financing investment when it comes choosing the sources of financing, their contribution to fund training projects or company programs.

## 3. The modern forms of the lease

The lease is shown in practice in many forms [4], mainly influenced by the specific

lease transaction as a whole and by several factors, such as: funding possibilities provider, the market limits, the degree of organization of production and sales, etc.

Next we turn our attention to some of modern forms of leasing.

The literature of international trade law, has also shown that **operating lease** (also called *functional lease*) knows in turn, the following forms:

1. **True lease**, which is actually a genuine lease, the contract being cancelled and having as subject tools, machinery and equipment temporarily employed by the user in commercial activities.

2. **Service and maintenance lease** is to enable users to receive, besides equipment provided by the lessor (who is the property maker), certain related services and specialized technical assistance.

The understanding of the procedures and techniques that are being used requires also knowledge of how to engage the parties and especially the role of incumbent companies specialized in drawing up leases.

The leasing is defined as when concluding the contract is directly between suppliers and customers. In this case, the 2 sides agreed immediate deadlines, the contract terms and conditions and stipulates terms that are considered appropriate for its completion and performance bonds assumed.

The leasing is defined as when done indirectly through a specialized company. Currently, most leasing operations are performed by such companies. Their number is increasing. For instance, only in the U.S. - the country in which the lease was born - is operating over 400 leasing companies. Today, however, United States Leasing Corporation remains the most important, a company that was created in 1952.

These companies are: general, brokerage or integrated, in report on the operations required to perform. Lending and services functions are those that define the role of the lease system. It should be noted that through the contract, these companies assume the risks of the operations they perform.

The leasing companies share the technical life of machinery in two periods: *primary period* equal to the economic life of the asset, namely the time the car is considered unlikely

to suffer obsolescence and a *secondary period* equivalent time period which lasts from the end of economic life by the end of technical life of the car. The primary period usually corresponds with the tax depreciation period, namely the time established by the law in which the financier can deduct depreciation expense.

The leasing companies and manufacturers are considering to the end of the lease, and the need for expenditure determined by the specific equipment that is the object of the contract, which involves their active presence in the exploitation of property assets by the user.

After the calculation of rates, depending on the indicators mentioned above, the lease can be classified as follows:

1. Gross and net lease rental;
2. Leasing with full depreciation and amortization partial leasing.

*Gross lease*, which is known as *full-service leasing*, is the way in which rates include the following components:

- Net selling price (acquisition cost) of goods forming the object of the contract;
- Expenditure for maintenance, repair and service equipment, machinery and equipment;
- Profits made using the leased property.

In this form of lease may be stipulated in contracts that suppliers provide training and specialization of staff employed by the user, for efficient operation, but also rational of machinery and equipment. Inserting such a clause in the contract, instills the user requirement to comply with the provider instructions exactly on how to use the goods.

Usually, this type of operations is not usual to reduce the amount of lease rate after the first contractual period, because once with the exploiting of the good, the maintenance and repair costs have a tendency to increase. Moreover, the leasing companies include, in case of full-service leasing contracts, added lease rate, calculated according to intensive use of equipment, which is called the *lease bonus* or *royalty*. The setting of the interest subsidy is critical to operating lease, which have a shorter duration and include the risk of failure of production or export prices, where equipment cannot be given again in leasing.

The *net lease* is that which the rates include the net selling price of the equipments and the benefit of using that property. In this case, the supplier or sponsor is no longer involved in providing repair, maintenance, support and training for the personnel assigned to operate the equipment, the costs of these activities are borne by the user.

The *lease with full amortization (full pay out leasing)*, requires that lease that in which the total leasing paid by the user to the financier- minus the total amount paid as a benefit -fully depreciated (or overwhelming proportion) asset value. The leasing amount is established since the end of the contract so as to achieve this goal. Accordingly, the amount of residual value is reduced significantly so as to represent an honorary amount. This type of contract (which in practice takes the form of financial leasing contract) is used primarily in German law, which is called *Modell*, a lease with a symbolic residual value of 1 Euro.

The *lease with partial depreciation (non-full pay out leasing)* assumes the existence of a significant residual values which gives the user the meaning right of option. It's usually the case of the operating leases, in which the lease rates do not cover the full value of acquisition cost incurred by the sponsor, for the equipment available to the user, thus, never became fully recoup the amount of charging equipment rates, the leasing company sets a residual value to ensure, if the user expresses asset purchase option, the recovery of expenses incurred.

The lease-back agreement defines those legal relationships with the owner of equipment or even of a company of *selling* an equipment or the business to a leasing company, and then take them as *rental*, the leasing company obtaining the promise of *reselling* them at lease expiry. The contract is also called *sale and lease back*, because of the financial specifics of this process to sell goods or to the re-lease. In French law, the contract is called *cession-bail* if it has properties as object and *leasing-adosse* to movable property.

As shown, in the lease-back agreement, the owner of the property and meets also the quality of provider and that of user, the

second being · the credit institution (the leasing company).

By selling the goods, the user (owner) obtain financial resources that are necessary and it staggered back, as leasing rates (rent) and to the contract expiry, the user pays the price difference, thus regained their goods covered transaction. Therefore, the purpose of concluding this contract is to obtain monetary funds, since, unlike other leasing seeking to purchase by a company of some equipment it needs, in case of lease-back operations, the company has that equipment, being their owner, however liquid funds are not sufficient to conduct business. In this case, appealing to *lease-back* is very advantageous for plant owner, whereas without sacrificing their exploitation - and being necessary for fulfilling orders - obtaining capital to develop its economic activities.

This type of leasing is used for fixed assets, which fulfills a function of the mortgage, but also to moveable, allowing a longer-term financing.

The lease-back agreement has advantages for the sponsor, because of the acquisition of ownership of property, and seeing the credit guaranteed until full recovery from the user.

A variation of *lease-back* agreement is the *combined leasing* (also called *lease-back provider*), used in relations between French traders. Under the lease agreement combined, a leasing company sells the products they made, while the latter provides the basis of a lease producing company, giving them the opportunity to rent them to turn to third parties under contracts of lease (in fact, under lease) of ordinary tenancy.

O.G. no. 51/1997 defines the *lease-back* contract as a legal one by which a person sells industrial equipment to a leasing company, to use the leasing system, with repurchase obligation (Article 22).

In terms of tax, the lease-back agreement is exempted from any tax on the sale, if the sponsor of the former owner leases the property immediately.

As it can be seen in the lease-back transaction, the good role is to serve as collateral. Throughout the contract, the lending institution owns the property. These qualities cease only when he has recovered all the money they gave the user from signing the contract.

The experimental leasing is a technique used by manufacturers to promote sales. Under this type of contract, the goods are leased for a short period of 2 or 3 months, experimentally, provided that the expiration of the option contract giving the user the purpose of purchasing goods, when appropriate to its requirements, respectively meaning of their refund, if present shortcomings.

Time-sharing lease agreements are characterized by letting *jointly* by several beneficiaries of certain high-value equipment in *time share*. This form of lease has been adopted in practice for economic reasons, mainly due to the high cost of equipment or machinery, and their rapid obsolescence. The financial benefits of this operation lie in the low lease rates that each user pays.

The time-sharing contract covers mainly electronic computers (for which he has been called *computer leasing*), and other equipments, being first used by General Electric Company in 1965. Subsequently other large companies have used the operation. Currently over 100,000 firms with ongoing time-sharing contracts and over 80% of worldwide fleet of large computers is exploited by this system.

In our law, the time-share leases are linked to an agreement between users, made to the common use of industrial equipment, and it may be the subject to a building, for an investment (Article 23 of O.G. no. 51 / 1997).

Renting is - as the name states - those leases concluded in the short or very short term and include the *day or hour rental* of goods, especially of vehicles or construction equipment. Renting is an American contract, which was taken in European trade. This type of lease (also called *hire* operation) is actually a simple rental lease not showing characteristics of leasing, such as the user's option or the problem of calculating and highlighting of the assets depreciation which is its object. Other authors have considered that *renting* operations are forms of transition from regular rental to leasing, starting from their very short duration and simplicity of legal relations that arise. The main duty of the owner / lessor is to provide the user equipment, machinery, or adequate public transport, according to applicant needs and to ensure their service.

The renting company is a company that has

standardized equipment or means of transport, concluding traditional location contracts taking into account the increased demand on the market.

In commercial practice, the renting operations appeared as a necessity to rent for reduced periods of time.

Renting or hire your show its usefulness especially for vehicles. Thus, a renting company can rent, by contract, a car for a time when their business requires the operator to make several trips, or rent a truck to do more commercial operations in several locations.

The shareholder leases (credit-bail d'actions) is a financial technique first used in France by *Groupement Francais d'Entreprises*, to meet the growing needs of small and medium enterprises for fundraising.

The operation is somewhat similar to the *lease-back* contract used for movable and immovable goods, assuming the following concrete steps: a small or medium sized stock company increases and constitutes its own capital by *issuing up (new) shares* which are underwritten by an investment fund, the investment fund *fails* in location issuing shares, which in turn will pay a regular sum of money by way of rent, when the contract expires the issuing company having the opportunity to *redeem* their shares at a price agreed with the investment fund, taking into account the payable amounts made by paying the rent.

Since our legislation does not expressly forbid it, shareholder leasing is possible under our law, subject to conditions under company law and also to orders and regulations issued by the National Securities Commission. Moreover, the original form (without amendments by Law no. 99/1999 on some measures accelerating economic reform), O.G. no. 51/1997 regarding the leasing companies and leasing operations, expressly stipulates that securities can be the object of the lease.

Also called the *container lease*, the master leasing is used by transport companies, its appearance being determined by the benefits that the carrier has by a rental of containers, then by their acquisition, which would entail additional costs of organizing an efficient operation, maintenance and repair of containers and preparation of qualified personnel.

The specialized companies in keeping

their fleet of containers available to the carriers for *a specified period (term leasing)* or for *a particular trip (trip leasing)*. The major leasing companies have entered in this field, imposing itself through the use of complex rental contracts called *master lease system*.

- *Leveraged lease* - the leasing company finances only a part of the asset value, the difference being covered by various creditors (who are financial companies), this lease is used where it forms the subject of his valuable equipment (see Figure );

- *Leasing producer* - involves the providing of a total financing by the leasing company, by purchase from the manufacturer, only with its funds, of leased property;

The international or cross-border leasing lease was founded and developed in the third historic generation of this modern tool of investment and financing, with features for international leases. It has evolved and improved through the use of the export companies, for which industrial development was a working activity.

To internal leasing also called national leasing, where not only the lessor and the user reside in the same country, but usually the leasing object is produced in that country, where for international leasing business can be set various options. Thus, in the foreign or international leasing practice is very important to establish groups of variants, because each is the subject of legal, economic and fiscal different regulations. The international leasing has some outstanding issues and phenomena, especially in conditions when the states involved have different laws.

Among differentiated forms of international leasing, in the sense of overcoming the state boundaries of a country, a relatively comprehensive definition, we can distinguish 2 basic shapes. Through a brief and concise interpretation are given the characteristics of cross-border leasing, according to the stakeholders address in the leasing business, the country where the subject lease will be used and where funding will be made. The complexity and difficulty of the leasing business are obvious and arise from the states transactional status where is made.

*The first form of cross-border leasing* consists in leasing business, in which the

leasing object is movable property investment to be used for business purposes. The lessor resides in the same country with the supplier / manufacturer of the leasing object and the user is residing in the importing country.

*The second basic form of cross-border leasing* is characterized by the fact that the leasing company in the exporting country and are not leasing business relationships with the direct external leasing user, but through a foreign leasing company, so in the country where the lease user resides. The leasing company, as the external lessor leasing may be a company organically linked or in cooperation with the leasing company from the country of the leasing user. We can deduct the following economic and financial relations between the business partners in this cross-border leasing form [6] :

1. The purchase contract of the leasing object is concluded between the domestic supplier / manufacturer of and the foreign leasing company;

2. The leasing contract is concluded between the leasing company and the user leasing of the importing country;

3. The purchase price of the leasing object is paid to the supplier / manufacturer by the foreign leasing company;

4. The leasing rates are paid by the user leasing to the leasing company, both residing in the importing country.

In the case of this form of cross-border leasing, the lease is between the leasing company, as lessor, and the user leasing of the importing country, and therefore the lease will be perfected according to law in that country representing a typical contract leasing business in that state.

#### 4. Conclusions

In **conclusion**, it may indicate that leasing proved to be a viable and effective alternative to any other form of financing (lending), its features, which gave rise to the spread of the principal means of support and development of commercial activities and production, leading to the elaboration of some "principles", which determines the importance of the leasing:

1. not the ownership of fixed assets, but actual usage is what brings profit;

2. to be the owner of old or obsolete equipment is of no use to anyone and does not constitute an advantage for a company;

3. getting into operation, with a minimum capital investment of some modern equipment and performance, increases the efficiency and induces the increasing business volume and activity, finally bringing more profit.

#### 5. References

[1] Dumitrean Emilian, *Contabilitate financiară II*, Sedcom Libris Publishing House, Iași, 2001;

[2] Maziliu Dumitru, *Dreptul comerțului internațional*, Ediția a III-a, București, 2003;

[3] Molico Tatiana, Eugen Wunder, *Leasingul un instrument modern de investiții și finanțare*, CECCAR Publishing House, București, 2003;

[4] Tița-Nicolescu Gabriel, *Regimul juridic al operațiunilor de leasing*, All Beck Publishing House, București, 2003;

[5] Zaiț Dumitru, *Fundamentele economice ale investițiilor*, Sedcom Libris Publishing House, Iași, 2008;

[6] Tatiana Molico, Eugen Wunder, "Leasingul internațional <<Cross-border>>", *Contabilitatea, expertiza și auditul afacerilor Magazine*, nr. 7, iulie 2003, CECCAR Publishing House;

## The Internal Audit in Private Companies

Enache Tasica-Daniela

*1 Decembrie 1918 University, Alba Iulia*

*petresex@yahoo.com*

Ducu Corina

*Constantin Brâncoveanu University, Pitești*

*corina\_ducu@yahoo.com*

Ștefan Petre

*1 Decembrie 1918 University, Alba Iulia*

*petresex@yahoo.com*

### Abstract

*One of the major characteristics of the audit is to permanently resort to various criteria, norms and standards. This attitude is, on the other hand, much more systematic as the audit is applied as professional norms.*

*It is of a major importance to respect the stages of the financial-accounting audit, both for the auditors and for the patrimonial audited unit whose administration can be defined as a totality of decisions that apply its strategy. We may consider that when the financial audit gets support from the internal control it appears as an operational audit, and when it determines the application of the strategy it appears as the audit of the administration control.*

**Key words:** internal audit, private companies, strategy, control;

**JEL classification:** M42;

### 1. Introduction

Up to 1999, in our country, there has not been any regulation regarding the internal audit, as this activity has not been part of the organizational culture or part of the requirements of the organizations owners. Many times, people made a real confusion between the concepts of internal auditing with the things in practice that is an internal control, which is compulsory only for the entities with state-capital or with a majority of state-capital.

The general definition of the internal audit was given by the O.U.G. no. 75/1999, modified, by the financial audit activity

republished, as it follows: “the internal audit represents the activity of objective examination

of all the economic activities in order to provide an independent evaluation of the risk management, control and management processes“[6].

### 2. Content

At the same time with the application of the International Accounting Standards and the auditing of the financial situations, by applying the European directives, in 2000, an order of the Minister of Finances [7] introduced some extremely theoretical, minimal provisions regarding the internal audit, with various translation and interpretation faults, which, nevertheless, constituted a necessary opening for learning and accommodation with this new and complex profession.

The definition of the internal audit according to which the minimal norms of internal audit (General frame) approved by the Order 1267/2000, is one with a general character “the internal audit represents the activity of objective examination of all the activities of the entities in order to provide an independent evaluation of its risk management, control and management processes. The activity of internal audit is exercised within the entity by various persons inside and outside it. The practices of internal audit are differentiated according to the purpose, the size, the structure and the fields of activity of the entity”.

These norms are applied starting with 1<sup>st</sup> of January 2001 and they are compulsory for the

following entities submitted to the financial audit:

- trading companies and firms;
- autonomous administration;
- banks;
- insurance and re-insurance companies;
- real estate companies;
- other companies that operate on the capital market.

The results of the activity of internal audit are materialized in reports and other documents based on the legal provisions regarding the internal activity, the management orders decisions, and the reports as well as other documents are presented only to the entity management with the necessary measures and with the obligation to pursue the achievement of the recommendations within the entity.

The connections between the financial audit activity and the internal audit regarding the persons who manage the compartments of the O.U.G. 75/1999 regarding the financial audit activity, consider that it has a so-called inferior character of a form compared to another, “responsible for the organization of the internal audit activity, the coordination of the works/commitments and signing the internal audit must have the quality of financial auditor”.

We may thus understand that this last paragraph is addressed to the economic entities where the state is not a majority shareholder.

The legal regulation regarding the financial audit activity offers the following definition: the financial audit represents the examination activity which makes the auditors examine the financial situations in accordance with the audit standards harmonized by the international audit standards and adopted by the Chamber of Financial Auditors of Romania, stated in the Chamber”.

The above definition analyses the persons who manage the audit department and do not respect the Internal Audit Standards, which are defined in the glossary: “the person responsible for the internal audit activity – the highest position within the entity – holds various responsibilities regarding the internal audit activities. In an internal audit activity, classically organized that would be the Internal Audit Manager. In the case when some internal audit activities are given to various external service

providers, the person responsible for the internal audit activity is entitled to survey the execution of the service contract and ensures the whole quality of these activities, reports to the general managers and to the Council of Administration on the internal audit activity and monitors the implementation of the recommendations resulted from this mission. This position can also have the name of general auditor, manager of the internal audit or general inspector”.

From the point of view of the activity contents and its efficiency, both for the financial audit and for the internal audit, O.U.G. 75/1999 states that, in their turn, the financial auditors effectuate, on the occasion of the independent planning/exercising of the active financial auditor profession and the evaluation of the internal audit function, both in what regards the conformity degree of the area containing the applied programs, and of its performance in order to determine the extent in which the results of the internal audit are based in developing their activity of financial audit.

Such interference may produce confusions for the managers of an organization, without bringing into our attention the fact that we may easily go down in the so-called incompatibility. Also, due to this confusion, the management (if it is not properly advised) may easily fall into a trap of seeing at a certain point the inutility of an internal audit department, in the conditions in which a document which regulates the financial audit may establish some regulation for the internal audit and, starting from this point, the demand to the ones who certified a financial exercise to organize and execute some activities of internal audit.

The performance standards describe the nature of the internal audit activities and provide the quality criteria on the basis of which the performance of these services may be evaluated.

The internal audit activity helps the entity to keep the efficient controls by evaluating their efficiency and by promoting their continuous improvement.

On the basis of the results of risk evaluation, the internal audit activity evaluates the conformity and the efficiency of the controls regarding the entity management, operations and information systems.

This evaluation regards the following aspects:

- viability and integrity of the financial and operational information;
- operations efficiency;
- assets protection;
- respecting the law, the regulation and the contracts.

The internal auditors:

- establish the extent to which the targets and the objectives were defined with respect to the operations and the programs and if they are in accordance with those of the entity;
- revise the operations and the programs to establish the extent to which the results correspond to the established targets and the objectives and if these operations and programs are implemented or achieved the way it was stipulated;
- establish, for the control evaluation, the extent to which the management defined adequate criteria to determine if the targets and the objectives were reached. If these evaluation criteria of controls are adequate, the internal auditors collaborate with the management in order to elaborate corresponding evaluation criteria of controls.

In the consultancy missions, the internal auditors examine the controls in conformity with the mission objectives and they pay attention to the existence of any significant weak point regarding the control.

Within the entity's identification and evaluation process of the significant presentations of the risk, the internal auditors take into consideration their knowledge about the control systems which they acquired during their consultancy missions.

According to the provisions of the Article 25 of the Governmental Emergency Order no. 75/1999, republished in the Official Monitor of Romania, no. 598 of 22 August 2003, the Chamber elaborates norms of internal audit respecting the International Standards in the field.

Starting from the provisions of this article, the Chamber's Council has approved, by the Decision no. 88/19 April 2007, the Norms of the internal audit, elaborated and published by the Institute of the Internal Auditors, and some Procedures regarding the general frame of the development of the missions of internal audit.

### 3. Conclusions

In Romania, after joining the EU, we consider that there is no need for a regulator of internal audit which forces an entity to organize its activities in this sense. The one that presently gives the imperative tone is the market, the image and the management need to ensure that the activity systems which it coordinates, respect the legality, are well-organized, efficient and reach the proposed objectives. Without any doubt, at the beginning of the internal audit activity, the two documents, respectively OG 119/1999 and, later, 1672/2002, had an extraordinary role.

Due to the fact that the IIA/USA Standards are sufficient and clear, including the MPAs, we consider that there is a real need for manuals of internal auditing for every organization, which could harmonize and adapt these standards to the specific of each activity, taking into consideration that the standard is not obligatory, as the law has an imperative character.

### 4. References

- [1] Capman, C., U. Anderson, Implementing the Professional Practices Framework, Altamonte Springs, FL: The Institute of Internal Auditors, 2002
- [2] Ratliff, R.L., Reding K.F. Introduction to Auditing: Logic, Principles, and Techniques, Altamonte Springs, FL: The Institute of Internal Auditors, 2002
- [3] Prutianu Ș, Munteanu C., Caluschi C., Marketing Plus Intelligence, Polirom, Iași, 1998
- [4] T.L. Friedman, The Dell Theory of Conflict Prevention, Barclaz Barrios, Boston, 2008,
- [5] International Standards for the Professional Practice of Internal Auditing, IIA, 2004.
- [6] O.U.G. no.75/1999, regarding the financial audit activity, republished in M.O. no. 598/22.08.2003, modified and completed by Law no. 133/2002 and Ordonance no. 67/2002.
- [7] Order no. 1267 of 21st September 2000 meant to approve the minimal Norms of internal audit (General frame), published in M.O. no. 480 of 2nd October 2000
- [8] Report of the Guidance Task Force to the IIA s Board of Directors – A Vision for the Future: Professional Practices Framework for Internal Auditing (Altamonte Springs, FL: The Institute of Internal Auditors, 1999).



## New Approaches of Cost Calculation and Impact on Performance in The Furniture Industry, XXI Century Perspective

Ene Dumitru

*Valahia University of Targoviste,  
armata\_ultra86@yahoo.com*

### Abstract

*Management accounting system is a useful tool for enterprise management, which aims to achieve performance piloting enterprise by promoting efficiency and effectiveness. To be successful in today's economic environment requires the use of a calculations system and management costs. The firms use type information in various forms in making decisions. The manager expects the management accounting a permanent assistance before, during and after the action, to define objectives, to understand whether the objectives are relevant and to measure performance. Using Standard-cost method, the standard- single cost version is a direction of improvement of Management Accounting and Calculation Cost in the furniture industry and is, probably, a viable solution to companies in Romania to cope with strong competition from EU Europe, in complex economic context, particular XXI century.*

**Key words:** calculations system and management costs, management accounting, Standard-cost method.

**JEL Classification:** M4, M41.

### 1. Current issues in theory and managerial accounting method

Current Issue able to challenge theory and managerial accounting method relate to: a reassessment of the concept and identify key performance indicators characterizing the performance: the concept of "cost-value", target-cost and cost of activities. Analyzed in terms of domain information and a business decision, and shall cause accounts, assist and

decide on the company's financial position, economic and financial performance and cash flows generated from investing / finance, employment / resource use, production / distribution of wealth created by an entity that is simultaneously legal, economic and financial. To be efficient in the current economic environment requires the use of a costing system and management costs. Cost calculation goal is to identify causes not only the objects of cost. This approach shows the ability of calculating system to provide an analysis which links financial performance of enterprises to processes and activities.

French National Accounting Council defined the management accounting since 1996, that is designed primarily business needs, it is a part of its information system, providing an economic modeling company in order to meet the objectives of performance measurement and aid in decision making. Of its composition are:

- performance measurement process;
- substantiation methods of decision.

The current development stage, management accounting, shows International Federation of Accountants, in preambling its conceptual framework, answers to enterprise's needs to operate in a dynamic competition and competitive environment.

Two of the concepts that dominate the modern management of organizations are value and performance. We observe (in Romania) that this is the statement (in internal or external environment of business) of such value creation for customer and shareholder or achieve global performance claims. These may be just nice words or, conversely, may be a synthesis of the general approach to company management. We can use cost as inducer of value and, depending on the characteristics of competition and how to use the product, cost is considered insufficient for assessing performance, it must be supplemented by using a tool to express the request. Recitals above

are all many reasons that handle the company must adapt to new conditions that characterize the context in which the undertaking. Up to now several decades, productivity growth and cost reduction strategy was a satisfactory and easily implemented organisation. Today economic context is not the same and firm performance is subject to several competitive advantages factors. These is to be declined by the structure so as to be able to act on them and then be able to measure acquired progress. In addition, management tools are closely related to strategy, but also the structure organisation [1]. Structure becomes a key performance parameter and a variable to be managed, an action instrument for flexibility. The new management is to compel a company built to work across vertical [2].

Cost is still an inducer of value, but not sufficient for performance evaluation, so depending on the characteristics of competition and how to use the product, use the cost must be supplemented with a tool to express themselves more on request. To rely on the rarity value, management accounting must take into account certain factors such as quality, flexibility and time, which does not deal with traditionally management accounting, but which have become strategic stakes. Type companies use cost information in various forms in making decisions. The manager expected of a management accounting permanently assistance before, during and after the action, in order to define objectives, to understand whether the objectives are relevant and to measure performance. Cost calculation goal is to identify causes and not just their transfer to the cost objects. This approach shows the ability of the cost to provide an analysis linking financial performance of business processes and activities.

## **2. Standard-cost method in the base model - single cost: direction of improvement of Management Accounting and Calculation Cost in the furniture industry enterprises**

Management Accounting System is a useful tool for enterprise management, which aims piloting enterprise to achieve performance by promoting efficiency and effectiveness.

Approaching the management accounting as interface between strategy and current management, it demonstrates its functions of knowledge and analysis of costs and outcomes, control costs and use of information obtained to develop programs, to reduce their stock,

management guidance in decision making through provided information.

Special attention is given its qualitative structure of management accounting, such as costs and revenues, and consequently results. Knowing the cost is always a necessity when economic performance is concerned and, therefore, a real management accounting must always follow the cost-performance tandem. Evolution of concepts in the field of costs led at accreditation to the idea that the purpose of Management Accounting is less to make known the cost of products, how to act on them rational Imputation fixed costs method is constitute a technique that completely avoids the cost variations, fixing of selling prices, estimate of stocks, and at level of responsibility centers - to establish their efficiency by responsible managers. I believe that choosing the best methods calculation of costs is one of the key elements for mining process, especially for entities with furniture industrial profile, intervening all-production-sale acquisition circuit. For this reason it can be stated as superficial or inadequate treatment of issues related to calculating costs can be an obstacle in obtaining performance or may be a factor what make under question further activity. Choosing the most appropriate method of calculation leads to the fulfillment of two major goals: to ensure the issue of quality information to users and improve operations, control them and adding a value.

Standard cost method is classified as forecast calculation methods and operational tracking of the production process allowing the establishment of production costs in advance before the start of production and making budget control actual costs against the default, on the kinds of irregularities and cases, while deployment of the production process. In this way, it offers undeniable advantages of studying and analyzing intelligence on the line of production efficiency, can meet such an important function for modern enterprise management, that the investigation and prediction tool and is therefore a valuable tool for the decision.

According to the concept of this method, unit production costs must be calculated in advance, using for this purpose preset sizes. While carrying out the production process is organized operative tracking of expenditure that gives rise to that, by comparison with standard costs, to establish the irregularities on

places of spending and on the causes, so as to make the budgetary control of costs. In the original conception of standard cost method no longer have to calculate the actual cost, because the standard cost is considered scientific cost and at the same time, real, reason for any deviation the actual Costs from Standard-Costs is regarded as a deviation to normal and as such should pass directly into financial results. Still not exclude the possibility of calculating the actual costs of production achieved. This is done adding, or, subtracting of the standard-cost a deviations taken from management accounting which will track not only on places the costs and causes, but also on products. Calculation model is as it:

$$Cu_e = \frac{Cts \pm A}{Q} \quad \text{that,}$$

$Cu_e$  = is the effective unit cost;

$Cts$  = total Standard-cost;

$Q$  = quantities produced.

The main work that involves the application of the standard cost method is:

- Standard calculations development on product;
- Calculating, tracking, analysis and reporting standard deviations for control budget;
- Management Accounting organizes in terms of application of Standard-cost method.

For development Standard calculation of product these works are necessary:

- standards for direct costs development , work that involves development of quantitative standards for materials and workmanship and value pricing standard setting the standard supply and standard wage rates;
- standards for indirect or overhead costs development , which involves performing the following work: creating the production budget of indirect costs or overhead of the department, on the one hand, and budgeting administration overheads or overhead of the company, the party spelled and finally:
- calculations development of the standard unit cost on product or budget of unit cost in the structure of calculating items, specifically that the respective enterprise.

Developing standards for production costs is necessary to establish assortments and standard production volume to determine the optimal use of production capacity of industrial enterprises.

Calculating, tracking, analysis and reporting deviations the actual costs from standard costs is done in operatively (daily, decade, etc.) on

expenditure places on calculate articles and on causes (if even on products or their parts), for is done control budget and make decisions from management on the Value Side of the Manufacturing Process. For this purpose are prepared reports and statements for irregularities in the structure mentioned, and through centralization is obtained the report or deviations company.

Standard-cost method has the advantage of calculate labor rationalization, as the standard unit cost determined in advance is considered real cost and therefore not calculated the actual cost of finished products and production in progress at the end of each management period, and deviations are regarded as deviations from normal and pass directly into the company's financial results. The finished product and that in progress may settle at the cost standard. This feature but not removes the possibility calculating the actual cost of time to time, by distributing deviations to the finished product and production deviations in progress by conventional criteria, such as, for example, report that standard costs of production.

Another advantage of the standard-cost method and that cost is that although the concept is based on total costs using the classification of costs production into direct and indirect, it uses and classification of costs into variable and fixed production, allowing cost analysis compared with output and calculation of specific indicators direct-costing method, namely the equilibrium point optimal activity, the coverage factor, coefficient and interval safety, required for making based scientific decision. So, using this method is made operational control of how the material resources consumed by tracking work life separate by tracking distinct, complete and permanent deviations during activity, and not at the end of management as in classical methods, both stock and in accounting and the overall issue since the appearance, that their identification and distribution until the.

A main feature of the standard-cost method consists in the existence of adequate operational comparisons between actual expenditure and that pre-established taken as the baseline. The application of Standard-cost method, the standard version cost-only leads to increasing the practical value of accounting information and, implicitly, to improve the organization of economic activities. All this results in a better foundation costs budgets and,

consequently, establish benchmarks as well to express the normal conditions of industrial activity. Management based on predetermined size as the standard - cost method corresponds to the principle of objective-based management and accounting gives in its quality of providing useful information decisions and corrective action, a major importance.

In these conditions, accounting becomes the industrial enterprises, a useful tool for management, enterprise management, as its main mission is not to determine the cost of production, but to check if it determined in advance, was respected leaders sectors. In this way, management accounting can make tracking and control of classification in provisions of the budget and can provide expenditure information on the level of expenditure production. Standard-cost method aims, mainly, to increase the role of production costs in ensuring achievement of the objectives in directing and good function of the company. The main purpose of such calculations is to provide operational information needed to budget, evaluate, coordinate and control the activity or enterprise.

Starting from the role and place of management accounting information in the modern, application of standard cost method gives it a matter of expediency, given the leverage in the process of preparation and decision making to trigger corrective action.

The standard-cost method replaces the simply operations of collecting and recording the actual data, to compare them to the end of the management period to achieve the commands method used in furniture enterprises, by providing an analytical character, operational and information predicting that their exploitation to increase the efficiency of future activity.

More than ever, standardization of production costs should be based on quantitative and values standards and with technical and economic reasons. This is required because deviations from the standard of actual expenses caused while carrying out the production process, have a more significant deviations higher than the end of the statement period, leading in many cases to late decisions, or the data evaluated in isolation, which only shows what was done, but not as developed. They necessarily require operative determination of the causes, because they are essential to future decisions and actions to correct deviations in achieving targets in improving activity . But to increase the role of management accounting, information relating to

deviations should be presented to interested bodies in a suggestive form, so they can take corrective measures operational.

A prerequisite for the practical standard-cost method, besides the existence of a scheme sufficiently comprehensive scientifically based standards, is the existence of a well-developed techniques and operations production programming. This implies requires the existence a corresponding level of the organization of production, and a high degree of knowledge and explanation of economic and technological factors of production for all products and, especially products and new technologies. Organization in good conditions of primary documentation on the expenditure and production cost calculation, and proper organization of records deviations from standards are also necessary prerequisites for adopting this management accounting and cost calculation method.

Track production costs through accounting in standard-cost method case can be performed in one of the following: Standard-partial cost, standard-single cost and standard-cost Double. Differences between these variants lies in the reflection of costs in the calculation accounts in the calculation and recording of deviations from standard costs. Considering the advantages and disadvantages of each of the three variants of standard-cost accounting organization, consider the alternative that best meet the management needs in the furniture industry is the standard version single cost. This option enables for establishing effective costs deviations from the standard costs during the unfolding process of production, costs of calculation articles and on causes, which facilitates cost effective budgetary control and decision making at all high levels of command. This also eliminates workload caused by the operation of in progress production inventory, whereas the recording system of consumption and production obtained in accounts only standard cost calculation, it is to determine the accounting method.

In conclusion, we believe the adoption furniture enterprises and introduction of standard-cost calculation method, the standard version single cost, meet the need for increasing the use of information on international activities and integrates modern management conception based objectives, continuous improvement in the cost of using

production orientation and strengthening economic management..

Standard-cost method is one of the methods of cost calculation was used successfully in the furniture industry in developed countries. Technical progress in industrial enterprises requires the use of more efficient equipment and new ecological technologies. Indirect costs have a much higher share in the total costs of production. In this sense overheads budgets becomes an actual and acute problem . For this, Standard-cost method provides a basis for comparison conclusive and operative to assess the evolution of actual costs.

A first condition for applying the standard cost method would be the existence of a coding nomenclature materials, and materials used, technology operations and products. All materials used in the furniture industry receive a code that is composed of information storage site, article, etc. rather than use. The fabrication technology is the same over several exercises and product nomenclature is constant Another prerequisite is the existence of a system of rules for consumption and which may become the standard after a pertinent analysis of their value. These conditions exist in all enterprises in the furniture industry where the production process is based on a technology flow to be fully respected. Standard-cost is a pre-established cost that acts as a yardstick for measuring and comparing the actual cost, and as a tool for guidance and clarification of the conditions which must operate an enterprise. In essence, the standards expresses the size or antecalculate values, and some foreseeing items related to forecast conditions are expected the unfolding this future activity an enterprise.

Standard cost theory as the ideal standard can be achieved in the best conditions of production and labor organization. The forecast cost of standard does allow any damage to machines or interruptions of work, and require a level of effort that can only be achieved by the most skilled and efficient employees, to work at a yield of 100%.Some managers believe that these standards give rise to new values, new motivations. These managers reveals that, although employees know will not fit the standard they always remember the need to increase effort and efficiency constatnte.But most managers believe that using these standards tends to discourage even the most diligent employees.

Realistic standard-cost it's a difficult cost to determine, but not impossible to obtain. These standards allow a normal period of interruption of production and recovery periods of labor and are set so that average to be achieved through reasonable efforts, but effective enough. Variations from these standards are very useful because management and administration represent deviations from normal, through repetition of inefficient. All these deviations require greater attention from managers.In addition to these standards can serve several purposes besides abnormal signal deviations in terms of costs, can be used also in cash flow antecalculul sites and inventory management.

In contrast, ideal standards can not be used in antecalculating and planning;they do not allow inefficient and therefore appear in unrealistic figures in terms of planning and antecalculating. Normally Standard - cost is correct estimated cost and easily obtained. In determining of normally standard-cost is better to take into consideration the variation of working hours and especially their efficiency. Also, an information system existing in the enterprise and program management applications can enhance the reduction of working time in developing standards and standard costs fare for materials, labor and overheads.

Today no longer presents a special problem the computer inventory management and finished products. With the launch of the production of a batch of products can cause the quantity of materials supplied and the time required to achieve this production for making decisions on production next period.

There may be fixed for each link organizational of responsibility centers, and within their standard of spending. Production cost should be broken by sectors which through their work influence its size.

Given above the precisions was presented, can say that the standard-cost method does not require some special conditions that can not be achieved. Each enterprise must acquire modern management techniques to insure formation one adequate information system of a specific activity carried. Market economy requires this action,and transform cost information into the main tool to ensure competitiveness and profitability of the enterprise.

### 3. Conclusions

As a synthesis of research results consider the following:

- cost is a synthetic indicator reflecting efficiency of planning systems, record and control. It is measured by total consumption related to production of product, conditioned of technology and production organization, so it is designed to evaluate the product produced at a concrete stage of the production process;
- choosing the most appropriate costing methods in an enterprise leads to the fulfillment of two major goals: to ensure the issue of improving quality information and user operations, control them and adding a value.

Carried research allows drawing conclusions regarding the improvement of managerial accounting:

- full costing method costing, which are used in the furniture enterprises, has a number of drawbacks and is not oriented to meet the management accounting function: getting accurate information on the cost of manufactured products, ensuring the efficiency of the structural subdivisions of manufacturing production;
- using Standard-Single Cost Method, applied in conjunction with direct costing method in enterprises in the furniture industry in Romania is a direction of improving managerial accounting.

In conclusion, it can be said that this paper has addressed a complex topic research and interest, as improving methods of costing and managerial accounting is probably a viable solution to companies in Romania to cope with strong competition from EU Europe, in complex economic context, particular XXI century.

### 4. Bibliography

- [1] N.Albu, Albu C.(2003), Performance management tools, First Volume, Economic Publishing House, Bucharest, p.66.
- [2] Sérieyx, H.(1999), Zero contempt, Dunod Publishing, Paris, 1999, p.81

## Risk analysis in credit activity

Florea Dragos

*Valahia University of Targoviste*

floreamdragos73@yahoo.com

Florea Nicoleta Valentina

*Valahia University of Targoviste*

floreanicol@yahoo.com

### Abstract

*The present period is characterized by extensive processes of economic and financial turbulence, both in terms of companies and in terms of banking companies, having as objectives the promotion and the implementation of some methodologies applied on European and global level. The purpose of credit analysis is to avoid loss of profit due to bad debt, because of granting loans to customers who cannot refund debt or because of not granting loans to good potential customers. From this perspective risk analysis in lending activity represents an area of major importance in lending activity, finally expressing opinion about sincerity certification of financial statements, the confirmation of the legal provisions in force, the following of the management principles of companies under review.*

**Keywords:** credit risk, lending activity, bank companies, credit analysis, performance.

**JEL Classification:** J32, J21.

### 1. Risk concept in credit activity of bank companies

As part of this risk analysis process has importance in increasing the performance bank, limiting waste of resources and early detection of anomalies and deficiencies at companies level.

Decision process in terms of lending requires the following of the next steps: economic and financial analysis of the applicant organization, credit application analysis and credit decision.

Analysis bank takes into account both non-financial issues (quality management and organization, strategy development, industry, position in society branch) and financial performance. Therefore, the collection of a certain stability to the debtor is a very important condition of its credibility and a prerequisite to reduce its borrowing cost. In terms of high-risk lending resources are available at no cost. Basically the more stability / reliability of the debtor will be higher, the more both other conditions of loan will be more favorable to it, and the banks which intermediates it become less vulnerable to shocks. Analysis of risk in lending activity is a mean to prepare rationally and operational the manager actions, is the reason to be considered a preliminary stage of elaborating pre credit, leading finally to approve the funding application or contrary to dismiss it. In economic theory, the notion of risk is substituted by other concepts, most often by the 'flexibility'. No matter its economic or financial valences, flexibility is defined through the organization capability to adapt and respond efficiently to the environment changes [11].

Credit risk can be defined as a phenomenon who may appear during the development of loan transactions and causing negative effects on activities through deterioration of business quality, less profit or even loss recording.

Through different definitions from the literature of the risk it's trying to find new significations and values over economic activity:

-the risk is the variability of possible outcomes depending on an uncertain factor [3];

-the risk is the probability of occurrence of an event an undesirable event [5];

the risk is an uncertainty about a loss [16];

-the risk means the income variability under the environmental pressure [12];

-the risk can be defined as the possibility that losses will be higher than it was expected [10];

-the risk is an uncertainty about the production of damage [13];

-the risk it's translated through profit variability gave ton the average profitability in the last financial years .... The risk is nothing but the organization inability to adapt itself in time and at lowest cost, and to the variation of environmental conditions. [14];

-the risk is an element of uncertainty which may affect the activity of a trader or a economic transaction[1];

-the risk is that situation where there is the possibility of a hostile deviation [17];

-the risk is one of the most vague and most elusive concept that is difficult to define by the economists and by the investors [9];

-the risks and the uncertainties inevitably are related of many events and circumstances that should be taken into account in determining the best estimate [21].

Risk is defined as the phenomenon that comes from circumstances for which decision-maker is able to identify possible events or even probability of appearance, without being able to specify which of these events actually will occur.

In a bank must be concerns for an organized approach, and control for the systemic risk [15].

Customer confidence is essential for a bank, so it must earn and maintain her financial reputation through qualified staff and effective management.

The risk management activity must always have in mind that any business involves risks, but the biggest risk is actually to ignore it.

Credit risk or the risk of the other party (partner) is defined as the probability that the issuer of the instrument can not pay interest or repay the capital in the specified conditions, condition from the credit agreement. Credit risk means that payments could be delayed or not made which will cause default, cash flow problems and will affect bank liquidity[4].

A risk monitoring system performance must be able to ensure sustainable and harmonious development of the bank, avoiding the assumption that additional risks in terms of their corresponding not-remuneration.[2].

Lending activity is based primarily on business viability and realism of the clients to identify and assess capacity to pay, to generate revenue

and cash as the main source of loan repayment and interest payment. The analysis and the lending activity must take into consideration the influence of external factors on the projects proposed by the customers, e.g. non-financial issues wich may have unforeseen effects on doing business and refund loans.

Applying the principle of prudential banking activity primarily involves knowing and understanding the activity of the borrower. This allows the bank to protect its own funds and deposits and also the judicious selection of clients[4].

## **2. Evaluating and measuring the risk credit**

The banks need to identify risks of each application and loan proposals, to recognize them and help reduce and even eliminate this risks. For this, we need a study or risk sensitivity, because only in this way it can be reduced or eliminate. According to this study the credit applications are approved or refused. The risk increases exponentially with the pace of change, this means that most times, the ability to transform the market is greater than its ability to understand and appropriate adaptation to the risks[6].

Risk evaluation is not an exact science. There are factors that could make acceptable a situation or a combination aparently unfavorable(e.g. indebtedness is high, but shareholders have guaranteed loan. Also, typical indicators are not the same for all industries. Even if the indicators and the figures seem good in credit risk analysis, they could get worsen if risky business are hidden and the control system is weak[7]. Risk reduction can be achieved only by knowing well all the bank customers, the decision-makers controlled or uncontrolled, all the results achieved as a result of the credit line approval. The banks need to know as well the factors leading to failure and business failure. Lending risk may be regarded as inherent and can be found in documents, reports, summaries at the level trader who borrows from the bank. According to the order 1752/2005, legal entities prepare annual financial statements consisting of balance sheet, profit and loss account, statements of changes in equity, cash flow statement and notes.



Table 1- The risk evaluation: the quality management

Evaluation	Integrity	Competence
Excessive risk and unacceptable	-never fulfill their commitments; -Provide inadequate information on which they can not have any basis; -it isn't done anything to maintain the relationships	- it hasn't the experience and the necessary qualities; -unappropriate organization and inability to influence; -lack of control systems; -takes risks in a way almost irresponsible.
High risk	-rarely fulfill their commitments; -provides information with low reliability; -little contribution to maintain the relationships	-low-experience; -partial view of the situation; -inappropriate and low-organizing capacity of influence; -low-control systems; -assume unnecessary risks.
Moderate risk	-respect of commitment -provide reasonable-quality information, -maintain relationships	-experience; - environmental qualities; -vision of the situation; -control system
Low risk and acceptable	-always respects its commitments; -provide quality information, credibility; -fully contribution to maintain relationships	-professional qualities, excellent experience; -visionary -organizational structure and capacity to influence; -excellent control; -it is not assuming risks.

Preparing these situations is mandatory for companies listed on the Bucharest Stock Exchange, some public corporations, national companies of national interest, and some categories of companies operating in the capital market[19]. Analysts to assess the

credit risk using tables (e.g. table 1) to evaluate the risk regarding the management quality, the industry dynamics or the financial status.

Lending must be profitable for the bank, by expanding and diversifying the loan portfolio, the source of additional revenue in terms of manageable risk, and also for the customers, that in the credit account can develop business, to obtain profit and on that basis to repay the borrowings and to pay the interest.

In lending, the bank seeks the applicants to provide credibility for their repayment at maturity and the return interest.

For this, the bank requires the borrowers to provide guarantees to cover the maximum debt consists of the loans and the interest.

Bank lending activity is accomplished by credit plan, which is correlating with the resources to cover them (on terms and currencies) and strategy, financial plan and business plan of the bank. The specialists when are granting loans they must make quantitative estimates regarding the rotation period of the capital. So, it take into consideration: duration of stocks of raw materials, unfinished production stock-length; finished products during storage; time receipts from debtors; time payments to suppliers. In the evaluation of lending risk, bank specialists are considering the issues with the trader may have to end of cycle production, marketing and transfer of assets in cash. Credit risk is included in the type of financial risk, which concerns the structure of business financing. This financial risk is highly dependent on the customer ability to achieve performance and profit, because it is from which the debt will be repaid. Through profit and other performances it will be improved the structure of the capital. The banks evaluate the risk in a complex program analysis of credit documentation and establishing the guarantees. This risk assessment is a component of commercial banks strategies. This is because, in the complex analysis are determined the resources, the limits, economic policy of the customer, are made considerations regarding economic and financial legislation, the product market and the strategies regarding the market sharing. The most used indicators in the analysis of credit risk are:

1. ratio between liquidity / total debt for the trader.
2. ratio between gross profit / total debt for the trader.

3. ratio between total debt / (total assets for which the trader borrows).
4. interest coverage.
5. general indebtedness.

Determining indicators is made by comparative periods or by assessing trends.

The approach manner and exposure to risk is based on the report that the bank considers it acceptable between the risk taken and profit forecast (the total portfolio, the activities and transactions).

The bank is granting loans to economic entities capable of generating cash flows, with good reputation in business, with an appropriate credit rating and to individuals who obtain secure incomes and are credible in terms of fulfilling their contractual obligations to the bank.

He bank may grant loans and other facilities to economic entities who register losses or they due to the seasonal pattern of activity performed, whose trend is declining and the company shows solid recovery program losses and profitable activities.

Bank's risk assessment methods take into consideration the following factors:

- exceeding credit limits;
- unexplained increase of the financing facilities limits;
- providing financial information with delay;
- an unfavorable ratio between debt and equity;
- changes in leadership;
- on the one hand the disagreement between the accounting and budget data and on the other hand the control data.

### 3.The signification of credit risk management

Today, leading banks, who are implementing appropriate policies for risk management becomes a necessity, as well as assimilating of employees some new techniques and tools for risk management. A performant banking strategy should include both programs and bank risk management procedures that aim, in fact, minimizing the probability of appearance of risks and potentially exposure of the bank. The main objective of these policies is to minimize losses or additional expenses incurred by the bank and central goal of bank activity is getting a bigger profit for shareholders. The importance of bank risk management is not limited only to minimizing costs. Constant preoccupation of the leadership to minimize risk exposure has positive effects

on employees' behaviour, that are more rigorous and conscientious in fulfilling their job tasks, and it is not neglected the psychological effect of discouraging some fraud activities. Obtaining an image more realistic about customer's financial position suppose that on the base on the annual financial statements develop new information to better meet the needs of the bank's analysis, the diagnostic and assessment.

Credit risk management is not done only by consultation with national bodies (Credit Information Bureau-CRB, Payment Incident Bureau-PRC, Credit Bureau, National Promissory file-FNBO) but also by applying policy restrictions on credit to every bank.

According to Regulation no. 1 of National Bank of Romania, Central Banking Risks is a mediation center, which manages on behalf of the Romanian National Bank, the information of banking risk for users, while maintaining banking secrecy.

To get not to situations where the customers could not repay the loans, the bank uses the credit policy and some restrictions designed to eliminate the risk of such activities.

The most important of these is the decision of not granting credit to:

- mismanagement economic agents, without prospect of recovery;
- economic agents wich are not contributing to financing capital assets or investments;
- economic units wich are in reorganization or liquidation.

Risk management requires as insurance form against credit risk the provisioning[20].

Provisioning system in commercial banks, regulated by norms, is intended to protect bank capital, and legal protection of individuals' deposits, loans to cover any uncertainties in the recovery, settling in this system provisioning coefficients for each category of loan classification (Table 2).

Tabelul 2 Provisioning coefficients for different categories of clasification

Clasification category	Coefficients
Standard	0%
In observation	5%
Substandard	20%
Doubtful	50%
Losses	100%

[Banking Law no.58/1998]

The amount of risk provisions vary depending on loan classification. Thus, each category loan classification corresponds to a coefficient of provisioning.

Risk provisions are related to each approved loan and are intended to cover any loans, or debt service which from the analysis or the initiation of legal proceedings, shows the uncertainty in their recovery. A special attention is given to real and correct assessment of credit risk and interest and possibilities to exploit certain guarantees envisaged in loans, so the volume to cover up provisions to be recovering for doubtful loans and interests.

All the banks and the financial institutions must improve their understanding and practice of banking risk management in order to successfully cope with the various ranges of products.

If the bank risk management process and overall management system are effective, then the bank will be successful. The banks can successfully manage banking risks if they recognize the strategic role of risk and if they use the paradigm of analysis and management in order to increase efficiency.

#### 4. Conclusions

This paper establishes the general rules about risk analysis in lending activity in terms of assuming credit risk consciously, taking into account the following factors:

- Compliance with prudential measures imposed by national regulatory authority;
- Expected profit must justify the risk exposure;
- Any loss must be covered by provisions and profit so to not damage the bank's financial situation;
- The risk must be tailored so that the loss produced by its materialization could be considered normal for banking activity and the bank image, both internal and external it will not be damaged;
- The acceptance of some risks that have a due time;
- The acceptance of quantifiable risks only;
- Compliance of the business risk by the bank and the customers, too, customers who will participate with some of its resources at the project financing.



#### 5. References

1. Bernand Y. & J.C. Colli, Vocabular economic si financiar, editura Mirton, Timisoara, 1997
2. Danila N., Retail Banking, Editura Expert, Bucuresti, 2004
3. Dorfan E., Introduction to Risk Management and Insurance, 4 edition.
4. Gotcu C.A.V., Evaluarea si prevenirea riscului in Activitatea de creditare-Metode Financiar Contabile, Editura Tehnopress, Iasi, 2008
5. Giurgiu I., Mecanismul financiar al intreprinzatorului, Editura Dacia, Cluj Napoca, 1995
6. Hennie van Greuning, Brajovic S., Analiza si Managementul Riscului bancar: evaluarea guvernantei corporative, Editura Trecon, Bucuresti, 2003.
7. Lloyd R., Muth H, Gerlach F., Analiza creditului, Editura Expert, 1998
8. Mihai I., Tehnica si managementul operatiunilor bancare, Editura Expert, 2003
9. Mourgues M., Les choix des investissements dans l'entreprise, Paris 1994
10. Mehr H., Risk Management Concepts and Applications, McGraw Hill, New York, 1994.
11. Niculescu M., Diagnostic financiar, Editura Economica, Bucuresti, 2003,
12. Niculescu M., Diagnostic global strategic Editura Economica, Bucuresti, 1997
13. Rejda I., Principles of Risk Management and Insurance, 4 edition, Prentice Hall, New York, 1993
14. Stancu I., Gestiunea Financiara, Editura Economica, Bucuresti, 1994
15. Trenca I., Metode si tehnici bancare- principii reglementari experiente, Casa Cartii de Stiinta, Cluj Napoca, 2004.
16. Tieschman G., Risk and Insurance, 7 edition, USA, 2007
17. Voughn P., Fundamentals of Risk Insurance, 5 edition, USA, 2005
18. Legea bancara nr. 58/1998
19. Ministerul Finantelor publice- Ordinul nr.1752/2005 pentru aprobarea reglementarilor Contabile cu directive europene
20. Normele Bancii Nationale a Romaniei nr. 8/1999 privind limitarea riscului de credit al bancilor
21. Standardele Internationale de contabilitate 2001, Editura Economica Bucuresti, 2001
22. Regulamentul Bancii Nationale a Romaniei nr. 1/1999 privind organizarea si functionarea Centralei riscurilor bancare.

## Searching for the Unique Conceptual Accounting Framework. The IASB Conceptual Framework Versus the FASB Conceptual Framework

Gadau Liana

*Ph.D. Lecturer*

*Bucharest Spiru Haret University*

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

### Abstract

*The last decade, especially, has brought major mutations in the evolution of national economies through the accentuation of the international financial character of globalization.*

*In the last years the number and the complexity of companies which operates on international financial markets increased. Today, more than ever, the investors in order to operate in these markets must have current, sufficient and comparable information on various investment opportunities. This is why the accounting has become the common language of business on international markets.*

*The global economic reality justifies once again the necessity of global standards which must be applied in the same manner so as FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) or national standardization bodies. The high quality accounting standards are a necessity for the capital markets system for the reporting required worldwide to ensure international comparability.*

*In order to achieve the convergence between IFRS and American International referential US-GAAP, must be accomplished a unique conceptual accounting framework, which will be used for both referential.*

*Next we will make a comparative study of the conceptual accounting framework developed by the IASB and the FASB, in order to capture some of the similarities and the significant differences between the contents of the two accounting framework, which arguments the need for a single conceptual framework.*

**Keywords:** the global harmonization of accounting, the high quality accounting

standards, a unique conceptual accounting framework.

**JEL Classification:** M4, M41.

### Introduction

The last decade, especially, has brought major mutations in the evolution of national economies through the accentuation of the international financial character of globalization. Lately, the increasing of the role of finances in economy led to changes in the ratio of social forces, through the domination of financial capital over other forms of capital. Worldwide, over time, two major models of financing were outlined, one structured around banks, and the other model anchored in the capital market or stocks, both covering a large part of the funding needs of enterprises.

In the last years the number and the complexity of companies which operates on international financial markets increased. Today, more than ever, the investors in order to operate in these markets must have current, sufficient and comparable information on various investment opportunities. This is why the accounting has become the common language of business on international markets. Under the pressure of the capital markets internationalization, this situation made possible the phenomenon of harmonization and standardization of accounting firms.

The global harmonization of accounting has become a necessity with the large development of the international financial markets, because only intelligent and qualitative accounting information comparable

to local operators can ensure transparency and efficiency of financial markets.

Thus, the comparability and credibility of the information provided by the financial statements are factors in the functioning of the global economy, thus ensuring a better allocation of financial resources and a reduction of the transaction costs.

For a good period of time due to political, economic and financial interests, the activity of internationalization of normalization accounting through the standards issued by IASB (International Accounting Standards Board) was in strong opposition to the activity of FASB, the American standardization organism.

The global economic reality justifies once again the necessity of global standards which must be applied in the same manner so as FASB and IASB or national standardization bodies. The high quality accounting standards are a necessity for the capital markets system for the reporting required worldwide to ensure international comparability.

US-GAAP/FASB IASB has pledged to elaborate accounting standards of high quality, but this is a difficult, time consuming and costly process.

In order to achieve the convergence between IFRS and American International referential US-GAAP, must be accomplished a unique conceptual accounting framework, which will be used for both referential.

Next we will make a comparative study of the conceptual accounting framework developed by the IASB and the FASB, in order to capture some of the similarities and the significant differences between the contents of the two accounting framework, which arguments the need for a single conceptual framework.

As definition, a conceptual accounting framework, is an elaborate accounting theory or doctrine, considered to be a source for a set of principles, a "generator of standard/norms, so that is why it was compared with a" constitution".

It is important to specify that the international accounting framework draws on the concepts of the American accounting framework, but shows its peculiarities.

### **A comparative approach from the objectives of financial statements point of view**

IASB's accounting framework treats the objective of financial statements, which is to provide information on financial position, performance and changes in financial position related to an enterprise, hence the name of frame for preparing and presenting financial statements.

U.S. accounting framework treats a wider range, in treats the financial reporting objectives, namely:

The first objective: providing useful information for investors, bankers, creditors, and other beneficiaries of the accounting information in order to help them to make rational choices regarding the business, the investments and the loans etc.

The second objective: is to provide accounting information to help investors and lenders to forecast future cash flows of the enterprise;

The third objective: is the provision of information on economic resources of enterprise, related rights, the effects of transactions, events that may affect such resources and rights.

### **A comparative approach from qualitative characteristics of the accounting information point of view**

The both conceptual frameworks prioritize the economic aspect of the accounting information, focusing around the utility of accounting information; accounting information "is produced and broadcast only if the decision is useful".

The conceptual framework defines the usefulness of international accounting information in relation to four quality characteristics: understandability, relevance, reliability, comparability, all four considered main characteristics, which the international professional approaches them without making their hierarchy. It feels a gentle incline for qualitative characteristics: relevance and credibility, the basic features (this is explained by the fact that the international conceptual framework has strong influences of the conceptual American framework).

The American conceptual framework defines the usefulness of financial information

by reference to a much wider range of qualitative characteristics, the relevance, the credibility, the comparability and the consistency being essential.

Unlike the international conceptual framework, the American one hierarchy these four quality characteristics like this: relevance and credibility are basic characteristics, while comparability and consistency are considered secondary features.

### **A comparative approach from the accounting information users' point of view**

The international conceptual framework aims to meet the information needs of a wide range of users such as investors - to decide whether to invest or not; the owners of an enterprise - to assess the performance of their investments and of the managers; the financial lenders - to decide in which circumstances to grant loans; the enterprise managers - to analyze the performances and the enterprise's liquidity, the tax authorities - to check compliance with tax obligations of the company, the competitors, the employees, the customers and last but not least the public.

Unlike the international conceptual framework that addresses a wide range of users, the American framework focuses especially on the stock market investors which is deemed privileged user accounting information, as U.S. financial markets have an essential role in financing big business.

The American framework provides a very restrictive view on the range of users of accounting information, without taking into account the need of information of all those involved in the functioning of the enterprise. The accent is put on expected accounting information because the investors are interested primarily on the future cash flows than the current profit.

### **A comparative approach through the evaluation bases point of view**

The international conceptual framework proposes the next evaluation bases, which can be used in the financial statements, in various combination and degrees of use: historical cost, current cost, realizable value, the discounted value of future cash flows.

The same framework specifies "no basis for evaluation has a general validity and is not fully satisfactory.

By SFAC5, the American conceptual framework proposes several bases of evaluation, namely: historical cost, current cost, the net value of realization, the present value of future cash flows, and the current market value. If we make a rigorous comparative approach of the evaluation bases proposed by the two conceptual frameworks we can observe many similarities but also differences. Next, I will emphasize only a few differences to understand the necessity of a single global framework.

A first difference of the American framework regarding the evaluation base is that according to the American framework the selection of the evaluation methods depends on the nature of elements, given that relevant and reliable information are provided (ex, historical cost is especially applies to property, most of the stocks categories, debts, the current cost is applied to some categories of inventories, the net value of realization is applied to categories of stocks and short-term debts, the current value of future cash flows is applied to long-term debts; the current market values is used for marketable securities).

Another difference is that the current market values do not appear separately as an evaluation base on the IASB's conceptual framework, being included in the wider concept of realization value.

### **A comparative approach regarding the structure of the financial statements set point of view**

The financial statements are prepared by American companies under FASB framework and include: the balance sheet, the profit and loss account, the cash flow statements, the equity variance situation, notes to the financial statements, the statement of comprehensive income.

A peculiarity of American accounting is that none of these documents is standardized; the very name of the document may differ from company to company, considering that flexibility is more important than standardization of the financial statements.

In the American accounting the operating expenses are presented in the profit and loss account after their function, therefore the notions of stored production or production assets are not used. Another feature of the

American accounting regarding the financial statements is the presentation of the profit and loss account in analytical and synthetic form.

The analytical form calculates the net profit through the progressive method, step by step, reflecting the elements used to calculate the net profit.

Through the synthetic form the net profit is calculated by a single stage by grouping different types of incomes in the first part of the report and the main categories of costs and expenses in the second part of the report, presenting the advantage of simplicity and rapid calculation of the net profit.

Another peculiarity of the American accounting is represented by the Statement of comprehensive income (economic), which provides relevant information for performance analysis of the companies.

The SFAC 130 Reporting Comprehensive Income - does not require a standardized model of the financial statement for the global result, giving the companies the possibility to present it in the Statement of capital variation or as a separate situation to pursue profit and loss account or as a combined situation of the net income and comprehensive income.

According to SFAC 130, the Statement of comprehensive income should include all transactions and events undertaken during the financial year, relating to current operating activities, affecting the capital, and the realized and unrealized gains or losses.

The American FASB gives to the Economic outcome (overall) a great importance and a special place into the set of financial statements, the reason being that this index reflects more accurately the company's financial performance. Not the same can be said about the international conceptual framework.

### **A comparative approach regarding the elements used as a base in the elaboration of the financial statements set point of view**

According to the international accounting framework are defined five factors: assets, liabilities, equity - in the balance sheet and income and expenses in the profit and loss account.

According to the American conceptual framework are defined ten elements considered vital to preparing the financial

statements: assets, liabilities, equity, incomes, expenses, gains, losses, the overall result, shareholders' contributions, and the distributions in favor of owners.

At a first analysis it is noted that the American framework, compared with the international framework, also defines five elements: profits, losses, comprehensive incomes, shareholders' contributions, distributions in favor of owners.

It is interesting to see how the international framework treats these five elements which are not found among the basic elements defined by them. Thus, gains, losses, fall into the category of revenues, respectively expenditures.

Another difference between the two frameworks is the fact that the International framework doesn't define the elements of the economic result (or global). This does not mean that the overall result wasn't studied by the international organism. Thus, the second method of presenting the statement of changes in equity under IAS1, called "The situation of gains and losses registered on behalf of the exercise" is a statement of comprehensive income, similar with the one presented by the SFAC 130 Reporting Comprehensive Income.

Also another difference resulted from the comparative analysis of the factors used in the elaboration of the financial statements in light of the two frames, refers to the fact that the International framework does not define the elements: the stakeholders' contributions and the distributions to owners as the American framework defines them.

There can be observed similarities and differences from the definition of the same elements given by the two conceptual frameworks (ex assets - according to the IASB are resources that need to obtain for enterprises future economic benefits, under FASB are defined as probable economic benefits, debts - according to the IASB are current obligations under FASB are likely decreases of future economic benefits, etc.).

In conclusion, through this comparative approach of the two frameworks against the objectives of the financial statements, of the qualitative characteristics of accounting information, the categories of users of accounting information, the measurement bases, the components of the financial statements, the elements used for their elaboration, were emphasized the differences, discrepancies between the two frameworks

and why it is necessary that IASB and FASB to concentrate their efforts on developing a single conceptual framework at global level.

### References

- [1] Feleaga, N., *Sisteme contabile comparate. Norme contabile internationale* Vol.2 si 3, Ed. Economica, Bucuresti, 2000;
- [2] Feleaga, N., Malciu, L., *Recunoastere, evaluare, estimare in contabilitatea internationala* Ed.CECCAR, Bucuresti, 2004;
- [3] Feleaga, N., Malciu, L., *Provocarile contabilitatii internationale la cumpana dintre milenii. Modele de evaluare si investitii imateriale*, Ed. Economica, Bucuresti, 2004;
- [4] Feleaga, N., Malciu, L., *Contabilitatea financiara. O abordare europeana si internationala*, editia a 2 a, Ed. Economica, Bucuresti, 2007;
- [5] Feleaga, N., Feleaga, L., *Contabilitate financiara*, Ed. Infomega, Bucuresti, 2009;
- [6] IASB, *Standardele Internationale de Raportare Financiara*, Editura CECCAR, Bucuresti, 2009;
- [7] Ionascu, I., *Tendinte internationale privind (de)reglementarea contabilitatii firmelor. Invataminte pt.Romania*, Ed.CECCAR, Bucuresti, 2003;
- [8] Lungu, C.I., *Teorie si practici contabile privind intocmirea si prezentarea Situatiilor Financiare*, Ed. CECCAR, Bucuresti, 2007;
- [9] Nobes, Ch., Parker, R., *Comparative International Accounting*, tenth edition, FT Prentice Hall, 2008; [10] Ristea, M., Olimid, L., Calu, D., *Sisteme contabile comparate*, Ed.CECCAR, Bucuresti, 2006;
- [11] Revsine, L. et al, *Financial Reporting and Analysis*, third edition, Pearson Prentice Hall, 2005;
- [12] Scott W.R., *Financial Accounting Theory*, third edition Prentice Hall, 2003;



## The Use of Cash-Flow Statement for Decision-Making

Georgescu Cristina Elena  
[cristina\\_georgescu95@yahoo.com](mailto:cristina_georgescu95@yahoo.com)

Asaloş Nicoleta  
[nicoleta\\_asalos@yahoo.com](mailto:nicoleta_asalos@yahoo.com)  
 Ovidius University of Constanta

### Abstract

*The Cash-flow statement provide an important ingredient of decision-making due to the company's financial stability and viability.*

*The succes and survival of every organisation depends on its ability to generate an aquire cash. Cash flow is a concept that we all understatnd. Companies survive because they have cash, they fail when they don't. We must therefore be interested in a company's ability to generate cash for itself, and to acquire it from other sources. This can be clearly seen in cash flow statement. Thus the focus of this article is on understanding and interpreting cash flow statements.*

**Key words:** cash, Cash-flow statement, decision-making, managerial accounting.

**JEL classification:** M41.

### 1. Introduction

Cash management is closely interlinked with solvency. A company that manages its cash resources effectively is unlikely to have any solvency problems. Consequently, the way that a company manages its cash it's crucial to its long-term survival. It must fund the business in the most efficient way and optimise its use of cash resources. If we want to understand the company's financial performance, its opportunities and its threats, we must be able to analyse the way that it is managing cash.

The cash flow statement may be the most important financial statement for managers. It traces the flow of funds (or working capital) into and out of their business during an accounting period.

The cash flow statement's primary purpose is to provide information regarding a

company's cash receipts and cash payments. The statement complements the income statement and balance sheet. It is important to note — cash flow is not the same as net income. Cash flow is the movement of money into and out of company, and it can be affected by several noncash transactions.

### 2. Presentation of Cash-Flow Statement

All entities that prepare financial statements in conformity with IFRSs are required to present a statement of cash flows. [IAS 7.1]

The statement of cash flows analyses changes in cash and cash equivalents during a period. Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Guidance notes indicate that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Equity investments are normally excluded, unless they are in substance a cash equivalent (e.g. preferred shares acquired within three months of their specified redemption date). Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents. [IAS 7.7-8]

The cash flow statement reports the cash provided and used by the operating, investing, and financing activities of a company during an accounting period.

IAS 7 requires that cash receipts and payments be classified as operating, investing and financing activities. The cash flow statement will summarize the cash flows so that net cash provided or used by each of the three types of activities is reported. Beginning

and ending cash must be reconciled based on the net effect of these activities.

### **Operating Activities**

The statement provides information about the cash generated from a company's daily operating activities. Operating activities are those which produce either revenue or are the direct cost of producing a product or service.

Operating activities which generate cash inflows include customer collections from sales of their primary products or services, receipts of interest and dividends, and other operating cash receipts.

Operating activities which create cash outflows include payments to suppliers, payments to employees, interest payments, payment of income taxes and other operating cash payments.

There are two different ways that this can be shown on the statement, referred to in the accounting standard as *the direct method*, and *the indirect method*. They only differ in the way they identify the operating cash flow.

*The direct method* shows that the cash receipts and payments, whereas the indirect method reconciles the operating profit to the operating cash flow. All companies must show the reconciliation to the operating profit in the notes to the accounts. Consequently, this is the most popular way of arriving at the operating cash flow. The direct method is easier for non-accountants to understand, but less commonly found in the accounts.

If the company uses the direct method to calculate the operating cash flow it will still have to show the reconciliation to operating profit – *the indirect method*. This starts with the operating profit and then adds back any paper charges (primarily depreciation) that have been made in arriving at the profit to show the cash that will be generated from this period's trading. This is then adjusted for any changes in the working capital, to arrive at the cash generated from operations during the year.

### **2.2. Investing Activities**

Investing activities include buying and selling noncurrent assets which will be used to generate revenues over a long period of time; or buying and selling securities not classified as cash equivalents.

Cash inflows generated by investing activities include sales of noncurrent assets

such as property, plant, and equipment. Investing activities can also include the purchase or sale of stock and securities. Lending money and receiving loan payments would also be considered investing activities.

### **2.3. Financing Activities**

Financing activities include borrowing and repaying money, issuing stock (equity) and paying dividends.

### **2.4. Capital expenditure and financial investment**

This is a new heading. Under the old standard there was a heading called "investing activities" which combined capital expenditure and financial investment with acquisitions and disposals.

Capital expenditure and financial investment represents the investment in the company's fixed assets. However, the fixed asset investments exclude investments in a business that is a joint venture, associate or subsidiary as these would be regarded as part of acquisitions and disposals.

### **2.5. Income Flows and Cash Flows**

The income statement and balance sheet are based on accrual accounting which was developed based on the principle of matching. The matching principle states that revenues generated and the expenses incurred to generate those revenues should be reported in the same income statement. This emphasizes the cause-and-effect association between revenue and expense. Many revenues and expenses result from accruals and allocations that do not affect cash.

A company can operate at a profit and continually be short of cash. It can also generate huge inflows of cash from operations and still report a loss. The statement of cash flows can explain how these situations might occur. Answers to these questions cannot be found in the other financial statements.

There are two types of items that cause differences between income flows and outflows: noncash income or expense and nonoperating income or expense. An example of a noncash item on the income statement would be depreciation or amortization. An example of a nonoperating item on the income statement would be a gain on the sale of an asset. These transactions must be reported on a cash flow statement in order to properly

determine the true effect of conducting business on cash.

### **3. Interpretation of the cash flow statement**

The cash flow statement will follow the order shown above, although it is possible to combine the management of liquid resources with financing as long as the cash flows relating to each are shown separately.

There is also some flexibility in the reporting of the cash flows. Whilst the detailed cash flows must be shown in the accounts, companies may decide to report gross cash flows on the statement itself, disclosing the detailed cash flows in the notes.

The positive net cash flow permitted the company to make substantial additions to its property, buildings, and equipment and to pay off a substantial portion of its long-term debt. If similar conditions prevail in the future, the company can continue to finance substantial growth its own cash flows without the necessity of raising debt or selling stock.

Once they have constructed a cash flow statement, they will be much closer to understanding the financial position of their company. While a balance sheet and income statement are tools for management, without a cash flow statement they are limited barometers and may even be misleading.

#### **3.1. Operating Activities**

When interpreting a cash flow statement, it is particularly important to examine the net cash provided by operating activities. This figure indicates how successful the company is in generating cash on a continuing basis. A negative cash flow from operations may be a sign of fundamental difficulties. A positive cash flow from operations is necessary to avoid liquidating assets or borrowing money just to sustain day-to-day operations.

The cash flow statement will tell them where money came from and how it was used. When analyzing cash flow, the first place to look is the cash flow from operating activities. It tells them whether the firm generated cash or whether it needs a cash infusion.

A few periods of negative cash from operating activities is not by itself a reason for alarm if it is based on plans for company growth or due to a planned increase in receivables or inventories. However, if a negative cash flow from operating activities is

a surprise to managers and owners, it may be undesirable.

Over time, if uncorrected, it can foretell business failure. Managers and owners should pay particular attention to increases in accounts receivable. The cash flow statement gives the true picture of the account. A large increase in accounts receivables may warrant new billing or collection procedures.

#### **3.2. Investing Activities**

The cash flow statement puts investing activities into perspective. At one glance, they can see whether or not a surplus in operations is being used to grow the company.

A lack of investing activities, which is few purchases of new equipment or other assets, may indicate stagnant growth or a diversion of funds away from the company.

#### **3.3. Financing Activities**

The financing activities section of the cash flow statement will show repayments of debt, borrowing of funds, as well as injections of capital and the payment of dividends. As a company expands, this area of the cash flow statement will become increasingly important. It will tell outsiders how the company has grown and the financial strategies of management.

Together, the three sections of the cash flow statement show the net change in cash during the period being examined. A comparison between past periods will give owners and managers a good idea of the trend of their business. Positive trends in cash flow may encourage owners to consider long-term financing as an aid to growth and increase their comfort level concerning the company's ability to generate cash for repayment. Strong cash flow will also make it easier to acquire financing and to negotiate with lenders from a position of strength. Preparation of a cash flow statement is the first step toward financial management for long-term success.

### **4. Conclusions**

The cash flow statement is one of the three major financial statements prepared by companies. It explains how cash was generated and how it was used during a period. The cash flow statement is widely used a tool for assessing the financial health of companies.

In general, sources of cash include net income, decreases in assets, increases in liabilities, and increases in stockholders' capital accounts. Uses of cash include increases in assets, decreases in liabilities, decreases in stockholders' capital accounts, and dividends.

For external reporting purposes, the cash flow statement must be organized in terms of operating, investing, and financing activities.

Managers focus on cash for a very good reason - without sufficient cash at the right times, a company may miss golden opportunities or may even go bankrupt.

The cash flow statement is a valuable analytical tool for managers as well as for investors and creditors, although managers tend to be more concerned with forecasted statements of cash flows that are prepared as part of the budgeting process.

## 5. References

- [1] Atkinson, A.; Kaplan, R.; Young, M., *Management accounting*, Fourth Edition, Pearson Prentice Hall, 2004
- [2] Collier, P., *Accounting for Managers – Interpreting Accounting Information for Decision-making*, 2nd Edition, John Wiley & Sons, London, 2006
- [3] Doyle, P., *Marketing Management and Strategy*, 2nd Edition, Prentice Hall Europe, London, 1998
- [4] Horngren, C.; Datar, S.; Foster, G., *Cost Accounting: A Managerial Emphasis*, 11<sup>th</sup> Edition, Pearson Prentice Hall, 2003
- [5] Turban, E.; Aronson, J., *Decision support systems and intelligent systems*, Prentice Hall International Edition, 2000

## Leasing, a Solution to Credit Rationing

Georgescu Maria - Andrada

National School of Political Studies and Public Administration  
andradageor@yahoo.com

### Abstract

*In this paper, we shall examine if leasing is a solution to credit rationing, considering that the limiting of the bank credit supply will determine the orientation of enterprises towards leasing. This argument was brought in the specialty literature by [9]. They consider leasing "the last financing resort". The statement is justified by the rights the lessors have in case of bankruptcy of the user company.*

*For [9], unlike the previous works, the comparison must not be made between leasing and the ordinary debt, but between leasing and secured debt. The weighing of the advantages and limits of the two forms of financing will allow the analysis of the choice of financing by the enterprises, when the constraints of the capital supply force them towards expensive solutions.*

*In a first section, we shall introduce the concept of credit rationing and we shall analyze its effects on the financing policy of the enterprise. Then, we shall appreciate the qualities of leasing, respectively of the secured debt, and we shall justify the nature of the financing mobilized by the companies when the bankruptcy risk increases.*

**Key words:** leasing, credit rationing, financing policy, qualities of leasing, bankruptcy risk.

**JEL Classification:** M4, M41.

### 1. Introduction

In the leasing operation, the user has the use of the asset for the term of the contract and, in the end, he will find itself in the same situation as if he had purchased the asset [15]. As a consequence, we shall consider

that the choice between leasing and bank loan will operate in the view of separating the

investment decision of the financing one and, at the same time, that the leasing decision is a financing decision. It is true that postulating that the leasing decision is an investment, and not a financing, decision, we admit that the choice of resorting to leasing, rather than to a bank loan, has a certain incidence on the project exploitation flow. In fact, if certain expenses, such as those related to the maintenance of the asset, are undertaken by the lessor, the project exploitation flows would change. Or, in most contracts, the lessee is the one bearing the inherent risks of the economic property over the asset (the technical risks), and the lessor, the risks related to the financial aspect of the operation. Therefore, the leasing decision is analyzed in the paper at hand as a financing decision, whose choice is determined by comparison to the bank loan, the latter being considered a competing financing modality.

### 2. Credit Rationing and Market Balancing Possibilities

The central determinant of a bank's analysis in order to grant loans is the quality of the borrower. Those who borrow have personal information regarding the risk level of the projects undertaken, and those who lend do not have them, in spite of the expenses mobilized for evaluating the success of the investment project. This asymmetry of information, ex-ante to granting a loan, may lead to the balancing of the credit market, by rationing the demand. [22] focused on this phenomenon.

In the model developed by the authors, the balance interest rate is the one that maximizes the bank's profit. At this level of the interest rate, not all credit demands will be satisfied. Hence, balance through rationing will occur. On the credit market, a balance without rationing can be obtained by acting

on the interest rate: its increase would determine certain companies to not resort to loans, and then rationing would end up not depending on the quality of the enterprise. Or, the authors show that the bank has no interest to act as such: in fact, if the increase of the debtor rate allows an adjustment between supply and demand, those who borrow can answer to the debtor rate increase by increasing the risk of the projects undertaken. The lender will thus be exposed to a reduction of anticipated outturn. As a consequence, it will preserve the rate unchanged. An identical reasoning applied in case of guarantees requested by debtors leads to similar conclusions. Therefore, credit rationing is performed without considering the risk presented by the enterprise, determining the agents to not be able to borrow at the given rate, even if others, presenting the same characteristics, have access to bank credits.

Or, it has been proven that credit rationing reaches the riskier enterprises and, especially, the small and medium enterprises [17]. In order to be able to justify the exclusion from the market of the small and medium enterprises, [17] relies on a second form of rationing, highlighted by [22], which results from “theorem” 6, presented in their article. According to [22], if we divide the population of potential borrowers into several groups, characterized by different risk levels, it is very possible to notice that one or several groups of identical individuals are excluded from the market. In their model, the average expected profitability of the bank is not a monotonous function of the interest rate: market balance can be characterized through several rates. If we consider three groups of identical individuals, then the bank will charge optimum rates  $r_1$ ,  $r_2$  and  $r_3$ . To these rates correspond profitabilities expected by the bank, noted  $R_1$ ,  $R_2$  and  $R_3$ , which are, themselves, equal to the bank’s refinancing rate. The authors show that if the three groups of individuals obtain the credit, then we must have equality between the expected profitabilities  $R_1$ ,  $R_2$  and  $R_3$ . When the bank’s refinancing rate increases, one or more groups of homogenous individuals will not be able to obtain the credit, if the profitability expected by the bank is inferior to the cost of the borrowed funds, and that regardless of the rate magnitude. As a consequence, the bank will exclude the riskier group (groups).

The authors show that when the groups of borrowers presenting different risk profiles obtain credit from the bank, the increase of the

bank’s refinancing rate will lead it to the exclusion with priority of the riskier group or groups. This is the case of the small and medium enterprises, which present a far greater bankruptcy risk than the large enterprises [17].

On the basis of a study of the Bank of France, executed in 1998, [16] confirms the existence of a discrimination of the interest rate depending on the size of the loan (correlated with the enterprise size), but with weak dispersion inside each class identified according to the amount borrowed (credit size varies between 15,240 and one million and a half Euros). As a consequence, the interest rate varies slightly depending on the credit risk presented by the borrower, factor dependant on its financial structure, its activity sector and its availabilities. If this is the case, the un-risky enterprises and, nevertheless, incapable of bearing a high debtor rate, will have to give up their investments, which, in fact, according to the author, is a form of rationing.

Still, credit rationing can be eliminated if the bank is capable to distinguish between the two groups of borrowers (risky and less risky): the size of the loan is a pertinent signal for the lender to distinguish correctly the high performance enterprises from those in difficulties ([12], [14]).

The bank can suggest the so-called “separate” contracts, based on a debtor rate and a certain level of the guarantees ([3], [2]). The riskier enterprises will accept to bear a higher interest rate, but will register only weak guarantees, due to their risk of loss in case of bankruptcy. On the contrary, the less risky enterprises will accept strong guarantees, in exchange for lower interest rates ([3], [2]).

The existence of a privileged relation between the enterprise and the bank may still diminish the “undifferentiated” rationing, sometimes derived from the examination of far too general criteria. The financial relation unfolding throughout a long period of time may allow the reduction of the informational asymmetry, by gradually obtaining information regarding the enterprise. Credit rationing, therefore, will refer especially to the more doubtful borrowers. [4] shows that the advantages of the existence of a new privileged relationship occur especially at the level of the credit availability and at the level

of the guarantees requested (which are less constraining). The impact on the credit cost remains contested: [18] and [20] highlight a “hold –up” phenomenon that operates to the bank’s profit. According to the authors, the bank, via the privileged relationships established, has private information on the enterprises, information inaccessible to other banks. If the enterprise chooses to change its financial partner, this can be interpreted by the other banks as a sign of the enterprise being abandoned by its current financial partner. Therefore, the bank has a certain market power over the enterprise, and that allows it to appropriate a more important part of the income created by the enterprise, by practicing a higher interest rate than the one that could be obtained from other banks.

As a consequence, it seems that the risk of credit rationing reaches the riskier enterprises. Under these conditions, the enterprises will see themselves refused by the funds givers and will return to alternative financing sources. In the following section, we will consider that an alternative to bank credit rationing is represented by leasing. The central pillar of this alternative is represented by the rights the lessors have in case of bankruptcy of the user company and the costs of the bankruptcy incurred by them (the lessors).

All printed material, including text, illustrations, and charts, must be kept within the paper margins as presented in this example. Please do not write or print outside of the column parameters. All body text is set in two columns.

### **3. Credit Rationing and Worsening of the Financial Situation: Resorting to Guaranteed Financing**

In this section, we shall show that credit rationing will force the resorting to leasing. In fact, the unavailability of the bank credit, whose origin can be the excess of indebteding or an asymmetry of information regarding the risk of the projects and development perspectives of enterprises, will lead the company to accept the granting of real guarantees or to prefer the financing, more costly, through leasing. The lessor, thus in a situation of monopoly, can impose a higher debtor rate, accepted by the enterprise as a result of the fact that the project is profitable and it has no alternative financing source.

#### ***3.1. Resorting to Financing That Gives Priority Rights to Their Givers***

The risks to which the capital givers expose themselves allow the justification of the connection existing between the bankruptcy probability of the enterprise and the nature of the external financing mobilized. According to the trade-off theory, when making financing decisions, enterprises must perform an arbitrage between the fiscal earnings related to indebteding and the anticipated costs of bankruptcy. The companies incurring important bankruptcy costs will use fewer debts.

The risky enterprises must register important guarantees. The acceptance of high guarantees allows the debtor to signal the quality of the project undertaken [3].

In particular, the guarantee allows the reduction of the dilution rights of the creditors in case of bankruptcy, because the contract allows for an ex-ante separation of the rights over the enterprise’s assets. [5] show that different creditors of the enterprise do not react the same way upon notification of bankruptcy and notes that there is no negative reaction from the secured creditors. The authors explain this result through the fact that the priority of their rights is only rarely breached in case of enterprise bankruptcy. [24]

The secured creditors have not only the right over the asset object of the guarantee, but also a right over the other assets of the enterprise, in case the size of the guarantee is insufficient for the full recovery of the outstanding capital owed. The value of the secured debt increases, for its holders, when the bankruptcy probability is high and, as a consequence, it leads to a diminishing of the value of the unsecured debts. [23]

Under these conditions, the cost of the secured debt will be smaller than the cost of the unsecured debt. We notice the fact that the protection granted to the secured creditors brings forth a reduction of the cost of the secured debt, compensated through the increase of the debtor rate claimed by the unsecured creditors, such as the cost of the total debt remains unchanged. Still, if the creditor does not reply in case of loss of legal protection over its liability, then the enterprises can perform a wealth transfer

from the secured creditors to the unsecured ones.

As a consequence, the secured debt will be a form of financing mobilized by the enterprises having high indebtedness rates or presenting a more important bankruptcy risk. The securing of debts is thus justified through the magnitude of the risk undertaken by the capital givers, factor that depends on the age, size of the enterprise and, at the same time, the size and maturity of the contract.

[11] confirm the existence of a negative and significant relation between the enterprise's bankruptcy probability (measured through age) and the probability that the loan would be granted. Therefore, the size of the enterprise influences the manner of financing adopted: since a small enterprise has more chances of being wound-up than a large enterprise, then it should preponderantly resort to secured debts ([11]; [1]). Also, the longer the contract maturity, the higher the probability that the loan would be secured.

For [21], leasing has the same properties as the secured debt. As a consequence, we can expect that the factors influencing the securing of debts (size, age and bankruptcy risk) would also be at the origin of more important resorting to leasing. Only [20] highlighted negative and significant relation between the enterprise's size and the weight of leasing. However, the authors note that the financing policy is explained, mainly, through self-financing insufficiency.

Generalizing, enterprises that pose a higher risk of bankruptcy bear serious constraint on external financing. In this case, credit rationing forces them to self-finance. In fact, they will reduce the size of the dividends distributed and will cover their financing needs through leasing. The lessor, benefiting from an efficient guarantee in case of bankruptcy, will accept more easily to finance these enterprises. Under these conditions, resorting to leasing is directly proportional to the enterprise's bankruptcy probability. According to [9], the enterprises are forced to perform an arbitrage between the secured debt and leasing on the basis of the implicit costs of the two forms of financing and of their availability, availability that depends on the risk incurred by the offer-givers. We shall analyze this argument under the following point.

### ***3.2. Costs of Bankruptcy and the Situation of Creditors: A Ratio in Favour of Leasing***

[7] illustrates the existence of a positive relation between the use of the debt secured through mortgage and the weight of leasing within the enterprise. Hence, the enterprises using leasing resort to the same extent to the secured debt. Then what is the foundation of the enterprises' preference for one or the other of the financing forms?

The tendency of enterprises to resort to leasing or to the secured debt differ depending on the importance of the contract negotiation costs, the costs related to the loss of financial mobility and the acceptance criteria imposed by the offer-givers. For [9], the financing of the contract negotiation through secured debt brings forth lower trading costs than in case of negotiating leasing contracts. In case of leasing, the acceptance of financing is based on the nature and quality of the asset financed, which leads to the need of the lessor to evaluate it, as well as on the money value of the asset throughout the entire leasing contract term. Also, the lessor and the lessee must define an acceptable residual value. In case of a secured financing, the offer-giver's exigency refers solely to the efficiency of the guarantee. This imposes the condition of maintaining the money value of the asset pledged as security.

Also, since the enterprise chooses leasing, it must consider the costs related to the loss of the financial mobility. It is committed for an irrevocable period, during which the contract cannot be terminated without incurring quite large penalties. In case of financing through secured debt, the re-sale of the asset is accepted by the secured creditor if it benefits of a new guarantee, equivalent to the previous one.

There is, according to [9], an arbitrage based on the trading costs brought forth by the conclusion of the financing contract (leasing or secured debt) and on the explicit cost of the financing source, which is linked to the magnitude of the bankruptcy costs incurred by the offer-givers. In particular, financing through leasing brings forth for the lessor weaker bankruptcy costs than for the secured bank creditors. This is explained through the fact that the lessor is the owner of



the asset: he takes possession of the asset more easily and quickly, and with minimal legal costs. However, for the secured creditor the procedure is lengthier. Thus, the lessor avoids the slowness of the bankruptcy procedure and can achieve the quicker re-sale of the asset on a secondary market.

[10] show in their study, performed on 137 leasing operations, that the re-sale value of the asset represents, on the average, 37.8% of its purchase price. Related to the amount of the outstanding leasing installments owed (estimated at 59% of the asset's purchase value), the part recovered by the lessor represents 64% of the value of the financing granted. The authors also show that, on the average, a period of 12 months elapses between the moment of starting the bankruptcy procedure of the user company and the moment when the lessor recovers its liability in the form of re-selling the asset, this interval varying between one and 44 months. These elements demonstrate the lower level of the costs imposed on the lessors, compared to the bank creditors; this determined them to increase their offer, especially when the enterprise becomes risky.

According to [9], when the bankruptcy risk of the enterprise is low, the arbitrage is performed on the basis of the transaction costs: the secured debts will be, in this case, preferred to leasing. When the bankruptcy risk increases, leasing becomes the only available financing source for the enterprises subjected to bank credit rationing and which present a high bankruptcy risk. The unavailability of the bank credit thus constrains the enterprise either to give up its investment projects, or to privilege a very expensive financing source. The higher expenses associated to leasing find their origin in the higher trading costs, in the cost related to the loss of financial mobility and in a higher risk premium. The lessor's strength on the market may determine him to increase the debtor rate charged. In fact, [20] analyzes the effects of having information on the setting of the credit price. The existence of privileged relations between the bank and the enterprise leads to the diminishing of the asymmetry of information between borrower and lender, but can also give the bank certain strength on the market, which it will exercise on the enterprise in the form of a cost of credit higher than the one that would ensure competitive balance. To the same extent, the lessor, in the situation of single lender, can

benefit from its power on the market to over-rate the operation.

We notice that in the study of [9] and of [6], the evaluation of the company's probability of bankruptcy is performed on the basis of computing Altman's Z score. Altman relies on computing a score based on 5 indicators: "Working Capital/Total Assets", "Retained Earnings/Total Assets", "Earnings Before Interest and Taxes/Total Assets", "Market Value of Equity/Book Value of Total Liabilities" and "Net Sales/Total Assets" [13]. The limit threshold is of 2.657. As long as the computed score is higher than this threshold, the enterprise is considered little risky.

[8] exclude from the computation of the Z score the ratio between the market value of equity and the book value of the liabilities. Truly, according to these authors, as the enterprise approaches bankruptcy, the market value of its own capital will diminish; this will favour an increase of the indebtedting lever. Thus, for evaluating the connection between the probability of bankruptcy, the indebtedting degree and the weight of leasing, authors use a score that does not integrate this indicator, but introduce in their analysis a dichotomic variable equal to 1 if the book value of the own capitals is negative. No significant relation has been determined between the value of the modified Z score, the deterioration of own capitals of the enterprise and the weight of leasing and the ex-ante bankruptcy costs.

#### 4. Conclusions

The analysis of the specialty works confirms the resorting to leasing as the banking indebtedting becomes unavailable or too expensive. If the intensity of credit rationing leads to a gradual resorting to leasing, is it necessary to say that the specialty literature does not explain the causes related to credit rationing for enterprises. Does it have its origin in an excessive indebtedting or in a strong asymmetry of information over the quality of the borrower? Under these conditions, leasing will be privileged by the enterprises for which the creditors refused to commit more, or by the enterprises which do not have access to bank credit: this is the case, for

example, of the young enterprises or of the ones in formation.

## 5. References

- [1] Barklay, M. J. and C. W. Smith (1995), "The priority structure of corporate liabilities", *Journal of Finance*, vol. 50, no. 3, pp. 899-917
- [2] Besanko, D. and A. Thakor (1987), "Collateral and rationing: sorting equilibria in monopolistic and competitive credit markets", *International Economic Review*, vol. 28, pp. 1507-1522
- [3] Bester, H. (1985), "Screening versus rationing in credit markets with imperfect information", *American Economic Review*, vol. 75, pp. 850-855
- [4] Cole, R. A. (1998), "The importance of relationships to the availability of credit", *Journal of Banking and Finance*, vol. 22, no. 6-8, pp. 959-977
- [5] Datta, S. and M. E. Iskandar-Datta (1995), "The information content of bankruptcy filing on security holders of the bankrupt firm: an empirical investigation", *Journal of Banking and Finance*, vol. 19, no. 5, pp. 903-919
- [6] DeBodt, E., E. F. Henrion, A. Quintart and C. Van Wymeersch (1996), "La justification économique du leasing financier: une étude empirique du marché belge", in the collective work entitled "Le leasing financier: aspects juridiques et économiques", Bruxelles, pp. 17-52
- [7] Finucane, T. J. (1988), "Some empirical evidence on the use of financial leasing", *Journal of Financial Research*, vol. 11, no. 3, pp. 321-333
- [8] Graham, J. R., M. L. Lemmon, and J. S. Schallheim (1998), "Debt, leases, taxes and the endogeneity of corporate tax status", *Journal of Finance*, vol. 53, no. 1, pp. 131-162
- [9] Krishnan, V. and R. Moyer (1994), "Bankruptcy costs and the financial leasing decision", *Financial Management*, vol. 23, no. 2, pp. 31-42
- [10] Lease, R. C., J. J. McConnell and J. S. Schallheim (1990), "Realized returns and default and prepayment experience of financial leasing contracts", *Financial Management*, vol. 19, pp. 11-20
- [11] Leeth, J. D. and J. A. Scott (1989), "The incidence of secured debt: evidence from the small business community", *Journal of Financial Quantitative Analysis*, vol. 24, no. 3, pp. 379-394
- [12] Leland, H. E. and D. H. Pyle (1977), "Informational asymmetries, financial structure, and financial intermediation", *Journal of Finance*, vol. 32, no. 2, pp. 371-387
- [13] Levasseur, M. and A. Quintart (1997), "Finance", Ed. Economica, Paris
- [14] Milde, H. and J. G. Riley (1988), "Signaling in credit markets", *The Quarterly Journal of Economics*, vol. 103, no. 1, pp. 101-129
- [15] Miller, M. H. and C. W. Upton (1976), "Leasing, buying and the cost of capital services", *Journal of Finance*, vol. 31, no. 3, pp. 761-786
- [16] Nakamura, J. L. (1999), "La relation banque - PME", *Revue d'Economie Financière*, no. 54, pp. 39-58
- [17] Psillaki, M. (1995), "Rationnement du crédit et PME: une tentative de mise en relation", *Revue Internationale PME*, vol. 8, no. 3-4, pp. 67-90.
- [18] Rajan, R. G. (1992), "Insiders and outsiders: the choice between informed and arm's length debt", *Journal of Finance*, vol. 47, no. 4, pp. 1367-1400
- [19] Sharpe, S. and H. Nguyen (1995), "Capital market imperfections and the incentive to lease", *Journal of Financial Economics*, vol. 39, no. 2-3, pp. 271-294
- [20] Sharpe, S. A. (1990), "Asymmetric information, bank lending and implicit contracts: a stylized model of customer relationships", *Journal of Finance*, vol. 45, no. 4, pp. 1069-1087
- [21] Smith, C. W. and L. M. Wakeman (1985), "Determinants of corporate leasing policy", *Journal of Finance*, vol. 40, no. 3, pp. 895-908
- [22] Stiglitz, J. and A. Weiss (1981), "Credit rationing in markets with imperfect information", *American Economic Review*, vol. 71, no. 3, pp. 393-410

# From Financial Tradition to Innovation in Contemporary Banking

Silvia Ghita Mitrescu  
Cristina Duhnea  
Oana Nitu  
Ovidius University of Constanta  
[Cristinaduhnea@univ-ovidius.ro](mailto:Cristinaduhnea@univ-ovidius.ro)  
Silvi  
[oana.orpisan@yahoo.com](mailto:oana.orpisan@yahoo.com)

## Abstract

The financial crisis that affected the world market in late 2007 and determinate the failure of some prestigious banks and an unprecedented collapse of the stock market indices had multiple causes and lead to the transformation of the global financial market. To determine the causes that have pushed the commercial banks to accept risks becoming higher and higher involving derivative transactions, will examine what changes occurred in the recent decades in the structure of international financial markets, especially in the banking activities typology.

**Key words:** financial crisis, commercial banks, derivatives

**JEL classification:** G21, G24, G01

## 1. Introduction

Many financial analysts consider that the main responsible for triggering the crisis are the commercial banks and their engagement in the derivatives transactions.

The causes of the global financial crisis can be considered to be of historical, institutional and technological nature. From a historical point of view, most European countries except Great Britain, Denmark and the Netherlands did not follow the U.S. model of deregulation of the banking sector started in the '80s, continuing to separate the real estate sector of the stock market and maintaining all banking activities under one strict regulation.

That way of regulating the financial system legislation did not allow commercial banks to engage excessively in the stock market transactions with the underlying mortgage instruments. European markets closest to the U.S. are structurally Denmark and the Netherlands. At the opposite end are Austria, France and Germany, countries that maintain a strict regulation of the banking system.

The origins of the subprime mortgage crisis are multiple and can be found both in banking and real estate sectors. These causes include borrowers unable to pay mortgage rates, riskier lending decisions of the banks, increasing indebtedness of corporations and individuals, and the central bank regulations and policies, the financial innovation, , including derivatives playing a critical role as well.

## 2. Recent evolution in the contemporary banking systems

The changes in contemporary economic environment drove the reorientation of the banking system towards activities outside its traditional domain. The purpose for this mutation by the commercial banks was and remains finding ways to maintain profitability while avoiding destabilising the banking system.

The banks' classic economic role can be summarized using the notions of economic agents in search of financing and agents in possession of funds looking for efficient investments.

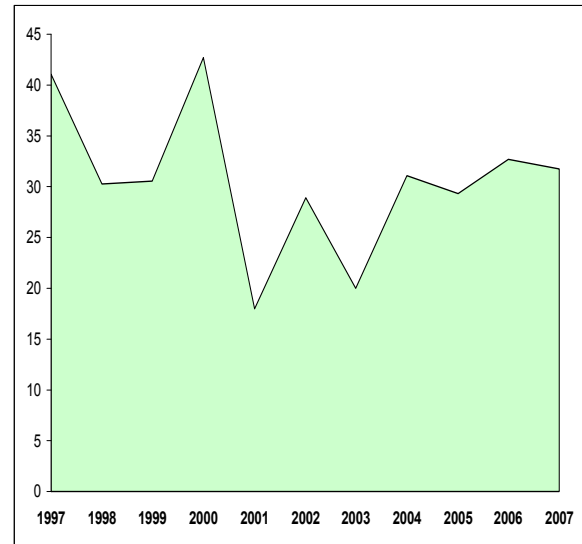
The two categories of agents, lenders and borrowers, can interact either in a direct financing circuit – for bilateral transactions, or through indirect financing – where a broker is interposed between them. This broker role is classically assumed by commercial banks. They possess the required mechanisms to transform the characteristics of financial agents' debt and credit, thus assuring compatibility between their demand and offer for financing. Consequently, banks can provide long term financing based on short-term resources, or can give out variable interest rate loans based on fixed rate resources.

A commercial bank's traditional economic functions, sub served to their role as a broker, can be fitted into four large types of operations<sup>1</sup>:

- deposit collections;
- credit loans;
- inter-bank operations;
- payment means management.

In the last decades credit loans to non-financial entities was no longer the banking sector's exclusive domain. This can be attributed to the general economic environment, to relatively high real interest rates, but also to the development of alternative financing solutions.

In the ten years, the loans by U.S.A. commercial banks to the non-financial sector diminished from 41.12% in 1997 to 19.96% in 2003, afterwards increasing to 31.72% in 2007, the year when the mortgage loan crisis begun. (Fig 2.1)



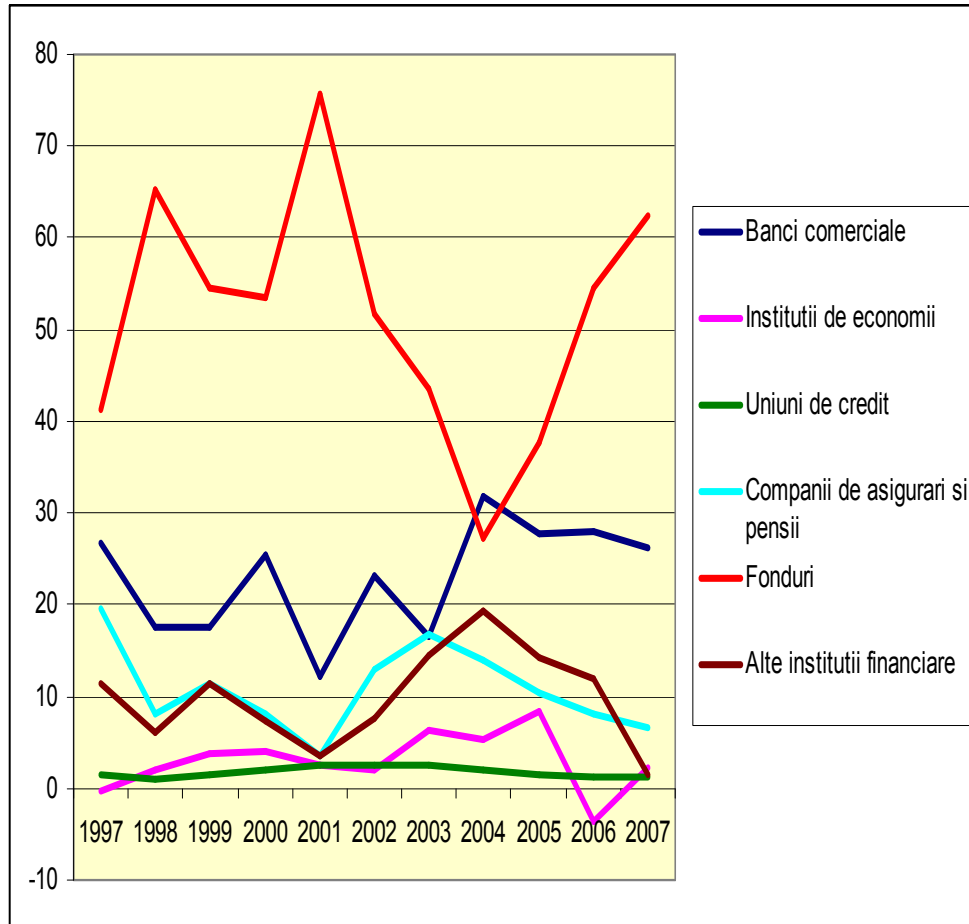
*Figure 1 Percentage of loans given out by American commercial banks to the non-financial sectors<sup>2</sup>*

In the same timeframe, savings institutions, credit unions, insurance companies and pension funds underwent similar evolutions, as their given out credits' fraction of the total financial sector credits diminished. In turn, there was an increase in loans granted by investment funds, including monetary funds, mutual funds, mortgage funds and ABS issuers. The evolution of loans granted by each of these financial institution types relative to the total financial sector credit volume during 1997-2007 is represented in the figure below:

<sup>1</sup> Nicolae Dardac, Teodora Barbu – Monedă, bănci și politici monetare, EDP București, 2005, pag. 192

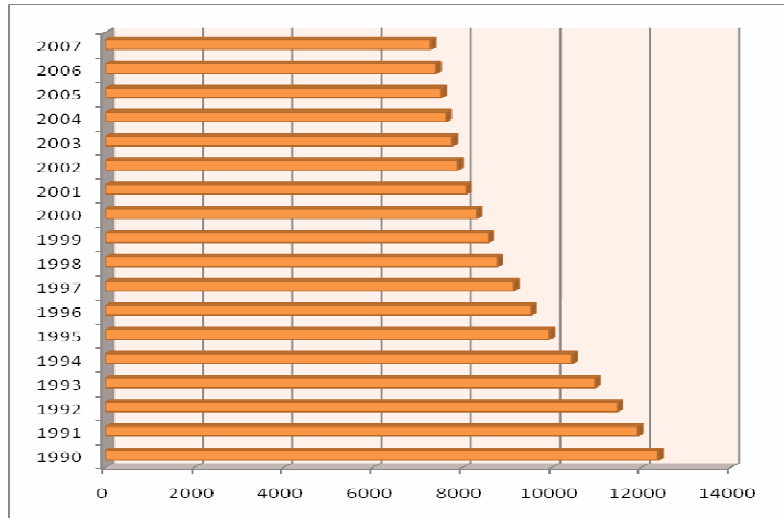
<sup>2</sup> Source: Federal Reserve Flow of Funds Accounts 1997-2007

Figure 2. The evolution of loans granted by financial institutions as percentage of total financial sector funding sources<sup>3</sup>



<sup>3</sup> Source: Federal Reserve Flow of Funds Accounts 1997-2007

Figure 3. The number of commercial banks in the United States 1990-2007



Due to this economic context, the profitability of the American banking system decreased, as banks lost their competitive advantage in attracting funds and granting loans.

Facing reduced profits, American banks began giving out increasingly riskier credit, using derivatives as risk mitigation instruments. Furthermore, they engaged in non-specific activities, amplifying the disintermediation phenomenon. Among these activities outside the traditional banking role is derivatives trading, whether as buyers or dealers. This further amplified the risks assumed by the banking system.

The same tendencies manifested themselves in other developed countries. Disintermediation occurred mostly in countries

with financial systems based on the capital market, such as the USA and Great Britain, while countries whose financial markets consisted preponderantly of banking recorded lower growth rates for non-traditional banking activities. The reason for this is that capital-based financial systems offer more alternatives to financing through bank loans, thus increasing competition and reducing bank profits from traditional activities.

The financial markets globalization gave companies access to the international capital markets, and consequently even banking systems in countries with less developed capital markets were not spared from diminished profitability. One such case is Australia's, which although not possessing a developed capital market, recorded banking losses as companies accessed the international capital markets.

Confronted by reduced market shares both in attracting deposits and loan granting, with implicitly lower profitability and menaced by looming bankruptcy, banks chose to either give out riskier credit (or to new credit markets) or extend their activities to the capital market.

Banks which failed to adapt to the new market conditions took losses, and the number of bank bankruptcies in the recent years is on the rise. Also, there were more bank mergers and acquisitions. Figure 2.3 shows the number of active banks in the United States between 1990 and 2007, according to the Federal Deposit Insurance Corporation<sup>4</sup>.

One of the most important tendencies in contemporary banking, with effects throughout the world economy, is in our opinion the unprecedented propagation of mortgage loans. Considered one of the most risky credit types, due its long duration and uncertainty about the lender's payments, mortgage loans grew significantly in the United States between 1960 and 2006, to more than 15% of total banking assets. Concurrently, bank involvement in non-traditional activities increased, as the fraction of non-interest related income rose to 20% in the same period. The same tendency towards higher risks assumed by the banks, leading to losses and bankruptcies in banking, also manifested in other countries. Banks in Norway, Sweden and Finland gave out larger real estate credits, encouraging growth in the real estate sector. This growth was followed by a slump in the market, leading to losses for the large credit institutions bigger than those of American banks, when measured against the GDP.

French and British banks also suffered from the real estate market collapse, recording higher credit provisions and even bankruptcy for large bank financed real estate projects – York and Olympia.

Nor were the banks in protectionist financial systems, such as the German and Swiss ones, sheltered from problems caused by involvement on the mortgage loan market. In Germany, the BfG Bank suffered losses of over 1 billion Deutsch Marks in 1992, and regional banks in Switzerland went bankrupt.

In the case of Japanese banks, the real estate market crash led to bankruptcy for banks such as Banking Company and Sumitomo Trust. According to official data 21 of the largest Japanese banks owned over 136 billion dollars in underperforming loans, for which no payment had been made for at least 6 months.

The banks' credit portfolios depreciation, due to doubtful loan grants, is real and applies to worldwide banking activities.

These were the main factors leading to this phenomenon:

- the banks lost their role as main financial brokers, due to new opportunities of financing and investment;
- deposits importance as banking financing sources decreased, following financial disintermediation and the emergence of the capital market as an investment alternative;
- the simultaneous loss of bank loan profitability and increase in credit risk.

Following these evolutions, traditional activities profitability decreased, and there was a rise in the share of non-interest revenue in total banking turnover.

Banks confronted with this phenomenon had two options to maintain their previous profitability level, as they either:

- gave out much riskier credit, especially mortgage loans,

Or

- turned towards other areas of the financial market, such as trading on the capital market or derivatives activities. For example, the American banks' derivatives trading grew from \$8 trillion in 1992 to \$91.1 trillion in 2005. Additionally, a concentration of these activities occurred in the same period, as the top five banks (JP Morgan Chase, Bank of America, Citibank National, Wachovia Bank National, HSBC Bank USA National) owned in 2005 95.5% of all bank traded derivatives contracts.

<sup>4</sup> The data refers to the banks insured through FDIC. Source: [www.fdic.gov](http://www.fdic.gov)

### 3. Conclusions

The period preceding the housing bubble burst and the onset of the U.S. subprime mortgage crisis was marked by changes in the activity of commercial banks.

Faced with the diminishing profitability due to gradual loss leading role of the credit market comparing with the investment funds, commercial banks were forced to move to new areas of the financial markets or to show a lower degree of prudence in the lending activities.

Thus, the role of banks in the capital market increased, both as intermediaries and partners in the derivative transactions.

In our opinion the development of these new activities by commercial banks, and in particular the use of derivatives can be considered only good for the development of financial markets and world economy. The main challenge for the banks is to find a line of balance between coverage of risks through derivatives and other risk-taking resulting from speculative activities with such derivatives.

### 4. Bibliography

1. Nicolae Dardac, Teodora Barbu, Monedă, bănci și politici monetare, Editura Didactică și Pedagogică, București, 2005
2. Maria Soledad Martinez Peria, Ashoka Mody – How Foreign Participation and Market Concentration Impact Bank Spreads, World Bank Policy Research Working Paper 3210, 2004, [www.worldbank.org](http://www.worldbank.org);
3. Vasile Turluc, Vasile Cocriș, Angela Boariu, Ovidiu Stoica, Valeriu Dornescu, Dan Chirleşan – Monedă și Credit, Editura Economică, București, 2005
4. Ovidiu Stoica – Integrare financiar-monetară europeană, Editura Junimea, Iași, 2003



## Economic Crises Deepen Country Budget Deficits and Deficits Deepen Economic Crises

Göndör Mihaela

*Petru Maior University, Târgu Mureş*

[mihaela.gondor@ea.upm.ro](mailto:mihaela.gondor@ea.upm.ro)

Munteanu Anca

*Petru Maior University, Târgu Mureş*

[anca.munteanu@ea.upm.ro](mailto:anca.munteanu@ea.upm.ro)

### Abstract

*In this paper we wish to point out that some measures taken by the government to reduce budget deficits in times of economic crisis have the opposite effect, i.e. widening budget deficit. In Romania's case the measures are focused on increased taxation and reducing public spending instead of stimulating business environment in order to increase GDP. Most time even this increase in taxation and these spending reductions generates revenues reductions, thus deepen the deficit.*

**Key words:** budget deficits, economic crisis, increased taxation, spending reductions.

**JEL Classification:** G01, E32.

### 1. Introduction

Fiscal policy has, in the wake of the recent financial crisis, become the center of attention in macroeconomics. Given the perceived urgency of preventing a very deep recession, the initial attention was almost exclusively focused on the pros and cons of fiscal stimulus measures, but some attention is now shifting to the need for longer run sustainability.

Budget deficits are inevitable and appropriate during an economic downturn, but maintaining a balanced budget in the long run is desirable in order to avoid unsustainable debt dynamics for the next generation.

Large and sustained deficits pose an economic and political challenge. A big deficit can reduce national savings and domestic investment, lower future incomes, and lead to

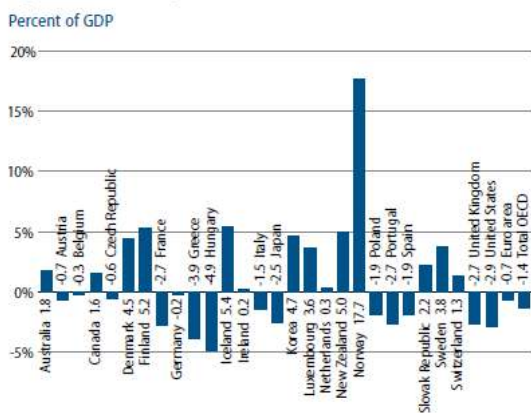
high interest rates and inflation that are damaging to the economy and residents. It can also affect exchange rates. The threat of these developments in large economies can also precipitate a financial crisis as trading partners, investors, and consumers take actions to minimize their risks that collectively freeze the system. The large levels of debt begat by deficits mean that a country has less flexibility in time of crisis. High debt levels also mean large debt-servicing costs, which limit a government's ability to make needed investments.

Significant deficits are also a political problem because balancing big budget deficits generally entails unpopular spending cuts and tax increases.

### 2. Country budget deficits before the current economic crisis

Nine OECD countries regularly ran surpluses in their general government financial balance during the decade preceding the current global economic crisis (2004-2007): Australia, Canada, Denmark, Finland, Ireland, South Korea, Luxembourg, New Zealand, and Norway [1]. Fourteen out of 28 OECD countries had a fiscal surplus in 2007: Australia, Canada, Denmark, Finland, Iceland, Ireland, South Korea, Luxembourg, Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland (Figure 1). The amount of the surplus ranged from 0.2 percent of nominal gross domestic product in Ireland to 17.7 percent of nominal GDP in Norway.

Figure 1: General government financial balances (2007)



source: OECD Economic Outlook 85 database

The Maastricht Treaty establishing the European Community stipulates that budget deficits should not exceed 3 percent of GDP with an escape clause suggesting that the deficit can be higher under exceptional and temporary circumstances, but should still stay close to the reference value. Greece and Hungary were the only European Union member states in 2007 that ran deficits larger than the 3 percent reference value; their deficits were 3.6 and 4.9 percent of nominal GDP respectively [2].

In 2007, Romania recorded a government budget deficit of 2.5 percent of gross domestic product in international terms, as we show in Table 1. During 2004-2008 period, negative budget balances of important dimensions were especially encountered in France, Greece, Germany, Italy and Great Britain, many times leading to the triggering of excessive budget deficits procedures, provided by the Stability and Growth Pact (Table 1).

Table 1 The budget deficit of European Union's Member States during the period 2004-2008 (in % of GDP)

	2004	2005	2006	2007	2008
AT	-4,4	-1,6	-1,6	-0,5	-0,4
BE	-0,2	-2,7	0,3	-0,2	-1,2
DK	2,0	5,2	5,2	4,5	3,4
FI	2,4	2,8	4,0	5,2	4,5
FR	-3,6	-2,9	-2,3	-2,7	-3,4
DE	-3,8	-3,3	-1,6	0,2	0,0
EL	-7,5	-5,2	-2,9	-3,7	-7,7
GB	-3,4	-3,4	-2,7	-2,7	-5,5
IE	1,4	1,7	3,0	0,3	-7,2
IT	-3,5	-4,3	-3,3	-1,5	-2,7
LU	-1,1	0,0	1,3	3,7	2,5
NL	-1,7	-0,3	0,5	0,2	0,7
PT	-3,4	-6,1	-3,9	-2,6	-2,7
ES	-0,3	1,0	2,0	1,9	-4,1
SE	0,8	2,3	2,5	3,8	2,5
CZ	-3,0	-3,6	-2,6	-0,6	-1,5
CY	-4,1	-2,4	-1,2	3,4	0,9
EE	1,6	1,6	2,3	2,6	-2,7
HU	-6,4	-7,9	-9,3	-5,0	-3,8
LT	-1,5	-0,5	-0,4	-1,0	-3,2
LV	-1,0	-0,4	-0,5	-0,3	-4,1
MT	-4,7	-2,9	-2,6	-2,2	-4,7
PL	-5,7	-4,3	-3,9	-1,9	-3,9
SK	-2,4	-2,8	-3,5	-1,9	-2,3
SI	-2,2	-1,4	-1,3	0,0	-1,8
BG	1,6	1,9	3,0	0,1	1,8
RO	-1,2	-1,2	-2,2	-2,5	-5,5
EU	-2,3	-2,4	-1,4	-0,8	-2,3

Source: [2], [3], [4]

## 2.1 The case of Romania

As we can notice from the data presented in Table 1, during almost the entire period analyzed, the consolidated general budget deficit of Romania was much smaller than the deficits registered in the countries found in the same economic and political situation, such as Slovakia, Hungary or Poland. In some of them, the budget deficit approached or even exceeded 10% of the GDP (the case of Slovakia in 2000). Even after the accession of Hungary, Slovakia and Poland to the European Union, the deficits registered in these three states were much deeper than the limit stipulated through the Maastricht Treaty, of 3% of the GDP. On the contrary, Romania complied with this nominal convergence criterion after 2002 although, under the conditions of the current financial crisis, this limit will be exceeded (Table 2).

Table 2 The budget deficit of Romania during the period 2000-2009 (in % of GDP)

2000	2001	2002	2003	2004
-4,4	-3,5	-2,0	-1,5	-1,2

2005	2006	2007	2008	2009
-1,2	-2,2	-2,5	-5,5	-7,2

Source: [2], [3], [4]

Analyzing the evolution of the budget deficit in other countries of the European Union as well during the period 2004-2008, we can ascertain that there were many cases when the budget deficits were substantial. Negative budget balances of important dimensions were especially encountered in France, Greece, Germany, Italy and Great Britain, many times leading to the triggering of excessive budget deficits procedures, provided by the Stability and Growth Pact. Taking into consideration all these aspects, the evolution of the budget deficit of Romania during the period 2000-2008 can be appreciated as being a normal evolution through the events that our country has experimented and through the similar previous cases seen at the international level.

Nevertheless, the objective of adopting euro as a national currency imposes the

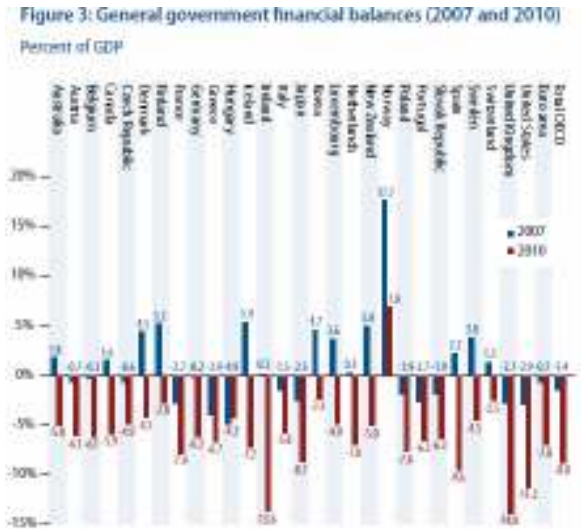
intensification of the efforts to maintain the budget deficit at a low level, including from the perspective of maintaining under control the inflation, as a distinctive criterion of nominal convergence. In this manner, the public debt can be maintained at a sustainable level as well.

As we can notice from the data presented in Table 2, abruptly in 2008 the consolidated general budget deficit of Romania became deeper, much deeper than the limit stipulated through the Maastricht Treaty, of 3% of the GDP, in 2009 reaching the alarming level of 7,2%. What causes this negative evolution? Economic crisis? Government policy to reduce the effects of the crisis? We intend to answer these questions in the following sections.

## 3. Budget deficits in current crisis time

Deficits in one country at a time of economic crisis—and in an era of increased global interconnectedness—have ripple effects in others, making fiscal choices a matter of more than domestic concern. This has been seen during the recent crisis. The economic and financial collapse created massive wealth loss and severe employment declines, which caused consumers to retrench, businesses to cut investments, and the downward spiral of a global recession to take hold.

Countries addressed these challenges by allowing their fiscal deficits to grow; they replaced private consumption with public consumption with the goals of creating jobs, restoring confidence, and jumpstarting economic growth. Such measures in any nation help to stimulate the other countries' economies as added consumption—both by government and that induced in the private sector—draws imports across borders. This linkage underpinned the push for coordinated fiscal stimulus packages in countries that could afford them. There was an active debate on whether countries were doing less than they could afford to do to boost the global economy or doing too much—risking destabilization through excessive deficits.



Source: [1]

### 3.1 What caused the deficit?

Budget deficits are inevitable and appropriate during an economic downturn, but trying to reduce the budget deficits thru intern measures, the government obtained the opposite: a deeper deficit.

In our opinion the following factors caused the deficit:

- The inadequate tax politics promoted by the competent authorities; the proliferation of tax evasion phenomenon, also because of the multiple exceptions and exemptions given by the state regarding the payment of some taxes and duties; the relative reduced rate of collecting the duties, taxes and contributions, especially at the level of the state enterprises.
- The taking over of the sums from the privatization of state capital companies by the budget, allowed, in the last 10 years to complete the tax incomes and, in such manner, to maintain the budget deficit at a lower level, in conditions of high public expenses level.
- The budget expenses were continuously bigger than the ordinary revenues, forcing the public authorities to loan money which means the rise of the expenditures.
- Tightening credit conditions for the private sector are exacerbated by high government financing needs, following an expansionary fiscal policy. Increasing strains on banks' liabilities have led to a sharp

deceleration of domestic credit growth, with serious consequences on economic growth.

- In order to benefit from the IMF resources, based on the principle of conditionality, the member states must elaborate and implement certain programs referring, among other things, to the budget deficit size. Such programs were implemented by Romania as well.

### 3.2 The lump-sum tax deepen budget deficit in Romania

The lump-sum tax introduced beginning with May 2009 led to an avalanche of companies which suspended operations or applied for dissolution or voluntary cessation. According to data provided by National Trade Register Office [5], the number of companies which suspended their activity rose almost 11 times in the first half of this year, compared to the corresponding period of 2008. In the first half of the year, the number of companies which suspended their activity skyrocketed, to 80,013 from 6,698 in January-June 2008, 112.893 compared to 9186 during January-September 2008. The growth is of 1128.97% [6]. However, this phenomenon is considered by businesspeople to be a positive consequence of the lump-sum tax [7]. The companies chose to suspend the activity instead of paying the lump-sum tax. Tightening taxation definitely leads to unemployment and unemployment leads to lower standard of living for population. Unemployment means not only that the state does not collect tax and contributions to special funds, but also increases the costs of granting state unemployment fund.

### 4. Which is the deficit solution?

The answer at this question should be simple: more stimuli to create demand in the economy.

Reducing unemployment is the key of reducing budget deficit. In this context, there is a key role for fiscal policy, notably to shore up investor confidence by presenting a credible medium term fiscal consolidation based on prudent macroeconomic projections.

A continuation of bank lending would also

be ensured, although at more a moderate pace, in order to allow the financing of productive investments, which will be crucial to rectify the external imbalances and to maintain employment. While the economic downturn in the Euro Area, representing 70% of Romania's exports [8], may significantly dampen export performance in the short run, it is expected that once demand by the Euro Area will pick-up, the trade channel will play a more prominent role in boosting growth. Until then, the reducing of the budget deficit must be based on internal measures, especially structural and fiscal ones, in order to reduce unemployment and to raise demand in economy. The Romanian economy needs a strong signal from fiscal policy. While many countries are coming up with stimulus packages to fight the crisis, in order to reduce budget deficits, tax reforms are an obvious element of fiscal incentives and are indeed expected to be effective at stimulating the economy.

However, convergence and stabilization needs could be satisfied by restructuring fiscal expenditure towards productive investment and speeding up the absorption of EU structural funds, while ensuring they target the right priorities. This would trigger a positive demand effect in the short run, while at the same time increasing Romania's future growth potential.

## 5. Conclusions

In this moment (2010), Romania's fiscal strategy, seems to be based not on incentives to business, but on the identification of measures for better financing the budget in order to keep the budget deficit at lower limits. CAS's growth by 3.3% since mars 2009, increasing ahead of time the excise duty on tobacco and spirits, introducing the **lump tax** and the growth of local taxes are attempts to collect as much, without regard to the needs of the business environment facing crisis. The reducing budget deficit measures in Romania are also focused on reducing public expenses, which many times generate reducing public revenues. Unfortunately most of the measures taken by government to reduce budget deficit leads only to reducing public revenues faster than reducing public expenses, which means nothing more than deepen budget deficit.

The success of reducing deficit measure is

based on the system capacity to develop the tax base, to stimulate the economy, to stimulate interest in investment, create an open business environment, friendly, stable. The budget revenue is a consequence! It grows the more businesses are flourishing.

Since budget revenue is proportional to GDP, the key factor in increasing revenue is to increase GDP.

## 6. References

- [1] Dewan, S., Ettliger, M., "Comparing public spending and priorities across OECD countries", OECD working paper, 2009.
- [2] Eurostat (2010), available at <http://epp.eurostat.ec.europa.eu/portal/page/portal/euroindicators/peeis>
- [3] European Commission, "Economic Forecast Autumn 2008", available at [http://ec.europa.eu/economy\\_finance/publications/publication13290\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication13290_en.pdf);
- [4] European Commission, "Interim Forecast January 2009", available at [http://ec.europa.eu/economy\\_finance/pdf/2009/interimforecastjanuary/interim\\_forecast\\_jan\\_2009\\_en.pdf](http://ec.europa.eu/economy_finance/pdf/2009/interimforecastjanuary/interim_forecast_jan_2009_en.pdf);
- [5] The National Trade Register Office (2009) [www.onrc.ro/romana/retea.php](http://www.onrc.ro/romana/retea.php)
- [6] The National Trade Register Office (2009) [www.onrc.ro/romana/retea.php](http://www.onrc.ro/romana/retea.php)
- [7] Romanian National Council for Small and Medium Sized Enterprises, "Lump Tax Resulted in RON 100 Million Loses to Budget and 56 000 Unemployed", 2009, available at: <http://www.ccibrp.ro/ro/article/411/Lump-Tax-Resulted-in-RON-100-Million-Loses-to-Budget-and-56-000-Unemployed.html>
- [8] Stefaan Pauwels, "Romania: unwinding imbalances – need for fiscal consolidation", 2009, available at [http://ec.europa.eu/economy\\_finance/publications/publication13729\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication13729_en.pdf)

## Overall Performance of the Company - Means of Evaluating It and Influential Factors

GUNI CLAUDIA NICOLETA

*Spiru Haret University*

*borsanclaudia@yahoo.com*

### Abstract

Even though it may seem easy to define and measure, the performance of a company constitutes a whole universe within which you may find various ideas and theories. Analyzed from the perspective of company management, performance represents the capacity of the company to reach its objectives. This is the reason for the multitude of facades of the company performance concept, the measuring indicators, whether financial or non-financial. As far as capital investors are concerned, a company's performance concretizes in the size of the obtained profitableness remunerating the capital that they invested in the business.

**Key words:** global performance, stock indicators, efficiency, financial indicators.

**JEL classification:**L25

### 1. Introduction

The performance simultaneously incorporates all the other economic concepts of efficiency, performance, growth, stability, the profitableness of an organization, reflecting the past results obtained, but also its future development possibilities. Of course this term has a different epistemological meaning in English than in the Romanian economic literature, according to which performance is only associated at a higher lever of a company group with better results. In the Romanian economic literature, only the best of the best companies are considered to be performant.

The Romanian correspondent for the Anglo-Saxon term "performance" is that of "economical overall efficiency", which tackles the classical concept of efficiency in an entirely new and complex manner, from a multi-criteria

perspective. From a pragmatic point of view, a model of economic efficiency is developed under the shape of a matrix which encompasses both the effects and the efforts which are particular to a company's activity, based on which, by means of a combined analysis, we can find the efficiency indicators of the activity (ratio between effect and effort and vice versa). This new approach of a company's efficiency has brought about an important contribution to both theory and practice in Economy.

Taking into consideration the axiom according to which a company cannot be efficient unless it is productive, performance is defined by authors as being "a state of competitiveness of the company, which has been reached by an efficiency and productivity level that guarantees a lasting presence on the market".

We considered that the preference one shows in using the "performance" concept both in the Anglo-Saxon and in the Romanian literature is due to its complexity, that is to its capacity of comprising all the aspects of a company's efficiency, both from a historical point of view and from the point of view of its future developmental possibilities.

On the other hand, overall performance characterizes all the company's activity aspects. The term performance has known a gradual development both as far as its informational contents are concerned and as a means of expression by certain specific indicators.

Thus, up to the 60s and 70s, since the technical and scientific revolution is the driving force behind the economic and social development both at a macro and at a micro

economical level, the main performance indicators that were being used were the turnover and the assets volume in order to mirror the company's dimensions. The most performant companies were considered to be

those that were biggest as far as both their technical potential and sales values are concerned, no matter the evaluation of available resources and of the profit margin they reach.

In the 70s and 80s the greatest importance was given to the accounting benefit or profit, as a difference between incomes and expenses of the company, while the role of managerial accounting element in the decision making process was overrated. The economic development models which were being applied in this period were those which completely ignored the natural factor as well as the social one, fact which determined the generalization of the profit in both the theory and the practice of Economy, generating important damages.

There followed a 10 year period during which, due to the remarkable boost of capital markets and of the financial transactions at the overall economy level, it was considered that stock indicators such as *PER* (Price earnings ratio), *Earnings per share* or *the situation of treasury fluxes* may synthetically reflect the competitiveness of performance of the company. Later on, using modern indicators for measuring performance, such as *EVA* (economic value added), *MVA* (market value added), *CFROI* (Cash Flow Return on Investment), *TSR* (Total Shareholder Return) has become necessary in the context of taking into account the costs for financing the company's activity and its market value.

Of course, all these financial indicators present certain economic activity aspects, but cannot be used single handedly, because none of these have the capacity to synthetically reflect the performance of a company under all its aspects. Thus, *lucrative*ness, defined as the capacity of an organization of making profit, was naively used as an expression of the company's competitiveness. For a long time it was considered that maximizing profits represented the main objective of the company, which ultimately leads to a maximizing of the shareholder value on both short and long term and at a thriving of the community.

However, the pollution and unemployment rates prove the opposite and underline the necessity of approaching the company performance from a multi-criteria perspective, regarding not only the shareholders' interests,

but also those of the other social partners of the company.

The overall performance is founded on the shareholder interest theory. From this point of view, the members of the company's managerial team need to prove their capacity to harmonize the interests of all shareholders, even though these may be regarded as contradictory at a certain point. The managerial team's ability is precisely reflected in its capacity to make hierarchies and to satisfy the various interests of the social partners.

Maximizing the company value means more than just increasing the shareholders' capital value, it also means increasing the value of the capital borrowed as preferential stocks, bonds and credits. A sum of all these may lead to an increase of the total value of the company on the long run, and, moreover, performance also means satisfying the interests of the other social partners (i.e. clients, suppliers, consumers etc). By all means, the theory of interest shareholders does not only mean an optimum satisfaction of the interests of all the company's social partners, but also the harmonizing of these interests in the possible limits and having an arbitrage between these interests, according to their importance in the relationship with the given company and to the impact of these partners on its market performance.

Nevertheless, setting a series of unique performance criteria for all companies is impossible to achieve. The very advocates of the interest shareholder theory do not recommend a methodology based upon the arbitrage between the company's social partners, but taking into account multi-criteria objectives of performance, subordinate to the main objective of the company, that of maximizing its overall value. Using multi-criteria performance objectives according to the advocates of the interest shareholder theory is considered by some authors<sup>1</sup> as a handicap of the companies which put into practice the interest shareholder theory, which gives way to ambiguity and inconsistency regarding the accomplishment of the major objective of the company. This weak point, they

---

<sup>1</sup> Donaldson T., Preston L.E. – The Stakeholder theory of the corporation concepts evidence and implications, The Academy of Management Review, vol.20, 2002.



say, is being speculated by the managers in order to satisfy their own interest first, under the pretence of harmonizing the interests of all the company's social partners.

Under the pressure of the requirements related to the trimestral, bi-annual and annual financial report, the managers of the rated companies are mainly concerned with obtaining good short term financial results, which determines a rapid growth of the stock value of the shares and consequently, a good ranking of these. Therefore, there is a particular preoccupation of managers with the improving of the short term performance in the detriment of long term performance, which in specialized literature is called "the obsession of capital markets for getting a profit" as the only measure of the rated company's performance.

The efficiency of the internal system for measuring results also influences the performance of the companies. The specialists<sup>2</sup> gave special attention ever since the 80s on the impossibility of the accounting system to supply relevant information to managers with the purpose of making higher quality decisions. Inevitably, if nothing but financial results are looked for, the non-financial aspects of the company's activity are involuntarily omitted.

As R. S. Kaplan<sup>3</sup> „what you get is what you measure.”

Even though the main users of the information generated by the company are the managers, there are also other beneficiaries, i.e. its business partners or interest shareholders: employees, clients, suppliers etc. Evaluation of a company's competitiveness level is made depending on the degree of accomplishment of certain performance criteria, mostly financial. As there is no one indicator (not even profit) able to determine a company's performance, for the evaluation of its results and perspectives it is recommended to use a complex indicator system reflecting different aspects of the activity, not only financial, but also non-financial in nature.

In the case of rated companies, the calculation and interpretation of the classical financial indicators (rate of return, active

efficiency, stock indicators etc) and of modern indicators (EVA, MVA, CFROI etc) constitute the object of the fundamental analysis used by investors when deciding to invest / de-invest. However, in order to appreciate the intrinsic value of the transacted titles, the investors also use various non-financial pieces of information.

The sources of these non-financial pieces of information used by analysts when evaluating the titles are more or less confidential. Thus we can notice the incapacity of the external valuating systems of information by the investors to reflect the essential aspects of their performances. We can therefore explain the ever-growing interest of investors for non-financial pieces of information, needed in order to properly estimate the market value of the rated companies: strategy quality and degree of accomplishment, fidelity and satisfaction degree of consumers, capacity to innovate, management quality and experience, ability to attract gifted personnel.

It is therefore clear that performance is not an absolute, but a relative value, determined by the expectations and interests of the social partners of the company. It cannot be quantified with the aid of one single indicator, but instead it demands a multi-criteria approach of all aspects of its activity: social, technical, technological, financial etc. its evaluation is subjective and difficult because it expresses the present and potential investors' perception regarding historical results and future development perspectives in the specific local and national context.

For companies which are valued on the capital market, performance is reflected under the shape of intrinsic value or market value, which may be the same, but which most of the times differ as a result of the efficiency degree of those specific financial markets. Therefore, the information regarding the overall performance of the issuing company, such as profitability, exploitation risk determined by the profitability degree, liquidity, solvency, dividend policy, non-financial information are all integrated by the investors as market value of the titles according to which one may establish the real value of the company.

On the other hand, demand and offer of capital, as well as the varying subjective expectations of investors regarding the company

<sup>2</sup> Jonson H.T., Kaplan R.S. – *Relevance Lost*, Harvard Business School Press, Boston, Massachusetts, 2001.

<sup>3</sup> Kaplan R. S., Norton D. P. – *The balanced scorecard – measures that drive performance*, Harvard Business Review, 2002.



competitiveness contribute to forming market value for the company, ultimately representing the official recognizing of its performance. It doesn't matter whether the intrinsic value of the company is raised, in the conditions where there are no investors on the market convinced of the value, nor willing to pay it in return for their capital investment. As a rule, the intrinsic value differs from the market value, however, on the capital markets this difference is not significant.

It results that the performance recognized on the market is also dependant upon the typology of the investors, and upon the way it is perceived by the investors, as it is a well known fact that the experience and competence of sophisticated investors is bigger as far as the evaluation of the value is concerned, as compared to unsophisticated investors. For this reason, companies must be permanently interested in the official acknowledgment and the increase of their prestige on the market. Accomplishing these objectives may be done not only by financial and non-financial information, but also by other means of communication, such as: information meetings, financial publicity notices, communicates, press conferences, interviews etc.

## 2. Conclusions

To conclude, overall performance comprises all aspects of the company's activity, of its relationships with its social partners and its future development perspectives.

Performance may be expressed by means of financial indicators which especially characterizes the historical results of the companies, as well as with the aid of non-financial indicators, which have the capacity of reflecting the qualitative sides of the activity, generating long-term value. The official acknowledgement of the competitiveness of the valued companies is the market value, representing the relative and subjective measure of the perceptions and expectations of the investors regarding the efficiency of those companies, established in the context of the confrontation between the demand and the offer of capital.

The performance of the valued companies is significantly influenced by the form of corporate governing, respectively by the capacity of

decision makers to identify and harmonize the interest of the most significant social partners.

Other important factors which have a strong impact over the performance which are valued on the capital market are:

- quality of the informational system - managerial, as an endogen variable which allows for the evidentiating, control and accomplishment of the most important performance criteria;
- the efficiency of the reporting policy and of the means of supplying information to the investors, strongly influenced by the possibility to manipulate the financial – accounting information by the company managers;
- contents and compulsoriness of the legal provisions regarding the supply of information on the capital market;
- pressure of financial markets on managers, towards the realization of short term performances, to the disadvantage of long term performances;
- efficiency of the capital market, respectively its capacity to transmit and incorporate all the significant information at the stock level of the titles;
- capital demand and offer, respectively the typology and competence of the investors, which ultimately determines the market value of the companies.

The continuous valorization of the titles on the capital market constitute the official guarantee of the companies' competitiveness, which leads to gaining accessible financing, and ultimately leads to an improvement of their performances.

## 3. Bibliography

- [1] Alfonsi G., Granjean P. – Pratique de gestion et d'analyse financières, Les Editions d'Organizations, Paris 2000.
- [2] Abouchahala M. – Les delices de la comptabilité creative, Enjeux, Les Echos, janvier 2003.
- [3] Alazard C., Separi S. – Contrôle de gestion, Paris, Dunod, 2001.
- [4] Anghelache G. – Bursa si piata extrabursiera, Editura Economica, Bucuresti, 2000.
- [5] Bernheim Y. – La notion comptable de juste valeur, Revue française de compatibilité, octobre 2001.
- [6] Bodie Z., Merton R., - Finance, Ed. Prentice Hall Inc., 2000.

- [7] Bourguignon A. – Peut-on définir la performance?, Paris, Revue française de comptabilité, 2005.
- [8] Buse L., – Analiza economico-financiara, Editura Economica, Bucuresti 2005.
- [9] Cohen E. – Analyse financière, Ed. Economica Paris, 2000.
- [10] Chevalier J., Ellison G. – Risk Taking by Mutual Funds a Response to Incentives, Journal of Political Economy, vol.105, nr.6, 1997.
- [11] Collase B. – La gestion financière de l'entreprise, PUF, Paris, 1993.
- [12] Epstein Barry J., Mirza A. Ali – IFRS 2005 – Interpretarea si aplicarea standardelor internationale de contabilitate si raportare fiscala, BMT Publishing House.
- [13] Feleaga N., Ionascu I.- Tratat de contabilitate financiara, vol 1,- Contabilitatea ca joc social, Ed. Economica, Bucuresti 1998.
- [14] Financial Accounting Standards Board – Scope and implication of conceptual Framework Project, 1976.
- [15] Gheorghiu Al., Vasilescu C. – Indicatorii bursieri in aprecierea performantelor intreprinderilor cotate, Revista Finante, Banci, Asigurari, nr. 1/2003.
- [16] Gheorghiu Al. – Puterea informativa a indicatorilor financiari la nivel microeconomic, Revista Finante, Banci, Asigurari, nr. 7-8/2001.
- [17] Ghilic – Micu B. – Bursa de valori, Ed. Economica, Bucuresti, 1997.
- [18] Gompers P., Lerner J. – Risk and Reward in Private Equity Investments: The challenge of Performance Assessment, Journal of Private Equity, 2000.
- [19] Niculescu M., Lavalette G. – Strategii de crestere, Ed. Economica, Bucuresti, 2000.

## Agricultural Credit for Romanian Farms

Harangus Daniela

Tibiscus University Timisoara

danaharangus@yahoo.com

### Abstract

*The potential of agriculture financial support is very important for farms. One of this financial supports is the bank credit, especially the agricultural credit. Agricultural credit means a certain degree of risk for the banks. Banks must analyze and identify risks in al five stages of the unfolding crediting process. Agricultural credit brings along specific risks for banks, in connection to: the pressure from the natural and economic environment, the season despondency of agriculture production, the time gap between harvest and product selling, etc. The access of agricultural farms to the bank credit offer is determined by a series of factors having a negative or positive influence, meaning the farms financial performances and the efficient management of risks by commercial banks. The analysis made by commercial banks in crediting begins with client selection and stretches to the dimensioning of the maximum credit volume that can be given to a petitioner. The evolution of agricultural credits in the period 2006 - 2009 and their percentage in the total bank crediting is unsatisfactory and extremely low for the development of a performing agriculture. This means it is necessary for banks to rethink and implement a flexible crediting system.*

**Key words:** bank credit, agricultural credit, risk for the banks.

**JEL Classification:** Q14, Q18.

### 1. Introduction

At the beginning of the third millennium, agriculture needs financing resources in order to obtain performance. One of the important financing resources is the agricultural credit given by the commercial banks. The development of agriculture represents a

priority area for the Romanian economy. The Romanian transition from the centralized economy to market economy was a complex phenomenon, without historical precedent, generating confusion and leading to an absence of a prospective vision. Incoherent actions, depending on conjectural interests gravely affected Romanian agriculture. The government solved only the problem of land restitution, but not the issue of consolidating high performance agriculture. The access of agricultural farms to the bank credit offer is determined by a series of factors that have a negative or positive influence. Romanian agriculture faced special problems regarding access to bank credits, because in competition with other sectors in the economic activity (industry, commerce, transportation, etc) agriculture was thought to be unattractive and with a high risk for the banking sector. Romanian agriculture stringently needs crediting. No country in the world can afford to neglect or leave only to the discretion of game interplay in the current market the agricultural activity and the food industry, which ensure food for the population. Food security depends on the prosperity of agriculture [1], and the prosperity of agriculture depends on the flexibility and efficiency of the crediting system maintained for the sustaining of agricultural activity in general, and the flexibility and efficiency of the agricultural credit in particular.

### 2. Factors and conditions in the process of crediting agricultural farms

The factors having a positive influence in the agricultural credit offer are mainly:

- the high agriculture potential in all country areas, Romania having one of the most favorable natural and climatic conditions in Europe;

- the improvement of the legal framework regarding agriculture insurance;
- the assuring of more flexible conditions for commercial bank crediting, etc.

The factors having a negative influence over the agriculture credit offer are the following:

- the excessive break of agricultural property, which led to a massive reduction of the used areas and the loss of traditional agriculture bank clients;
- the faulty functioning of the land market and the delays in issuing property titles over the land;
- the low profitability of agriculture activities and the reduced level in education and information which discourages agriculture farmers to ask for credit;
- the difficulties in constituting guarantees solicited by banks. Most farms do not own the land they grow their crops on, the land being leased, and the agricultural inventory is in its most part depreciated and has a small value;
- the lack of bank expertise in evaluating risks that are specific to agricultural activities.

The access of agricultural farms to the bank credit offer is also influenced by the financial performances of the farms and the efficient management of risks by the commercial banks. The banks must manage both the bank credited activity risk, specific for agricultural activities, and its own business risk. The analysis made by commercial banks in crediting starts from client selection and end at the dimensioning of the maximum credit volume that can be given to a petitioner.

The eligible credit client selection made by banks is done depending on a series of criteria which are stipulated by the bank normative.

These criteria regard mainly the following aspects:

- the efficiency of the credit petitioner business;
- the credit eligibility or reliability of the client;

- the agricultural farm dimension and the dimension of their activity, namely small farms and large farms [2];
- the guarantees or collaterals constituted by the agricultural farms at asking credit;
- the possibility of marketing a corresponding quantity of products, that would ensure the obtaining of income for the farmer's family needs, reimbursing bank credits and paying due interest.

Agricultural farms asking credit from commercial banks must meet a series of criteria and financial performance so as to gain the bank trust regarding the fact that the credit can be paid back in due time, together with the interest, without the bank having to resort to the debtors' guarantee enforcement. Commercial banks credit eligible agricultural petitioners. These are agricultural producers exploiting agricultural land or growing animals. In order to sustain investments in agriculture, banks give credits if the following conditions are satisfied cumulatively:

- the project which is to be financed has economic validity, meaning the capacity to reimburse credit;
- there is the necessary infrastructure for the respective project (land, buildings, utilities, etc);
- the petitioning farmer is experienced in agricultural activities;
- the credit applicant also obtains other income either from agricultural activities, or from other activities, income that can be used to reimburse credit and interest.

The methods used by commercial banks in the process of crediting regards the approach of the following aspects:

1. *The circumscribing of the five stages of the unfolding in the crediting process*, namely: asking for credit, analysis and evaluation, approval, crediting and reimbursing the credit;

Asking for credit and its reimbursing (the first and last stage of the crediting process) are initiated by the client and accepted by the bank. The other three stages in the crediting process, namely the credit analysis and evaluation, the credit approval, credit giving,

Period	Total credits - mil. RON-	out of which for:	
		Agriculture, forestry, fishing -million RON-	Perce tage
2006	105,270	2,770	2.63
2007	167,956	3,783	2.25
2008	228,266	5,669	2.48
2009	230,972	6,492	2.81

are initiated by the bank in the interest of the client and the benefit of both parties, the bank, and the client. The initiating entity is the one assuming a series of responsibilities and obligations. These responsibilities and obligations are found both in the crediting contract and in the documents on which the instrumentation of the crediting filed is based (credit request, reimbursing graphic, cash flow, the clients declarations, etc).

2. *Fundamenting the crediting decision*, meaning the negotiation of the credit between the bank and the agricultural client, and the evaluation of the petitioning client reliability, based on the performance indices and the risk indices applied to the bank.
3. *The good management of agricultural credits* given by the bank, based on the two fundamental principles: the prudence principle in bank crediting and the efficient management principle.

### 3. Results and discussions

Commercial banks give credit to eligible petitioners. These are the agricultural producers, exploiting agricultural land or growing animals. The petitioning farmer must be experienced in agricultural activities. The volume of agricultural credit is determined according to the technologies necessary for cultures or animal categories and the expenses involved by the current activity in agricultural production. The credit volume is also given by the reimbursing possibilities on part of the client. The evolution of agricultural credits in the period 2006- 2009 and their percentage in the total crediting from crediting institutions is as presented in the following table:

Table 1. The evolution of credits

Source: The National Bank of Romania, Monthly Bulletin, no.196/2010, p.60.

The percentage of the agricultural credit in the total crediting is very low in comparison to other activity sectors, namely: services, industry, constructions, public administration, education and health, etc. At the end of 2009, the percentage of bank crediting on activity sectors, from the total crediting is as follows [5]:

- for services the percentage is of 28.8%;
- for industry the percentage is of 17.5%;
- for public administration, education and health the percentage is of 4.7%.

In comparison to these the percentage for agricultural crediting is of only 2.81% in the total crediting from the banks, which is extremely low and unsatisfactory for the development of a performing agriculture.

The decreased volume of agricultural credit has set its mark on the support and development of investments in agriculture and the performances recorded by this sector. The fact that agriculture cannot be competitive in the situation in which the modern sector is breaking apart and all the approximately four million countryside households are sustained with insignificant amounts of money, in the conditions of a low level in agricultural productivity, must be taken into account. The low profitability of the Romanian agriculture, the use of old fashioned methods and techniques in the production activity, the lack of adequate biological material, etc., are due to the insufficiency in volume and diversification of the agricultural credit. The prosperity of agriculture depends on the flexibility and efficiency of the crediting system maintained for the sustaining of agricultural activity in general, and the flexibility and efficiency of the agricultural credit in particular. The lack of financing in agriculture seriously affects the activity and performances of agricultural exploitations. Generally, the lack of financing is not only a break in the emergence of new business, but mostly an inhibiting factor for the existing ones. The multiple problems

agriculture confronts with need an intervention and with the aid of credit, which is to ensure the rhythmic and sustained financing of agricultural farms and to represent an economical and financial instrument of agricultural policy this is possible.

In the past years different measures for promoting and sustaining agriculture were promoted, including the awarding of short-term credits for farmers and for different suppliers and shop keepers who depended on the activity in agriculture. The Romanian commercial banks were and still are poorly interested in giving credits to agricultural farms. This fact is mainly due to: the insufficient knowledge of the specific features of agriculture production, the over- evaluation of its risk associated with the agriculture production, the lower rate of profit in comparison to other areas of activity, etc. The solving of the current issues regarding credit in agriculture must start from the premise that agriculture is a strategic economical activity, conditioning the global development of Romania.

The specific features of agricultural credit are given by the particularities of the agricultural sector, namely:

- the season character of agricultural production;
- the production period does not coincide with the working period, a specific feature that imposes a high degree of risk on the agricultural credit;
- the action of some natural and biological factors that come into play over the entire unfolding of the agriculture production process, associating it with a high degree of risk;
- the different periods of time ( the time gap) between the expenses involved and the obtaining of profit by selling agricultural products;
- the long production cycle in agriculture, with implications on establishing reimbursing terms for agricultural credits, the quantum of credits to reimburse and the limit term periods given by the banks;
- the low profitability in agriculture, which makes it compulsory to give low income credits.

Also the particularities and specific features of the production processes in agriculture lead to a greater need for crediting in this sector in comparison to other sectors of the national economy. Many times, the agricultural credit represents the sole solution for the establishment of an agricultural exploit which would have from the start the production means and the work hand that are strictly necessary. The need for credits in agriculture is also boosted by the fact that the immobilizing of funds in agriculture is greater than in other sectors, and the agriculture workers own capital is not sufficient. Romanian farms, in comparison to other economic agents, have limited access to bank credits, being thought of as unattractive and risky for the banking sector. The limited access of agricultural exploitations to bank credits is also mainly due to: the high risk of fluctuations in production depending on the natural conditions; the lack of an adequate system of insurance which could guarantee the compensation of loses; the instability of commercial and selling markets for the obtained agricultural products. Also, the lack of a high performance management, the discontinuity in obtaining profit, the long production cycles and the high transition and risk costs restrict the access to credits for agricultural exploits.

#### 4. Conclusions

The restricted access of agricultural farms to bank credits, in the conditions in which Romania has a high agricultural potential, makes it necessary for the commercial banks to rethink and implement a flexible crediting system. This system must also have in view the selection of the guarantees solicited by the bank. The preference of financial institutions for real guarantees, meaning mortgages, furthers limits for the access of agricultural farms to bank credits. Also, for the increase in volume for agriculture credits the development and expansion of bank networks in the rural environment by setting up agencies and bank branches, is a must. These can provide information and professional counseling to agricultural farmers [4]. On the threshold of the third millennium the development of a performing agriculture depends to a great extent on the flexibility and efficiency of the

crediting system practiced by the commercial banks and the access of agricultural farms to bank credits. Crediting agriculture, as any banking activity, involves a certain degree of risk. The risk is permanently present, in any business, and most of all in the activity of agricultural exploitations, the risk occurring or not, in connection to the conditions created. The crediting risk means the taking of a risk by the bank both for the non- payment of the lent money to the client, and also the risk of the credited business and the risk of client bankruptcy. Many banks still classify the financing of agriculture as a category of high degree risk activity because of the low level of profitability in this branch and the high exposure to natural factors, without the necessary protection from the system of agriculture insurance [3]. In the category of high risk credits were also included medium term and long term credits, credits to which few agricultural farms have access. Of course, the banks permanently monitor the risk evaluation, especially in the case of credits given to economic sectors that are highly exposed to risk, such as agriculture. Banks analyze, during the whole period of the unfolding of the crediting process, the following:

- the financial performances of the credited client;
- the prognosis of the future performances of the credited client over the period left to the term of full credit restitution;
- the preservation modality, the quality and the structure of the guarantees offers to the bank;
- the way of using and managing the given credit;
- the constituting of restitution sources for the credit and the payment of implied income;
- the evolution and influences of the competitive environment over the client that was credited by the bank.

The banks must re-think the issue of risks implied by the crediting of the agricultural activities the agricultural activities may constitute, for banks, a vast segment of customers, a diversified one, disciplined and with a high potential of absorbing some modern bank services and products.

## 5. References

- [1] A.Buckwell,"Green Accounting for Agriculture", in *Journal of Agricultural Economics*, vol. 56, no. 2/ 2005, p. 187-215.
- [2] O.Mertz, R. Wadley, and A.E. Christensen, "Local land use strategies in a globalizing world: Subsistence farming, cash crops and income diversification", in *Agricultural Systems Journal*, No. 85/ 2005, p.209-215.
- [3] T. Osborne,"Credit and risk in rural developing economies", *Journal of Economic Dynamics & Control*, no.30/ 2006, p. 541-568.
- [4] M.Rizov,"Rural development under the European CAP", in *The Social Science Journal*, No. 42/ 2005, p. 621-628.
- [5]\*\* The National Bank of Romania, *Monthly Bulletin*, no. 196/ 2010, p. 60.

## Challenges in Estimating Goodwill in Current Financial Crisis

Holban (Oncioiu) Ionica

Alexandru Ioan Cuza University of Iasi and Academy of Economics Studies from Bucharest

E-mail: NELLY\_ONCIOIU@yahoo.com

### Abstract

*In recent decades is a significant change as a result of increasing importance of intangible elements. Technology development, particularly in technology transfer and communications, reduce cycle time and technological competition from the more pronounced are some elements that attract the attention of enterprises on ways to remain competitive. The essence of the ability of a person, a company or an entire company to generate wealth is primarily in the specific knowledge in its possession. The transition to IFRS based reporting has resulted in fundamental departures from many of the long accepted norms embedded in indigenous GAAP systems now superseded in IFRS adopting jurisdictions. The rules relating to goodwill accounting, measurement and reporting represent an excellent case in point, the traditionally dominant capitalize and amortise regime having been disposed of in favour of an impairment testing regime pursuant to which periodic amortisation charges are no longer required. The main goal of this paper is to analyse the problems concerning goodwill recognition and valuation of the goodwill in crisis period.*

**Key words:** goodwill accounting, measurement, reporting, goodwill recognition, valuation of the goodwill.

**JEL Classification:** G01, G32.

### 1. Introduction

The transition to IFRS represents the latest episode of goodwill's often turbulent story. One striking feature of this framework for goodwill measurement and reporting is its order magnitude increase in complexity compared to typical prior practice. Application

of this system requires navigation through several layers of difficult and potentially contestable choices. It is for this reason in particular that much of the recent literature relating to this issue focuses on the incentive compatibility problems which may be associated with the implementation of impairment based approaches to goodwill measurement and reporting [e.g; Beatty & Weber, 2006; Hayn & Hughes, 2006]. Without derogating from the importance of these findings, the focus of this paper is squarely cast on a different issue, the degree to which firms actually comply with the formal precepts of the standards governing impairment testing regimes. Prior studies appear to have been constructed on the tacit assumption of systematic standards compliance on the part of financial statement preparers.

The measurement of the good will as a residual value is consequent with the "top to bottom" approach, according to which the good will is viewed as an investment part which is based on the buyers expectance regarding the future economical benefits resulted from the enterprises group.

### 2. Literature review

Goodwill inhabits an unruly and unsettled domain. Accounting theorists have long debated and rarely agreed on its nature and source. In the process they have generated a tangled collection of mostly irreconcilable explanations.

According to Sands [1963], goodwill represented the value capable of being generated by an organization as a consequence of facing less than competition in the markets in which it operated. On the other hand, Gynther [1969] proposed that goodwill came into being as a consequence of the existence of



a range of factors which while favourable to the economic position and performance of a firm were not capable of being measured and recognized individually. Notably, the conceptual confusion relating to goodwill is not limited to the accounting literature. Legal conceptions of goodwill as expounded by the courts have also shown considerable variation over time, and often varied substantially from those accepted at various points in time in the accounting and commercial domains. From the early 17th century onwards, a string of cases have been decided in which courts have attempted to define the term goodwill, and to determine the circumstances in which it might arise, and what it might attach to were it to arise.

Early cases adopted a simple and relatively narrow conceptualisation of the phenomenon. For example, in *Broad v Jollyfe* the court took the view that goodwill represents but the selling of a man's custom, leaving another to gain it. A later and better known case is that of *Crutwell v Lye* in which Lord Chancellor Eldon offered his famous formulation that goodwill is "nothing more than the probability that the old customers will return to the old place." This definition places strong emphasis on what may be termed "force of custom" as the basis for the existence of goodwill. On this approach, goodwill only comes into existence by virtue of those distinguishing characteristics of a particular business which increase the likelihood of repeat business, thus increasing enterprise value.

The shift to the IFRS "capitalizes and test for impairment" approach and its analogues in US GAAP should therefore not be seen as a transition to an inherently new or superior technology. This much has already been made clear in a growing body of literature critical of both the conceptual foundations and practical consequences of the IFRS and US GAAP goodwill impairment testing regimes. Watts [2003] represents an early and high profile example of some of the criticisms which have been levelled at this approach. Other commentators, including Massoud & Rayborn [2003] have expressed similar sentiments, and questioned the desirability of a reporting framework so reliant on subjective judgments without appropriate verification checks and balances. Others have asserted the existence of

obvious technical flaws in the manner in which asset impairment standards have been drafted [Haswell & Langfield-Smith, 2008]. Consistent with the concerns raised in these conceptual contributions, evidence is accumulating in the empirical literature of an array of problems associated with impairment testing regimes.

### **3. Issues on recognition, measurement and impairment of goodwill**

The investment is regarded as an active (large active, the entire company) then this is divided in the components and after the different elements are accounted the remaining is the good will.

Controversy related to goodwill is reference mainly to the recognition and evaluation.

1. The good will concept one of the first articles that make a reference to the commercial fund was published in the year 1884, although this concept is much older. Leake [1948 quoted by Bloom 2006] presents a discussion that took place in the year 1571 which utilize the expression good will. But he is also the one who claims that the first references to the term good will MO in a class about which Lord Eldon commented: "the good will that was the subject of the sale is nothing more than the probability of a old client to come back." Making a reference to one of the components of the good will, clients' fidelity. Since then were written numerous articles and books about this subject, the same as generations of accountants were confronted with this problem.

2. Is the good will a active or not. In order to establish the arguments for and against the recognition of the good will as an active, we will analyse the definition of the immaterial actives established by the International Organism of accountancy normalization and problems in identifying the immaterial actives which it faced. The accountancies of an element in the immaterial immobilizations category requires that an enterprise to demonstrate that the element fulfils the definition of an immaterial immobilization and the criteria to recognise the active (it is probably that the enterprise is to obtain future economical advantages due to the active and if its costs can be evaluated.).

IASB argues that goodwill is the only item of intangible assets for which depreciation is very difficult to identify. It does not generate cash flows independently of other assets or groups of assets and, therefore, its recoverable amount cannot be measured individually. Accordingly, if there is any indication that goodwill may be impaired, the recoverable amount is calculated for the cash-generating unit to which it belongs.

IAS 38 immaterial immobilizations says that the good will is studied by the international standard of financial reporting (IFRS) 3, enterprises groups representing the unidentifiable part of the payment made by the buyer.

According to IFRS 3 the good will obtained in the enterprises group is determined as a difference between the acquisition count of the owners and the part that belongs to the buyer in the just value of the actives, debts and the future debts identifiable of the entity. The good will represents an advanced payment made by the buyer in the count of the future economical benefits which can result from the combining the identifiable actives and the actives which individually analysed do not fulfil recognition criteria in individually situations but for which the buyer is willing to make a payment in the buying process.

The above summarizes the current requirements of IFRS 3, concerning goodwill recognizing and initial measurement. But, a new standard – IFRS 3 (Revised) – has been published in January 2008 and comes into effect from July 2009. IFRS 3 was revised in a joint project between the IASB and FASB, aiming at taking a broader view at business combination accounting and at unifying the accounting treatment at a worldwide level. So, the IASB and the FASB agree to work together and to pool their resources as both Boards considered that it was the most effective method to eliminate as many as possible of the differences between IFRS and US GAAP.

The revised standard gives entities the option, on a transaction-by-transaction basis, to measure non-controlling interests either at the fair value of their proportion of identifiable assets and liabilities, or at full fair value. The first method will result in measurement of goodwill, which is basically the same as with

the existing IFRS. The second method will record goodwill on the non-controlling interest as well as on the acquired controlling interest.

The revised IFRS 3 uses the term “consideration transferred” (replacing “cost of the business combination”) which is sum of the acquisition date fair values of assets transferred, liabilities incurred to seller and the equity interests issued, including contingent consideration. It does not include acquisition-related costs, which are recognized as expenses. Goodwill can also be measured on a “full goodwill” basis, which means that goodwill is recognized for the non-controlling interest in a subsidiary as well as the controlling interest.

The goodwill may contain intangible assets that support depreciation, and which are not separately identifiable, because their cost cannot be reliable determined. Also, some components of the goodwill (i.e. “managerial team”, “collective intelligence of the team”) do not have a definite economic life. Consequently, most of the companies take advantage of all these ambiguities belonging to the various types and uncertainties of theoretical issues, in order to develop an opportunistic attitude that serves their own perspectives and targets.

In the current crisis is important the reference to fair value or value in use, and disclosure which of these reference bases has been adopted. While it is likely that in most circumstances recoverable value will be determined by reference to value in use, the possibility that the fair (market) value of certain asset classes may be reliably determinable, for example, by dint of the existence of active markets for assets of the class in question, means that it will on some occasions be feasible to determine recoverable amount on a fair value basis.

An obvious problem which arises where this information is not provided is the lack of capacity on the part of the financial statement user to understand how goodwill is distributed across a business, where it is concentrated and what types of underlying business activities it is principally associated with. This results in a diminished capacity on the part of financial statement users to develop detailed reporting entity impairment risk profiles.

By way of contrast, firms choosing to adopt

the fair value approach to impairment testing face a lower required disclosure burden and avoid the obligation to provide details such as discount rates and assumed growth rates. The challenge presented as a consequence of the decision to adopt the fair value approach to goodwill impairment testing is to find an appropriate benchmark asset portfolio, a current price for which can be reliably observed.

#### 4. Conclusions

Intangible assets are identifiable non-monetary assets, without physical substance, held for use for the production of goods or services, to be rented to third parties or be used for administrative purposes. Recognition of an element of intangible asset requires the company to demonstrate that the item meets the definition above: to have identifiable character, to be controlled, to obtain future economic benefits and can to be able to asses at a reliable cost.

But goodwill is the difference between the

consideration paid and the purchaser's share of identifiable net assets acquired. This is a "partial goodwill" method because the non-controlling interest is recognized at its share of identifiable net assets and does not include any goodwill.

#### 5. References

- [1] Anantharaman, D. "Has SFAS 142 Diminished the Reliability of Goodwill Writeoffs?" Columbia Business School Working Paper, 2007.
- [2] Beatty, A., & Weber, J. "Accounting Discretion in Fair Value Estimates: An Examination of SFAS 142 Goodwill Impairments", *Journal of Accounting Research*, Vol. 44(2), pp. 257 – 288, 2006.
- [3] Hayn, C., & Hughes, P. "Leading Indicators of Goodwill Impairment", *Journal of Accounting, Auditing and Finance*, Vol. 21(3), pp. 223 – 265, 2006.
- [4] Modack, G. - IFRS 3 Business Combinations: old vs. new, Dec 2008/Jan 2009, <http://findarticles.com>
- [5] \*\*\* - Summary of 2008 Changes to IFRS 3, <http://adl.ukzn.ac.za>

## Consequences of financial crisis on ethics in business

Holban (Oncioiu) Ionica

*Alexandru Ioan Cuza University of Iasi and Academy of Economics Studies from  
Bucharest*

*E-mail: [NELLY\\_ONCIOIU@yahoo.com](mailto:NELLY_ONCIOIU@yahoo.com)*

### Abstract

*On January 20, 2009, the European Forum held in Paris under the auspices of the OECD business ethics. Speaking at the forum were discussed substantive issues of ethics in business under current economic and financial affairs.*

*The economic and social costs of international crisis representing, as is known, not only financial losses in 2008, but also reduced production in many countries, slowing economic growth in others, job losses and the credibility of financial markets, a resurgence of problems of polarization and social tensions. Ethics in business today requires reconfiguration of the international financial and economic systems based on schemes to ensure managerial factors stimulating and transparent.*

*In this context, the main question which will be discussed is 'How can we act responsibly as decision makers in a society that is increasingly unpredictable and unknown to us?' It is well known that moral philosophers have long insisted that they can solve this problem by finding valid arguments for what is good and evil and on this basis formulate rules for responsible action. The aim of this paper is to give an argumentation for the inadequacy of the moral philosophers' standpoint. Instead we should reflect upon the conditions themselves that declare an action to be moral.*

**Key words:** ethics in business, international crisis.

**JEL Classification:** G01, G32.

### 1. Introduction

Among the major causes of crisis and failures of the market economy are the weaknesses and inadequacies and business

ethics. Policy makers in the economic-financial, national and international researchers and politicians stands for a fundamental revision of international economic and financial system to encourage new rules and behaviours in order to rebalance the relationship between market and regulation authorities public affairs to print more social responsibility, ethics and morality.

The current crisis has shown us clearly that economic and market can not govern themselves and that exorbitant profits and the primacy of financial innovation can not and must remove the minimum necessary and sufficient business ethics.

Globalization requires to create a framework for the international financial system more secure and solid basis of multilateral cooperation on the factors involved, knowing that an increasingly interdependent world economy to function effectively it needs rules and international instruments adjustment based on the principle of "win-win" as a series of ethical requirements of sustainable development locally and globally to reduce the impact of negative externalities (external marginal costs induced others) as well as promoting positive externalities (external marginal benefits generated third parties).

Starting from the criteria for optimal paretian, demanding a new set of ethical standards of economic and financial mechanisms not only involves taking rights (benefits) but also responsibility so that enrichment, improvement of some (better off) should not be made on account of worsening economic and social ones (worse off). Business Ethics entails consideration of the benefit, mutual benefit for both intra-and intergenerational developed countries and for the developing and the objectives of equity,

inclusion, cohesion and social solidarity. Moreover, with this increased complexity and unpredictability comes the awareness that it is society itself - through its actions, decisions and omissions - that must be assigned blame for the fact that damages occur.

This will be a central argument in the following question: How can we act responsibly (as decision makers) in a world that is fundamentally unknown to us? Moral philosophers have long insisted that they can solve the problem by finding valid arguments for what is good and evil and on that basis formulate rules for responsible action. We might follow moral principles in good conscience, but we cannot exempt ourselves from the negative consequences of our decisions in today's risk society. In what follows, two central concepts in particular - responsibility and conscience - will be examined in the light of such a financial crisis context.

## 2. Literature review

Max Weber (1904/1991) has described the first trend, and shown how science, technology, law and organization have contributed to an advancing rationalization of our lives. As a result of our ability to see *causal* relationships between social phenomena, we are now better able to predict specific events and their consequences. This knowledge-and-control optimism is well illustrated in Frank Knight's classic study *Risk, Uncertainty and Profit* from 1921, where our ability to calculate risk and master uncertainty is discussed as a distinctive feature of modernity. Consequences that earlier affected the individual are now treated as 'risks' and understood as calculable risk; the calculus of risks can be applied to almost everything - from the risks of nuclear power to the risks of smoking. It is in this sense, Ulrich Beck (1995) says, that the calculus of risks exemplifies a kind of morality without morality, the 'mathematical morality' of the technological age. It permits a type of technological moralization which no longer directly employs moral and ethical imperatives; for instance, mortality rates, under certain conditions of air pollution, replace Kant's 'Categorical Imperative'.

Complementary, and often opposed, to this development optimism we can identify the second trend. The complexity of social processes

has distorted their predictability to such an extent that we can no longer rely on causal explanations of risk. This is a central theme in Charles Perrow's celebrated study from 1984, *Normal Accidents: Living with High-risk Technologies*. When investigating commissions assess the causes of an accident, the normal practice is to show how damages can be traced back causally to specific decisions and persons. However, according to Perrow, few technical risk-bearing systems are themselves linear systems; that is to say, systems where one can operate with indubitable calculations of if-then consequences. Instead of predictability we need to get used to the notion of unexpected effects, and this applies not only to the technological and industrial world, but also to the social and political world.

The Norwegian labour relations scholar Philip Herbst (1976) has shown in his study of 'Manichean logic' how the proposition 'deliver us from evil' creates a monolithic structure that compels the separation of good from evil in an absolute sense. Paradoxically enough, however, the result can be the exact opposite of the intention; namely, that instead of promoting the good we end up with a totalitarian regime. Totalitarian logic, which sets out to establish absolute certainty over what is good and what is evil, as a result of its own premises will fail to establish that certainty.

Instead of utilitarian thinking, nature's 'moral infallibility' must be defended. It means encapsulating in an ethical reflection the conditions for life and future life, a standpoint very close to Habermas (2001) in his contribution to the ethical debate on gene technology. Habermas's premise is that the power that alters organisms is different from the power that intervenes into dead or passive matter.

## 3. The conscience of ethical responsibility in business

Ethics of responsibility is typical of the businessman owe to provide immediate consequences not only intentional, but those unintentional. Although Weber's conception was sometimes interpreted as asserting the disjunction between business and morality,

his plea was responsible for reverse business ethics, "because - says the author - the responsibility and the ethics of belief (moral as such) are not mutually exclusive, but are completed, together forming only real man, the man who can be cut out of the businessman, the entrepreneur or entrepreneur authentic." Ethical paradox" may be called into a serious man of business interrogations: to assume responsibility and economic risks inherent in its action or to remain in moral judgment, abstract, lack of commitment behind it? This dilemma - responsibility / morality itself undertakes shift the focus discourse on human rights code of conduct of business of the "moralism" in ethical responsibility. For business a number of common moral values (compassion, altruism, love close, philanthropy, etc.) Business must compatibles moral philosophy with specific purpose.

In reality, any business is subject to rules / regulations that define 'game'. Respect 'rules of the game' when they are rational and incentive is enough to define the responsibility of the coordinates 'business ethics'. Exceeding the limits set by economic and legal rules conflict behaviour and challenges the responsibility of the businessman. Of course, sociological constraints such as excessive taxation, excessive state control, low purchasing power, voluntarism, corruption, etc. may lead to liability disclaimer.

On top of that in many ways it is difficult to find fault with the motives of 'business ethics' and corporate social responsibility' and morality. Esteem should be understood here not as a personal trait but rather as a quality conferred upon one or that one confers upon others. It wins and loses increases and decreases in social systems. From the legal world the concept of responsibility is familiar to us as the basis for deciding what consequences a norm violation will have for those violating the norm. When it comes to morality, however, the sanctions never go further than censure. One can rebuke a company for not acting morally, but one cannot oblige a company to act morally through morality. Only laws are legally binding for all parties. Morality and ethics will always have the sense of being a personal matter. Of course, there abound those moralists who would make their moral programmers into more than just a personal matter. They are prominent whenever

legislation is passed on issues that have moral overtones: abortion, gene manipulation, euthanasia, the environment, etc. But such campaigns can never be more than an attempt by an ethical programmed to provide grounds for legislation. The law can only exist in relation to the enforcement power of the state. The demand for a legal virtue is therefore difficult to implement in a modern society. So this is where one stands with censure as a means of sanction: censure of business leaders who say that they have a responsibility primarily towards owners and employees, but not towards the environment and society. Morality censures others for their indifference while it craves the opposite for itself: devotion, sympathy, or, to quote Sartre, 'identification with the other'. Censure can be painful, especially for those directly affected by it, for instance in the form of a tarnished reputation. However, it has no legally binding effect.

In the risk society, despite our having accommodated ourselves to a set of specific moral principles, there is no escaping the fact that our moral apparatus is no longer adjusted to the way the modern society functions. For while on the one hand moral principles are independent of time and events fixed in the past, decisions are acutely time-dependent and adapted expressly for the future. A constant tension is thus created between morality and decision making, a fact not difficult to verify, be it in the business world, politics or science. The consequences of the risk society's decisions seem to escape our human powers of perception completely. More risks accumulate at the centre, which for an entire lifetime will remain unseen and incomprehensible to those exposed to them, only to become known finally to succeeding generations. The moralizing of the mass media over who has the final responsibility becomes slightly comical in such a context.

Responsibility has no natural anchorage. We must be prepared to acknowledge that responsibility rests with the role, and not with the person playing that role. Our own era is characterized as a time of deep moral ambiguity despite the attempts of moral philosophers to diminish pluralism and to reject moral pluralism.

#### 4. Changes and trends in business ethics

At the OECD has developed a directory of multinational enterprises (Guide for Multinational Enterprises) which covers a wide range of issues in business ethics. This guide has been agreed by OECD member states and signed by 11 OECD member countries and includes general principles and recommendations that promote compatibility with the laws, the protection of consumer interests, human rights, concern for employment, labour relations, protection environment.

From 2000 until now have been solved half of the over 135 complaints on this guide used by a rate of 40% of multinational companies as a model to establish guide was used by rating agencies and Scholarships when they developed recommendations for corporate responsibility (Corporate Responsibility).

Another multilateral instrument relates to corporate governance principles (PGC) developed by the OECD as part of Stability Forum on key standards of sound financial markets. If high ethical standards are desirable in their own right, PGC are directly connected with corporate performance so that it emphasizes the idea that generates ethical performance (profit).

OECD Convention on Combating Bribery has also contributed to improving global ethics. Convention considers as a crime of bribery by a public official in exchange for favours in obtaining or retaining international business.

As the OECD has developed policy response to economic and financial crisis meant to strengthen business ethics in various ways. In this respect, it is said, the assistance it can provide OECD countries to enhance transparency in areas such as transparency, competition, corporate governance, taxation and pensions, while promoting a better financial education and seeks to identify areas in which serious shortcomings of regulatory instruments.

Develop new rules for global economy in the post-crisis is also a requirement that requires a collective effort and an agreed international response. These rules should help create a framework of economic and financially sound and secure with involvement of all players which implies an increase in the importance of a moral and responsible business environment.

#### 5. Conclusions

All forms of moral communication in the crisis society is more a case of playing down the importance of our need for principles of moral communication and for the allocation of responsibility, needs that derive more from self-justification than from actual circumstances, and instead look towards the contingent aspects of our existence where the challenge is to handle greater complexity more competently.

There are too many business managers with pretensions to moral responsibility; they have all the right answers without having asked the questions. One question we must ask is the following: Are we applying moral communication intelligently? The answer is a fundamental shortcoming in the traditional ethics of responsibility, and this shortcoming is one of self-application, or perhaps we might say, of the prohibition against 'self-exemption'. To defeat this shortcoming we need ethics which can make us more sensitive to how we communicate morality, rather than giving principles for right and wrong behaviour.

#### 6. References

- [1] „Business ethics and OECD principles: What can be done to avoid another crisis” (Gurría – OECD president) (<http://www.oecd.org>).
- [2] Albertson, Todd. *The Gods of Business: The Intersection of Faith and the Marketplace*. Los Angeles, CA: Trinity Alumni Press, 2007.
- [3] Hartman, Laura *Perspectives in Business Ethics*. Burr Ridge, IL: McGraw-Hill, 2004.
- [4] O.C. Ferrell, John Fraedrich, Linda Ferrell, *Business Ethics: Ethical Decision Making and Cases*, Houghton Mifflin, 2008.

## Evolution of Fiscal Pressure in Romania Compared to other European Union Member States

Mihaela Ioana Iacob

*Universitatea „Aurel Vlaicu” din Arad*

*mihaiacob1976@yahoo.com*

Vanina Adoriana Boglea

*Universitatea „Aurel Vlaicu” din Arad*

*vanina.boglea@yahoo.com*

### Abstract

This article analyzes the concept of fiscal pressure and fiscal optimum. A comparative study of the fiscal pressure between Romania and the other EU member states has also been made. The academic literature analyzes the specific problem of the fiscal pressure from all points of view and the problem which pressed upon the theoreticians and also the practitioners of the last decades remains the fiscal optimum. The difficulty in resolving the problem consists in opposite interests: on one hand, the government is willing to acquire the highest level due to the ascendant tendency of public expenses; on the other hand, the tax payers long for a much reduced level in order to dispose of more financial funds.

**Key words:** fiscal pressure, European Union, taxation

**JEL classification:** O23, E62

### 1. Understanding the fiscal pressure

Although at the tax payer's level the tax seems a necessary evil, by virtue of honesty and good citizenship, he agrees to pay it as long as this tax won't affect his normal behavior in economy and society. That is why it is considered that the purpose of the fiscal system consists in realizing some financial objectives (financing the budgetary institutions), economical objectives (stabilizing the economical cycles) and social objectives (acting upon the system of distributing welfare) and for qualification we use the concept of fiscal pressure.

An efficient tax policy is the one capable

to offset the following two trends: on one hand, the state wishes to have a high level of taxes, as it needs to finance the growing

public expenditures, whereas, on the other hand, the tax payers want as low a tax level as possible, which trend is caused by the degree of bearability of a high fiscal pressure.

Fiscal pressure is generally given by all the obligatory tax bites which are calculated by reporting the total sum of obligatory tax bites (taxes, social insurance contributions) in a given period, usually one year, to the size of gross domestic product achieved during the same period by a national economy.

Besides the fiscal pressure technically determined, at a macroeconomic level, there is also a psychological fiscal pressure that measures the tax threshold of tolerance of each taxpayer and that, most often, takes the form of individual fiscal pressure determined as a ratio between the total extent of mandatory levies paid by a taxpayer and his total income before tax.

The specific problem of the fiscal pressure generated a series of attempts of the American theoreticians, and not only, to rethink the problem of the fiscal optimum.

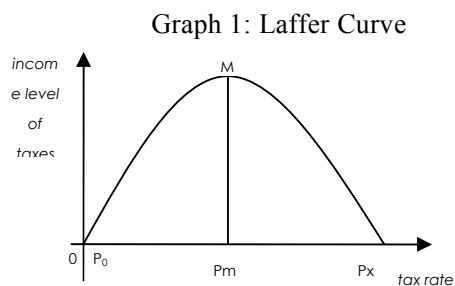
Thus, in 1974, Arthur Laffer transposed graphically (Laffer Curve) an idea expressed in 1776 by Adam Smith, according to which too high tax rates destroy the basis on which taxation acts.

Arthur Laffer believes that there is a threshold of maximum fiscal pressure to which any increase generates a reduction in the tax capacity, because a too high fiscal pressure will discourage the taxpayer to invest, save, produce and work.

Laffer Curve illustrated in the form of a



graph relationship between tax rate and income level of taxes.



According to Laffer Curve, the amount of obligatory tax bites is an increasing function of the fiscal pressure rate, but only until a certain maximal board, marked by M point, which corresponds to the maximal level of the curve, then it becomes an decreasing function of this rate, going until the cancellation if the rate would reach the theoretical level of 100%.

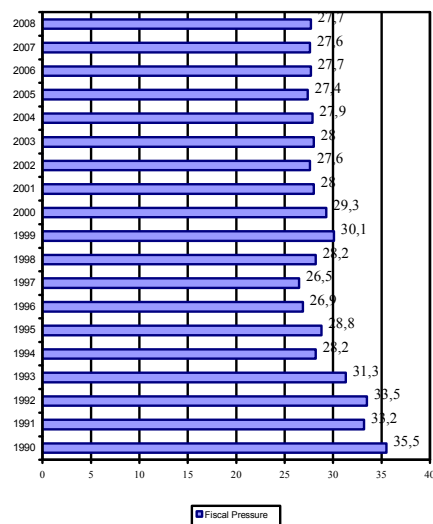
The relationship was the theoretical argument for showing the opportunity of the reduction of the marginal taxing rates which had arrived at very high levels during the application of the keynesist economic policies and of the development of the state's welfare. An important diminution of the direct taxes and an attenuation of their progress are to be wanted also because the people with larger incomes are those who invest and save more. The reduction of taxation must come along with the public consumptions diminution, in order to liberate the necessary resources for restarting the production.

## 2. Analysis of the Romanian fiscal pressure

As for Romania is regarded, the fiscal political measures that are promoted by the fiscal authorities, other factors come into sight, such as the quality of administrating the fiscal debts of the state and the level of compliance with the tax, all these have influenced the volume and structure of compulsory drawings, as well as the fiscal pressure they put.

Graph number 2 shows the dynamic of the fiscal pressure in Romania between 1990 and 2008.

**Graph 2: Evolution of fiscal pressure in Romania 1990-2008**



The analysis of the statistic data from Romania shows the fact that the pressure of the compulsory taxes/drawings, calculated through taking into consideration all the taxes and social contributions collected by the public budgets, have been reduced from 35,5% in 1990 to 27,7% in 2008. Much of the interval we have analyzed, the pressure of compulsory taxes/drawings has been oscillating around the value of 27%, registering a small increase in 2008, compared to the level registered in the previous year.

Our country, with a fiscal system under 30% is situated in the category of the countries with an average fiscal obligation, in which, although the pressure of compulsory taxes is not an exaggerated one, and in some situations even unbearable, especially in the conditions in which the gross domestic product on an inhabitant is relatively small. The practical experience has shown that, an approximately equal level of pressure of the taxes, this is easier to bear in a country where the gross domestic product is higher than in a country in which the GDP is lower.

This big discrepancy between the moderate fiscal system in Romania and the tax payer's perception upon the almost unbearable level is explained through the fact that the level of the fiscal tolerance doesn't depend on the absolute level of the fiscal

obligations, but as well as on the size of its tolerance.

For accrediting the idea that in Romania there's a high fiscal system, a great part has been played, along time, by the existence of a large number of compulsory taxes, charged both to legal and natural persons as well as the legal instability which has characterized the Romanian fiscal system. In our country, there wasn't a strategy of the fiscal evolution; the fiscal system has functioned under the form of a mechanism with deranged movements, without having the capacity to orientate the economic development towards performance.

### 3. Comparison to the member states of the European Union

Compared to other European countries, members of the European Union, we can observe that the level of this indicator in Romania puts our country on the 1<sup>st</sup> place among the European countries. On the first places, together with Romania, we can find Slovakia, with a similar weight-under 30%-as well as other two Baltic states: Lithuania and Latvia. The highest share of taxation in GDP has been recorded in Denmark, Sweden, Belgium, France, Italy and Finland.

We can appreciate that, outlying countries (except the northern countries) tend to practice a lower fiscal system Great Britain and Ireland, Spain and Portugal, Cyprus and Malta, The Baltic States and Poland, Slovakia and the newest member states Romania and Bulgaria, have a lower fiscal system, while the "continental countries" (France, Benelux, Germany, Austria, Hungary, The Czech Republic and Slovenia) either overpass the European mean or are close to this.

This wide variety of tax ratios in the Union is not new. Even before the 2004 enlargement, the EU included a number of member states with tax ratios close to the 50% mark, such as the Scandinavian countries, but also several low tax member states, such as Ireland, Greece, Spain and Portugal.

There are substantial differences not only between the UE15 and the new member states but also amongst the latter. One may

distinguish two groups of countries: a smaller one composed of three countries (Cyprus, Hungary and Slovenia) with tax levels exceeding the EU-27 average (37.5%) and the remaining new member states with lower tax ratios: from the Czech Republic (36.9%, less than one percentage point below the average) to Romania (27.7%, with 9 percentage points below the average).

We have to take into account that the comparison of the pressure of compulsory taxes in Romania, with the levels registered in other states, is not very conclusive, because the fiscal systems have different structures and the levels of economic development are different.

Making a comparison between the pressure of compulsory taxes in the European member states and appreciating the level of pressure in the European Union, in general, confront many difficulties determined by the influence of a variety of general and specific factors for each country such as [1]:

- differences in accounting periods and methods;
- voluntary social security contributions, which are fairly large for some countries (including Germany), are included as tax revenues in the national accounts but not in the revenue statistics; so are the employer social security contributions for government employees;
- imputed government contributions are not included in the revenue statistics;
- inheritance and gift taxes are not considered as taxes in the national accounts while they are included in the revenue statistics;
- for EU countries, VAT and customs revenues are shown net of the amounts transferred to the European Commission in the national accounts while the revenue statistics show gross data.

In underlying the restrictions determined by the use of the pressure indicator of compulsory taxes, we can also add the opinion according to which "this indicator is somehow limited as a comparison measure between countries along time. Among the factors that can influence the level and tendency we can enumerate: the extension of some countries through expenses for social and economical security, rather than through

direct governmental expenses, even if social transfers are or not subject of taxation”[2].

The deficiencies of this indicator are also presented in the work “The Fiscal System and Prices in the Market Economy”[3] where it is appreciated that “the differences between countries, most of them established in time, have to be interpreted carefully, because they can reflect either differences of institutional type regarding the social protection systems, being able to be explained through the weight of the social dues in the total of compulsory taxes, or as a certain policy regarding the budgeted deficit.” It is also shown that “the level and structure of compulsory fiscal taxes depend on the number of factors out of which some have an evolution that doesn’t depend on the state’s will: it’s the case of the demographic structure of the country, especially the weight of the older persons.”

The pressure of the compulsory drawings must be analyzed in a larger frame, not through limitation at the appreciation of the level of pressure but through its linking with the influences of some factors such as:

- the purchasing power of the net profit-the level at which the remained profit after being taxed ensures the needs of sustenance, of spending the spare time as well as of saving the housekeeping;
- the compensations the budget flows financed through taxes induce;
- the level of the tax benefits and the payers to which they refer;
- the existence of a fiscal moron of proportions;
- the evolution of the gross domestic product and of the fiscal incomes.

#### 4. Conclusions

The level of this indicator in Romania puts our country on the 1<sup>st</sup> place among the

member states that have reduced fiscal pressure. On the 1<sup>st</sup> places along with Romania, there are several other countries with a similar weight-under 30%-Slovakia as well as other two Baltic states: Lithuania and Latvia. The highest share of taxation in GDP has been recorded in Denmark, Sweden, Belgium, France, Italy and Finland.

The downward trend of the level of taxation manifested in Romania can be considered as an effect of the general trend of fiscal loosening, resulting in reducing the rate of corporation tax, starting from the 1<sup>st</sup> of January 2000 from 38% to 25% and then to 16% starting with the 1<sup>st</sup> of January 2005, the general tax rate reduction of VAT from 22% to 19% followed by the introduction of the reduced rate of 9% and 5%.

This large discrepancy between moderate taxation in Romania and the level of perception of the tax payers upon the hardly bearable level is explained through the fact that, the level of supportability of taxation depends not only on the absolute level of tax obligations, but also on the size of its bearing base (GDP)

#### 5. References

- [1] Alexandru Felicia ”Fiscalitate și prețuri în economia de piață” Ed. Economică, București, 2002;
- [2] Joumard, Isabelle ”Tax system in the European Union countries” OECD, Economics Department Working Paper no.301;
- [3]. Eurostat, *Taxation Trend in the EU*, 2009;
- [4] National Institute of Statistics, Romania;
- [5] Ministry of Economy and Finance, Romania;
- [6] Vanina Adoriana Boglea ”Evoluții ale sistemului fiscal românesc în procesul aderării și integrării europene” Ed. Casa Cărții de Știință, Cluj-Napoca, 2010.

## **Regulation of System of Revenue and Expenditures at the Local Community Level**

Ionel Marian  
Universitatea Ovidius Constanta  
Radulescu Nicolae  
Academia de Studii Economice Chisinau  
Damasaru Costin, PhD.  
Academia de Studii Economice

### **Abstract**

Law no. 273 of June 29, 2006 on local public finance has been (partially) operating since the 2007 fiscal year. It establishes the principles, the general framework and the procedures for training, administration, employment and utilization of local public funds, as well as the responsibilities of local administrative authorities and of public institutions involved in local public finance. This law repeals Government Emergency Ordinance no. 45/2003 on local public finance, published in the Romanian Official Gazette, Part I, no. 431 of January 19, 2003, approved with amendments by Law no. 108/2004, with subsequent amendments, as well as with any contrary provisions.

**Keywords:** Local budget, budgetary principles, credit officers, public debt, taxes, local taxes.

**JEL Classification:** H72

### **1. Preliminaries**

In the context of some activities' decentralization, Government's passing of some public institutions in the administration and financing of local administration authorities shall be made exclusively under law and only with financial resources to ensure their achievement.

The norm provides that this is done differently, as follows: the first year distinctly comprises amounts deducted for special purposes in the annex to the state budget law,

these sums being necessary for the financing of transferred or new public expenses, as well as for allocation criteria; while in the following years that particular resources are comprised in the ensemble of deducted sums for the equilibration of local budgets allocated to administrative-territorial units, excepting those distinctly nominalized in the state local budget annex.

### **2. New rules applicable to the of local communities' budgets**

Revenues and local budgets' expenditure, as well as other incomes and expenses outside the local budget, aggregated at the administrative-territorial unit's level, make up the general budget of the administrative-territorial unit, which after consolidation, by eliminating amounts transfers between budgets, reflects the dimension of the public financial effort in the administrative-territorial unit in that year, as well as both the equilibrium and imbalance that may exist.

Approved budget appropriations are used to fund local government, programs, projects, activities, actions, objectives and others alike, according to the purposes set out in laws and other regulations, and will be engaged and used in strict connection with the forecasted level of budget revenue collection.

Regarding the budget approval/multi-annual commitments, revenues and expenses will be authorized for the budget year by approving local budgets. Approved amounts at the expenditure section through budgets we refer to, in which payments are undertaken and

mandated, stand for the maximum which can not be exceeded.

As in previous legislation, expenditures are made only within approved budgetary credits, the utilization of budget appropriations for purposes other than those approved drawing responsibility of those who are guilty.

Local budget revenues consist of:

- a) individual revenue consisting of: taxes, contributions and other payments, other incomes and allowances deducted from income tax;
- b) amounts deducted from certain incomes of the state budget;
- c) subsidies received from the state budget and other budgets;
- d) donations and sponsorships.

Substantiation of local budget incomes is based on determination and assessment of taxable field and of tax base on which depends the calculation of related taxes and charges, assessment of services and their gained incomes, as well as other specific elements, including data series for the purpose of a correct income assessment. Meanwhile, the substantiation, the measurement and the distribution of local budget expenditures on credit officers, destinations, actions, activities, programs, projects and objectives respectively, is made in accordance with the responsibilities of the local administrative authorities, taking into consideration priorities set by them for their proper running and for that respective local community's interest.

### 3. Principles applicable to local revenue and expenditure system

The principles operating in regard to the theme approached in this paper are:

1. *The principle of universality.* Revenues and expenditures are totally included in the budget in gross amount. Therefore, budget revenues can not be directly allocated to a specific budget expenditure, excluding donations and sponsorships that have distinct established destinations.

2. *The principle of transparency and publicity.* The budget process is open and transparent, being accomplished through:

- a) publication in the local media, on the public institution's website, or displaying the

local budget project and its annual execution account at that respective local administrative authority's office.

b) public discussion of the local budget project, during its approval.

c) presentation of the annual execution account of local budgets in public hearings.

3. *The principle of unity.* Budget revenue and expenditure is recorded in a single document to ensure efficient use and surveillance of local public funds. Retention and utilization of extra-budgetary revenue, as well as the establishment of local public funds outside the local budget are prohibited, unless the law provides otherwise.

4. *The principle of monetary unit.* All budgetary operations are expressed in national currency.

5. *The annual principle.* Revenues and expenditures are approved by law for a period of one year, corresponding to the fiscal year. All transactions of receipts and payments during the fiscal year in a budget's account belong to the corresponding execution of that respective budget.

6. *The principle of budget specialization.* Revenues and expenditures are registered and approved within budget according to their sources of origin and to expenditure categories which are also grouped according to their economic nature and their destination.

7. *The principle of balance.* Budget expenses are wholly covered by revenues of that particular budget.

8. *The principle of solidarity.* The local budgetary policies can help both administrative-territorial units and individuals living in extreme difficulty by allocating amounts from the budget reserve fund constituted in local budgets. From the budget reserve fund which is represented in the local budget, local councils, counties or the General Council of Bucharest may approve aid to territorial-administrative units in situations of extreme difficulty, at the request of these administrative-territorial units' mayors or on their own initiative.

9. *The principle of local financial autonomy.* Territorial-administrative units are entitled to sufficient financial resources which local government authorities may use to perform their duties under and within the law. Local administrative authorities have the competence

to establish the levels of taxes and local charges under the law.

Allocation of financial resources to balance local budgets should not affect the application of local administrative authorities' budgetary policies in their field of competence. Therefore, the amounts deducted for special purposes must be used by local administrative authorities only in accordance with the law.

10. *The principle of proportionality.* Territorial-administrative units' financial resources must commensurate with the responsibilities of local authorities established by law.

11. *The principle of consultation.* Local administrative authorities, through their associative structures, should be consulted on the allocation of financial resources from state budget to local budgets.

#### **4. Rules, competences and responsibilities in the local budget process**

Article 14 of the above-mentioned legislative act introduces a number of budgetary rules:

- Making payments directly from the collected revenue is forbidden, excepting the cases where the law provides otherwise.
- Budget expenditures are targeted and limited and are determined by authorizations contained in special laws of the annual budget laws.
- No expense can be registered in the local budgets and can not be undertaken out of these budgets if there is no legal basis for that expense.
- No expense from public funds can be committed, authorized and paid unless it is approved by law and unless it has budgetary provisions and funding sources.
- After approval of local budgets, legislative acts having implications on them can be approved only by specifying the sources for covering income diminution or budget expenses growth that are related to the fiscal year for which the respective local budgets have been approved.

With regard to the skills and responsibilities in the local budget process there have been done no essential changes. However, we remind the

most important reference points as they are currently regulated.

The related budgets are approved as follows:

- a) the local budgets, the domestic and foreign loans' budgets and the non-reimbursable external funds' budgets, by local councils of villages, cities, municipalities, sectors, counties and the General Council of Bucharest, where appropriate;
- b) the public institutions' budgets by the above mentioned councils, depending on their subordination.

During the fiscal year, authorities may approve budget rectification within 30 days since the state budget rectification law came into force, as a result of fundamental proposals of the credit officers. Local budgets' rectification shall be applied the same procedures as their initial approval, excepting the periods of budget calendar.

Local administrative authorities have the following competences and responsibilities with regard to local public finance:

- a) elaboration and approval of local budgets in condition of budgetary balance according to terms and provisions established by this law;
- b) establishment, determination, control, monitoring and collecting tax rate and local taxes, as well as any other incomes of administrative-territorial units, through specialized departments under the law;
- c) tracking and reporting of local budgets execution, as well as their rectification during the fiscal year in conditions of budgetary balance;
- d) establishing and observing the performance of activities in the local interest public services domain, including the option of passing those services in the charge of some authorized economic operators or local public services, in an effort to increase efficiency for the benefit of local communities;
- e) direct contracting of domestic and foreign loans for short, medium or long periods and ensuring payment at maturity of liabilities resulted from here, as well as guaranteeing such loans and ensuring payment at maturity of the liabilities resulting from these loans by beneficiaries. *Note: County Councils Presidents are applied the provisions that*

were shown, similar to the executive authorities.

In the stated plan, credit officers are of three types: chief officer (CO), secondary officers (SO) and tertiary officers (TO). *Chief credit officers* of local budgets are the mayors of administrative-territorial units, the Mayor of Bucharest, mayors of the Bucharest sectors and the county councils' chairmen. The chief credit officers may delegate this right to substitutes or other persons empowered for this purpose. Through the instrument of delegation, the chief credit officers specify the terms and conditions.

Leaders of public institutions with legal personality, whom are allocated funds from local budgets, are *secondary* or *tertiary credit officers*.

Referring to the role of officers, we show that CO analyze the way in which budget appropriations are used, these being approved by local budgets or by public institutions' budgets, whose coordinators are secondary or tertiary credit officers and approve the spending of their budgets while respecting legal provisions.

SO allocate budget appropriations approved for their own budget and for budgets of public institutions whose leaders are tertiary officers, and approve expenditures from their own budgets in compliance with legal provisions.

TO use budgetary appropriations that have been allocated to them only for tasks of the units they lead, in accordance with the approved budgets provisions and conditions set by the law.

In terms of credit officers' responsibilities, we remember that they must engage and utilize budget appropriations only within the limits of provisions and approved destinations and for expenses strictly related to those public institutions' activities while considering legal compliances.

As a result, all credit officers are responsible for:

- a) the elaboration and substantiation of their own budget project and observing the way incomes are accomplished;
- b) the engagement, the liquidation and authorization of expenditures within approved budgetary appropriations and budget revenues that may be collected;

c) the integrity of goods that are owned or run by the institution they lead and the organization and maintenance of accounting, the timely submission of financial statements regarding the situation of the patrimony which is under management of the budget execution;

f) the organization of the surveillance system of the public acquisitions and investment program, as well as the organization of program surveillance, including their associated indicators and maintenance of patrimony record.

#### **4. Conclusion. Highlighting the role of control**

With regard to the theme we have approached, we can remember that preventive financial control, internal public audit and subsequent assessment have a key role within this framework. Preventive financial control and internal public audit is exercised over all operations affecting local public funds and/or public and private property and are exercised according to legal regulations in the field.

Engagement, liquidation and authorization of local funds expenditures is approved by the credit officers and their payment is made by the accountant, with the exception of art. 54 paragraph (7), which states that: "Payment of expenses to villages and public institutions whose financial-accounting department has a staff number of less than five persons shall be made by the credit officer and the authorized person responsible for accounts, in compliance with methodological norms on organization, recording and reporting of budgetary and legal commitments.

In all cases, the engagement and authorization of expenditures shall be made only by preventive financial control

endorsements, while substantiation and utilization of local funds and local budgets execution account are controlled by the Court of Accounts.

#### **5. References**

- [1] Ionel Bostan, Public Financial Law, Dacia Publisher, Cluj Napoca, 2006.
- [2] Dan Saguna, Financial Law Tax, All Beck Publisher, Bucharest, 2006.
- [3] \*\*\* Law no. 273 of June 29, 2006 on local public finances.
- [4] [www.mfinante.ro](http://www.mfinante.ro)

## Fiscal Policy Challenges in Times of Crisis

Ionescu Alexandra

„Ovidius” University of Constantza  
[al3xandra\\_ionescu@yahoo.com](mailto:al3xandra_ionescu@yahoo.com)

Dobre Elena

„Ovidius” University of Constantza  
[edobre09@gmail.com](mailto:edobre09@gmail.com)

Cusu Dorinela

„Ovidius” University of Constantza  
[cusudorinela@yahoo.com](mailto:cusudorinela@yahoo.com)

### Abstract

*Severely affected by the crisis, considered as the deepest one since the Great Depression between 1929-1933, the European Union's economy has recorded the sharpest decline in its history starting with the end of 2007. In response to this downturn, interventions included implementing the European Economic Recovery Plan, changing the fiscal policy, together with a coordinated support of all member states to stabilize the financial and banking sector. Still, the instruments used to counteract the negative implications of the crisis and the fiscal measures taken by each state member differ notably, as the economic conditions differ from one state to another. Through this paper we intend to analyze the European Union's reaction to the new challenges in the economic environment, and in particular, Romania's way of addressing a period of deep constraints.*

**Key words:** fiscal policy, European economic recovery plan, fiscal adjustments.

**JEL Classification:**E62

### 1. Introduction

Within any economic activity, expenditure is an essential part, on which relies the future development of the respective activity. At the level of the national economy the problem of public expenditure for the financing of different fields or economic sectors claims the existence of a large income so that these

expenses may be covered. Due to the present crisis, which gradually deteriorated the economic climate in the last two years, limiting public expenditure became an essential priority for all governments. Considering this context, Romania too has had difficulties facing these problems, as the gap between public expenditure and public income started to deepen. Still, this increasing gap was not the effect of the increase of expenditures, but was caused by a lowering of the total revenue. Therefore, European governments have been making serious efforts to support the economies by adopting packages of measures with strong economic impact, whereas among all fiscal measures have the biggest impact on the short-term. Most of these fiscal packages refer to tax cuts, but in some cases states preferred to increase their revenue. Regardless of the measures taken, they are all aiming one objective: the economic recovery.

### 2. Europe facing the crisis. The European Economic Recovery Plan

The two years of economic decline seriously affected Europe's economy.

One of the first measures taken by the European Commission to combat the current economic situation was the launch of the European Economic Recovery Plan (EERP) at the end of 2008 (COMM (2008) 800 final). Aiming to avoid a deep recession by stimulating demand and boosting consumer confidence, the plan recommends a high budgetary infusion of Euro 200 billion, respectively 1.5% of EU total



GDP. In fact, this major injection of purchasing power was considered the first pillar of the recovery plan, while the second pillar addresses to the necessity of re-directing European Union's short-term actions in order to assure long-term competitiveness ([1]).

However, the initial budgetary infusion was followed by an extra injection of Euro 2.6 billion in the EU budget in 2009, and will continue with a second budgetary infusion of Euro 2.4 billion in 2010.

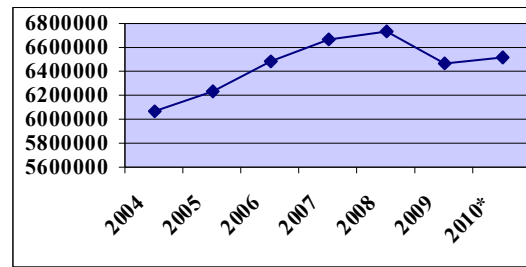
Considering the two pillars mentioned before, the plan makes recommendations for the member states, such as a mixing policy of revenue and expenditure instruments which includes:

- Increasing the level of public expenditure;
- Granting financial incentives, public guarantees and loan subsidies;
- Reductions of taxes and social contributions;
- Temporary reductions of the general level of VAT.

Still, none of these measures were strictly imposed by the European Commission. Therefore, depending on its economic conditions, each European state had a different approach regarding fiscal stimulus packages. For example, Hungary preferred to increase the corporate income tax rate from 16% to 19% and VAT rate from 20% to 25%, while reductions of the personal income tax on employment were applied. On the other hand, Belgium lowered the VAT rate for the construction of private and social dwellings from 21% to 6%, Germany granted incentives for buyers of environmentally friendly cars and Spain was in favor of 100% rebate on the wealth tax ([2]).

But let's have a look on some of Europe's figures before and after the strike of crisis. Firstly, analyzing GDP volume evolution, there is an obvious deceleration of the growth rate in 2008, followed up by a severe contraction in 2009, respectively -4.1% (Graph 1). The explanation for this situation lies back in the decline of demand, one of the major problems that Europe has been facing with since autumn 2008.

Graph 1. Evolution of EU GDP volume (million Euro)



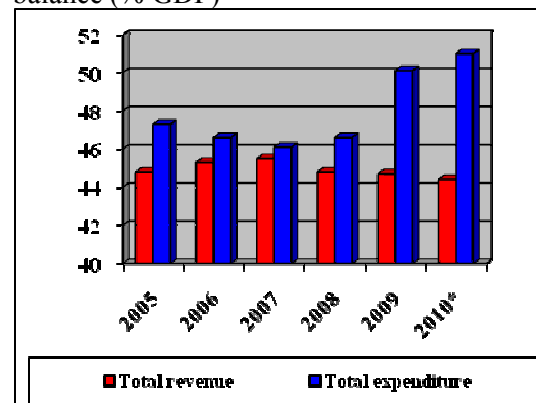
So

Source: European Commission

As several measures to stimulate general demand have been taken, a slight increase of +0.7% of the GDP volume is expected to be recorded by the end of 2010.

Making a short analysis of the general government budget balance, we observe the fact that after 2007, the total EU expenditure has been constantly growing, from 46.1% of EU total GDP in 2007, to 46.6% in 2008, respectively 50.1% in 2009 (Graph 2). In contrast with this trend, the total EU revenue had a short increase in 2008 to 44.8% of EU total GDP, while in 2009 recorded a slight reduction to 44.7% of the total EU GDP.

Graph 2. General government budget balance (% GDP)



So

Source: European Commission

Projections for 2010 suggest a similar evolution, maintaining the increasing trend of the total expenditure, along with the decreasing trend of the total revenue, the expected deficit for 2010 reaching a record level of 6.5% of EU GDP ([3]). This indicates the fact that European

governments have put into practice recommendations of the Economic Recovery Plan, as the impulse in general demand is based on increasing public expenditure policies, accompanied by temporary reductions of taxes (decreasing revenue policies).

Accordingly, sustained efforts to stabilize European economy have marked the first positive evolution since 2007. The modest +0.3% increase of the GDP volume at the end of the third quarter of 2009 was the first signal, and was followed by the positive estimates of the European Commission for 2010 GDP evolution (+0.7% increase compared to 2009). Still, measures taken to counteract crisis must and will be maintained, as economic recovery is a difficult and long-term process.

### **3. Romania's case. Fiscal policy adjustments in times of crisis**

After several years of economic growth, Romanian economy has first signaled problems in autumn 2008. Due to the severe economic environment deterioration, authorities started taking a series of measures beginning with 2009. Therefore, several fiscal adjustments have been made, including both revenue and expenditure policy changes. Still, given the need for fiscal consolidation, the fiscal stimulus measures have been restricted to the priority areas of the economy: supporting businesses, reinforcing labor market and supporting household income.

Firstly, a tax exemption has been applied for capital gains obtained from trading securities on the stock market. This exemption has been limited at a period of one year, between January 1<sup>st</sup> 2009 and December 31<sup>st</sup> 2009. In addition, reductions of dividend taxes for non-residents have been applied, from 16% to 10%, together with permanent exemptions for specific capital gains of non-residents. On the other hand, starting with 2009 authorities implemented a 1% increase in the social security contribution for employees, a 2% tax of gross income for incomes deriving from agricultural activities, and a gradual increase of the excise duties, as stated in the 2009-2012 Convergence Program.

Another fiscal facility introduced in 2009 and maintained in 2010 was the tax exemption of interest rates for deposits of residents and non-residents. Furthermore, starting with January 1<sup>st</sup> 2010, reinvested profits are exempted from tax (the initial entry into force was the second quarter of 2009, but was brought ahead by more than half year). Fiscal costs of this measure are estimated at Lei 240-420 billion in 2010, indicating an important decrease in budgetary revenues, but the impact on the labor market would be a positive one, leading to lower unemployment costs.

Continuing the pursuit for economic recovery, government adopted in 2010 an additional package of measures, in compliance with EERP recommendations and in connection with the four priority areas of the Lisbon Strategy. Considering one of the top priorities of the European Economic Recovery Plan - employment protection - and due to the fact that unemployment rates have reached the highest levels in the last 5 years, a range of fiscal facilities addressing to both employees and employers have been introduced. As a result, employers can benefit of six months exemption of social contributions by hiring jobseekers that have been unemployed for a period of minimum three months ([4]). With its stated purpose, that of increasing labor demand, this particular measure aims to improve unemployment rates, which would eventually have a positive impact on general demand.

Moreover, both employers and employees are eligible of exemptions from social contributions in cases of technical lay-offs. In such cases, the treatment of revenues was modified by 2009 State Budget Law as follows:

- For employees, the revenues are treated as non-salary income and taxed accordingly;
- For employers, a 100% exemption from payment of the state and social security budget contributions applies.

In addition, the period for which unemployment benefit was granted in 2009 was extended by 3 months, having a budgetary impact of Lei 0.18 billion. The fiscal facility

referring to the exemptions from social contributions in cases of technical lay-offs was introduced in 2009 and is planned to be maintained in 2010, generating an estimated budgetary effort of about Lei 1 billion.

Expenditure policy, on the other hand, has been focusing on limiting public expenditure, in order to lower the public deficit. In this context, important cuts in public expenditure for goods and services and have been made, the pension increase has been limited to the inflation rate, reductions of bonuses in the public sector have been applied and recruitment in the public sector has been suspended. Still, in order to sustain the economic recovery, and according to EERP recommendations, government has planned a massive investment process in the public sector in 2010, as previously done in 2009, when Euro 10.2 billion were allocated to investments, which account for 20% of the aggregate budget expenditure for 2009, or for 7% of Romania's GDP respectively ([5]).

On the short-term, according to the 2009-2012 Convergence Program, assumed budgetary policy for 2010 was formulated considering the objective of reducing the budget deficit and the net financing for the public sector. 2010 budgetary program aims a 5.9% of GDP deficit, 2 points lower than the one recorded in 2009. Measures taken in order to lower the deficit mainly consist of reductions of current public expenditure, and include ([6]):

- Limitation of personnel expenditure by freezing wages (except wages below Lei 705 monthly) and freezing on hiring in the public sector, together with reductions of overtime pay and bonuses;
- Reduction of pension expenditure generated by freezing pensions (except social pension) and a further rationalization of disability pensions and early retirement in the context of stricter application of existing regulations;
- Reductions of public expenditure for goods and services;
- Economies generated by a better administration of the social security programs;
- Reevaluation of property tax,

increases of excise duties for cigarettes and fuel.

Apart from limiting the current expenditure, fiscal stimulus measures for 2010 refer to maintaining VAT rate and flat tax levels, ensuring conditions for absorption of structural and cohesion funds, establishing a medium-term expenditure framework along with combating tax evasion and improving revenue collection.

#### 4. Concluding remarks

Within its legislative competence and financial resources and instruments available, the European Union has taken a series of driven measures to combat current financial crisis, but also to prevent future similar crises. Moreover, the European Parliament and European Commission issued several documents including proposals to promote economic recovery. Still, it must be stressed that, especially in financial and macroeconomic matters (e.g. demand stimulation), the EU has a role of rather coordinating national measures (EU budget is only 1% of gross national income of EU27) and controlling the national measures compliance with EU legislation. Consequently, the European Economic Recovery Plan does not contain strict regulations for EU members, it only provides a fiscal framework for action.

Fiscal adjustments in the short-term policies of EU states, as stressed previously, point out several differences concerning instruments used to counteract the decline. Some considered increases of VAT rate or corporate income tax rate, others maintained their current level, while some preferred temporary cuts of specific tax. Yet, all consist of mixing revenue and expenditure instruments.

Regarding Romania's case, the main concerns of the short-term anti-crisis fiscal strategy adopted by authorities are to stop the economic decline and to stimulate economic growth and to maintain and create jobs, in the context of the need for fiscal and budgetary consolidation. Measures taken so far indicate the fact that government is planning to maintain current tax levels and to apply several exemptions on income tax, in order to protect population and to create general demand.

## 5. References

[1]E. Dobre, L. Ristea, *New Challenges for International Audit Firms-Liquidity Risk and Financial Crisis Answer Measures*, the Second Congress of Financial Auditors from Romania, Cluj Napoca, 26 june, 2009, Ed. ELFI, Bucharest, 2009

[2]E. Dobre, M.M. Dobre, *Fannie Mae and American Mortgage Backed Securities – a Benchmarking and a New Challenge For Romanian Banks*, International Business, Information Management Association (IBIMA), 12 th IBIMA Conference, Cairo, 2009

[3] Commission of the European Communities, “A European economic recovery plan”, Communication from the commission to the European Council COMM (2008) 800 final, Brussels, 2008, pp. 2-10.

[4] European Commission, “Taxation trends in the European Union”, Publications Office, Luxembourg, 2009, pp. 13-19.

[5] European Commission, Public finances in EMU, Publications Office, Luxembourg, 2009, pp. 21-23.

[6]Government of Romania, Government Emergency Ordinance 13/2010 regarding certain measures to boost labor demand and reduce unemployment, Official Monitor no.136, Bucharest, 2010.

[7] Government of Romania, 2009 State Budget Law no.18/2009, Official Monitor no.121, Bucharest, 2009.

[8] Government of Romania, “Convergence Program 2009-2012”, Bucharest, 2010

## From Professional Judgement to Audit Professionalism in a Global Economy

Ionescu Iancu Octavian

*PhD candidate, Academy of Economic Studies, Bucharest, Romania*

*E-mail: octavian.i.ionescu@gmail.com*

### Abstract

*In an increasingly globalised economy, the quality and professionalism of a business is becoming more important than ever before. The audit profession is no exception. This paper examines audit professionalism, its trend and its relationship with professional judgement. It is discovered that there is a contradiction between the commercial logic and the professional logic in the audit practice. This article argues that the key to bring a balance to this contradiction is professional judgement.*

**Key words:** audit professionalism, commercial logic, professional logic.

**JEL Classification:** G32, G38.

### 1. Introduction

Financial audits exist to add credibility to the implied assertion by an organization's management that its financial statements fairly represent the organization's position and performance to the firm's stakeholders and to consolidate trust in the business world. The financial statements must present information that are true and fair, that reflect the economic reality of the transactions, that are impartial, prudent, relevant and credible. As a professional and an expert in accounting, the financial auditor and his work, respecting laws and International Standards on Auditing, adds credibility to the financial statements.

Unfortunately, over the last decade the accounting profession has been beaten up badly in the press and with some justification. Global scandals like Enron, Parmalat, World.com, the current financial crisis with the collapse of big banks like Lehman Brothers together with numerous

litigation faced by auditors are just a few of the factors that fuelled the society and regulator's critics. Different researchers investigating the issue place emphasis on a variety of phenomena that created the environment in which these major scandals were possible. The consequence was that the entire accounting and audit profession has had its reputation tarnished. The forces at work were numerous and complex. Corporate and individual greed, delivering services that acted to impair independence, becoming too close with clients, and participating actively in finding ways to avoid the provisions of accounting standards were only a few of the causes but the main cause that embedded all the rest was deficient professionalism. The profession's historical defences to combat these forces proved ineffective. The bottom line is that the profession and the society as a whole, has paid a high price for the accounting profession's failure to meet the expectations of investors, creditors, and other users of financial statements.

All these facts prompt to a more considerate approach towards the use of professional judgement in every stage of an audit and to allocating a greater importance to the issue of professionalism.

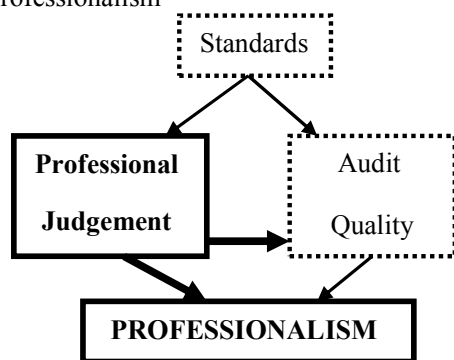
### 2. The concept of professional judgement

Throughout his work, the financial auditor uses an important and central element: professional judgement. Professional judgement is the cornerstone for the audit profession and is applied in all stages of an audit, from planning stage to the audit opinion. Professional judgement is an integral part of audit and cannot be dissociated from it.

Professional judgement in auditing is the

application of relevant knowledge and experience, within the context provided by auditing and accounting standards and the rules of professional conduct, in reaching decisions where a choice must be made between alternative possible courses of action [1]. By referring to professional standards, concepts like independence and objectivity, professional competence, integrity, professional scepticism and responsibility are implicitly incorporated in the definition of professional judgement. It is clear that professional judgement takes place in the context of professional standards reflecting the collective judgements of the profession. Professional standards are therefore important in exercising professional judgement as they act as references and lighthouses for auditors. The absence of comprehensive professional standards combined with factors such as the increased frequency of business failures and the inability to meet public expectations have increased auditors' exposure to liability claims. The quality of professional standards will definitely impact the professional judgement of the auditor and both will impact the quality of the audit work. The professional judgement exercised by the auditor in the course of an audit together with the quality of the audit work will, consequently, impact the level of audit professionalism (see Figure 1.).

Figure 1. The relationship between professional judgement and professionalism<sup>1</sup>



### 3. The concept of professionalism

Many attempts have been made to define a profession, in general, and professionalism, in particular. The essence of professionalism is a

<sup>1</sup> Original conception of the author.

commitment to develop one's skills to the fullest and to apply them responsibly to the problems at hand. Professionalism requires adherence to the highest ethical standards of conduct and willingness to subordinate narrow self-interest in pursuit of the more fundamental goal of public service [2].

Professionalism is an aspirational standard with a few essential elements: competence, personal integrity, responsibility, accountability and public obligation. The competence element comprises relevant, up-to-date skills and capabilities appropriate to the particular task and a broader foundation of relevant experience, knowledge and understanding. Competence, as part of professionalism, must also include appropriate non-technical skills such as communication, business, leadership, management competences. Competence must also be supported with relevant qualifications and maintained through continuing professional development. Integrity refers to a clear commitment to abide by a code of ethics which is recognised and administered by the professional community. Responsibility and accountability comprises a set of personal obligations and responsibilities which sit alongside the contractual obligation to an employer or client and a matching accountability which is also separate from that of an employer. Public obligation is another essential element of professionalism which refers to a contribution to protect the public interest, to social responsibility commitment and to a contribution to the professional community alongside support from that community [3].

### 4. Commercialism versus professionalism

Throughout the audit profession the push was on to extend the range of services provided. The consulting practices grew in different ways among the firms, mainly directed by the different talents of the personnel with the firms. These people were not paraprofessionals, but rather they were relatively high-paid personnel with strong skill sets in areas only distantly or even unrelated to accounting or auditing. Their numbers grew rapidly, and their success in

generating high-margin fees gave them an increasing voice in firm management. Their relative success created enormous pressure on the auditing and tax practice, both to grow revenues and to increase margins. The successes in the consulting practice increasingly influenced behaviour by auditing leaders and the impact of these behavioural changes gradually affected the behaviour patterns of audit personnel as well. Improved profitability became the key focus. These changes associated with the growth of consulting practices evolved relatively slowly over a period of about forty years. In essence, the cultures of the firms had gradually changed from a central emphasis on delivering professional services in a professional manner to an emphasis on growing revenues and profitability [4]. The focus on delivering quality professional service did not disappear, of course. No one rang a bell in a firm and announced that quality professionalism is out. But, on the other hand, keeping the client happy and doing what was necessary to retain the client achieved a prominence that did not exist prior to the advent of the successful consulting arms within the firms. As a direct consequence, it can be concluded that over the last forty years the core values of the professional firm were undermined by primarily commercial interests. Action is therefore needed in order to restore the degree of professionalism that audit firms once enjoyed and to better prepare the audit profession for the challenges it may expect from the present as well as from the future.

## 5. Conclusion

The audit framework was undermined, and the result was what we have recently seen in massive bankruptcies, corporate restructurings and ongoing litigation.

The gradual changes in internal firm culture effectively altered the long-standing value systems of firm leaders and the results have been costly and problematical to reverse. The cultural changes evolved over a long period and have become pervasive in nature. However, the professional auditor has a powerful tool at his/her discretion: professional judgement. Now is the time to use professional judgement more than ever to bring a balance between the logic of commercialism and the logic of professionalism

for the benefit of the audit profession and the society at large.

Therefore, the current challenge of firm leaders has to be to gain an understanding of how the current culture evolved and how best to use professional judgement to eliminate the damaging commercial initiatives and restore a proper and expected degree of professionalism.

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

## 6. References

- [1] Sherer, M., Turley, S., „Current Issues in Auditing“, Third Edition, Paul Chapman Publishing, London, 2005.
- [2] Rhode, D.L., „Professional Responsibility: Ethics by the Pervasive Method“, Second Edition, Wolters Kluwer Law and Business, Amsterdam, 1998.
- [3] Wyatt, A.R., Gaa, J. C., „Accounting Professionalism: A Fundamental Problem and the Quest for Fundamental Solutions“, The CPA Journal, Vol. 74, Issue 3, 2004, pp. 22-31.
- [4] Gendrone, Y., Suddaby, R., Lam, H., „An Examination of the Ethical Commitment of Professional Accountants to Auditor Independence“, Journal of Business Ethics, Vol. 64, Nr. 2, 2006, pp. 169-193.

## The Larosiere Report - the Road to Financial Stability in the European Union

Ionescu Iancu Octavian

*PhD candidate, Academy of Economic Studies, Bucharest, Romania*

*E-mail: octavian.i.ionescu@gmail.com*

### Abstract

*The Larosiere commission was given by the European Commission president the dual task to research the causes of the present global financial crisis and come up with recommendations on how to reform the regulation of financial markets. The Larosiere commission published its report known as The Larosiere Report in February 2009. The report lays out a framework to take the European Union forward. Ambitious reforms are proposed, projected on two main dimensions: a macroprudential dimension and a microprudential dimension. The creation of a new European System for Financial Supervision covers the microprudential dimension and it refers to the transformation of the existing level 3 committees into 3 new European Authorities under one central institution. Regarding the creation of these new institutions two suggestions are presented: one about the cross sector cooperation between these institutions, and the second about the need to have a fiscal back-up, a fiscal power alongside the supervisory one in this newly created European System for Financial Supervision.*

**Key words:** The Larosiere Report, macroprudential dimension, microprudential dimension.

**JEL Classification:** M4, M42.

### 1. Introduction

From July 2007 the world faces the most serious financial crisis since the 1929 Great Depression. As the international financial crisis unfolded, it was clear to all that the global financial system was in need of significant reform. What has not been clear is

exactly what changes are needed. In the last few months, three reports by the working group on Financial Reform have started the process to chart a way forward. These reports are led by the former Chairman of the US Federal Reserve, Mr. Paul Volcker, Lord Turner from the UK's Financial Services Authority [1] and the former governor of the Banque de France Mr. de Larosiere. There is a high degree of consensus between the three reports which is an encouraging start but one would not underestimate the difficulty of forging an international consensus across such a broad range of complicated issues. In this article I will discuss about the Larosiere report and the recommendations it proposes to stabilize and enhance the financial system. I will focus on main recommendations: the creation of the European System for Financial Supervision and the review of the mark-to-market accounting principle. These two coordinates will reform, enhance and stabilize the financial system in the European Union. The Larosiere Group's mandate covered the issues of how to organize the supervision of financial institutions and markets in the European Union, early warning and crisis mechanisms, how to strengthen European cooperation on financial stability and how European Union supervisors should cooperate globally. The strength of the report lays in the ambitious plan to set up two main institutions of macro and microprudential supervision of the European financial system: the European Systemic Risk Council at macroprudential level and the European System for Financial Supervision at microprudential level. The Larosiere report identifies a number of causes that triggered the present financial crisis. The Report identifies a number of the causes of the financial crisis such as the existence of



excess liquidity, which led to rising asset prices and growth in credit volume. This in turn led to a housing bubble which was exacerbated by increased mortgage lending and poor lending practices. The use of structured financial products to manage such credit exposure and their lack of transparency meant that the extent of the risk being taken on by financial entities was unknown or unquantifiable. The Report also identifies a failure on the part of regulators to identify systemic issues, rather than those related to a particular firm or industry, as contributing significantly to the crisis. A failure to react to the crisis, caused by inadequate information exchange and a marked lack of collective decision making between national supervisors, is also blamed for the failure to mitigate the impacts of the crisis as it developed [2]. As a consequence, the Larosiere report underlines the necessity for the European Union to adopt measures to improve the process of systemic problems identification as well as measures to improve the exchange of information between national supervisory authorities.

## 2. The Lamfalussy process

In order to understand the changes that will take place by the creation of the European System for Financial Supervision, it is important to present the present processes of European financial system regulation and supervision. The present approach to the development and adoption of financial services legislation in the European Union is the Lamfalussy process, named after the chair of the European Union advisory committee that created it, Baron Lamfalussy. It comprises a four-level procedure that speeds up the legislative process. The parts of the Lamfalussy framework which are of most direct relevance to regulators are the committees on which they are represented, notably the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR). These are sometimes called the „Level 3 committees” because they are at level three of the four levels of the Lamfalussy process. Under the Lamfalussy arrangements, the Commission proposes framework legislation and it is adopted under the 'co-decision' procedure that involves

both the European Council and the European Parliament. This is Level 1. It is supplemented at Level 2 by more detailed implementation measures, adopted by the Commission and endorsed by a qualified majority of Member States. The detailed Level 2 legislation is prepared by the Commission on the basis of advice provided by representatives of national supervisory authorities, acting through the 'Level 3' committees (CEBS, CEIOPS and CESR). In finalising their advice, the Level 3 committees consult extensively with providers and users of financial services. The Level 3 committees also aim to foster supervisory convergence and best practice, principally through the creation of guidance. Finally, at Level 4, the Commission ensures that Member States are complying with applicable legislation and it pursues enforcement action where required. Analyzing Lamfalussy process, it clearly results that, at present, the most important supervisory structures for the European financial system are the level 3 committees. The level 3 committees are examined in depth by the Larosiere group and based on their structure, improvements in the financial supervisory system are proposed.

## 3. From the Lamfalussy process to a European System for Financial Supervision

After having examined the present arrangements and in particular the cooperation within the level 3 committees, the Larosiere group considers that the structure and the role of the existing committees are not sufficient to ensure financial stability in the European Union and all its Member States. Although the level 3 committees have contributed significantly to the process of European financial integration, there are a number of inefficiencies which can no longer be dealt with within their present legal structure. This is why the Group proposes the establishment of a European System of Financial Supervision.

The European System for Financial Supervision should constitute an integrated network of European financial supervisors that will work based on the level 3

committees, improved and transformed into three European Authorities. In the Larosiere group's opinion, the Commission, the Council and the Parliament should immediately start the necessary legislative work to transform the level 3 committees into three European Authorities: a European Banking Authority, a European Insurance Authority and a European Securities Authority. The new European Authorities will replace the present level 3 committees: CEBS, CEIOPS and CESR.

The European System for Financial Supervision will be a largely decentralised structure because existing national supervisors, who are closest to the markets and institutions they supervise, would continue to carry-out day-to-day supervision and preserve the majority of their present competences. But in order to be in a position to effectively supervise an increasingly integrated and consolidated European financial market, the Authorities will carry-out a defined number of tasks that are better performed at supranational level. Particular attention will be paid to large cross-border institutions which pose systemic risks which were not detected by the present supervisory structures.

The European System for Financial Supervision must be independent from possible political and industry influences, at both European and national level. The Authorities should have sufficient resources and powers. But in order to strengthen legitimacy, proper accountability to the political authorities at the European and national levels should be ensured. In short, the European Authorities must be independent from the political authorities, but fully accountable to them. The European System for Financial Supervision must work with a common set of core harmonized rules and rely on high quality and consistent information.

To realise this ambitious objective, the Larosiere group proposes a two stage process that will lead to the strengthening of the European supervisory system, will raise the stability of the financial system and will restore trust in the financial markets.

#### **4. Establishing the European System of Financial Supervision**

After the preparation in Stage 1 (2009-2010): Preparing for a European System of Financial Supervision, the establishment of the European

System of Financial Supervision is planned for Stage 2 (2011-2012). The establishment of the European System for Financial Supervision is a daunting task. The establishment will take place through the transformation of the level 3 committees into three new European Authorities: the European Banking Authority, the European Insurance Authority and the European Securities Authority.

These Authorities should have their own autonomous budget, commensurate with their responsibilities. In addition to the competences currently exercised by the level 3 committees, the newly created Authorities should have the following key-competences:

- legally binding mediation between national supervisors,
- adoption of binding supervisory standards,
- adoption of binding technical decisions applicable to individual financial institutions,
- coordination of colleges of supervisors,
- designation, where needed, of group supervisors,
- licensing and supervision of specific European Union-wide institutions (like Credit Rating Agencies),
- binding cooperation with the European Systemic Risk Council to ensure adequate macro-prudential supervision.

In this second stage, national supervisory authorities should continue to be fully responsible for the day-to-day supervision of firms. The Group recommends that planning for the 2 stages of the new system be started immediately. To this effect, a group of high-level representatives of the Finance Ministries, the European Parliament, the Level 3 Committees, and the European Central Bank to be chaired by the European Commission, should come forward with a detailed implementation plan.

#### **5. Suggestions**

In order to support the successful implementation of the Larosiere report recommendations, I shall present a few

suggestions. The first suggestion is about the cross sector cooperation and communication enhancement between the three new European Authorities. Supervising large complex financial institutions requires an ability to distil an enormous amount of detailed and highly technical information into a coherent picture of individual firms' risk positions, to assess that picture against global market developments and to judge the viability of firms in various market scenarios. In this activity, communication plays a critical role. To avoid a possible isolation tendency in the sector of which each Authority is responsible and in order to have a better information flow within the European System of Financial Supervision, I suggest the setup in parallel with the three Authorities of a Committee for Cross-sector Cooperation. The Committee for Cross-sector Cooperation can have members from each Authority, designated by rotation, and its main role would be to facilitate the exchange of information and best practice procedures between Authorities, as well as to centralize aspects regarding microprudential supervision within the European System of Financial Supervision. The second suggestion refers to the necessity to have a fiscal power, alongside the supervisory power, within the European System of Financial Supervision. Any structure for financial supervision and stability needs a fiscal back-up. Although this aspect has been omitted by the Larosiere report, the financial crisis has made that abundantly clear. The current national structures are backed by the national Treasuries. A European financial supervisory structure needs a European fiscal arrangement at institutional level. Without such a European fiscal arrangement, crisis management has to remain at national levels, leading to financial protectionism. Moreover, leaving expensive crisis management at national level, while shifting supervisory powers towards the supra-national level, could be described as national taxation without proper control and national representation. A fiscal power would strengthen the authority and efficiency of the European System of Financial Supervision in times of economic effervescence but especially in times of crisis.

## 5. Conclusion

The aspect of the supervisory changes for the financial system in the European Union presented in the Larosiere report is conceptually clear and with sufficient implementation details. Overall, its general structure is attractive. It makes it clear that the key is to coordinate not to centralise all activities in one institution. The change of the present financial supervisory structures by its transformation into an institution with significant powers and resources is a definitive step towards a systemic approach to financial markets' regulation and supervision at the European Union level. But will this be enough to restore the single market? The financial crisis and the large state aid packages have forced ailing banks to re-focus on their home market and reduce their activities abroad. Market integration is declining and competition diminishing. It will take time before the effects of the measures discussed above become visible, and the single market process advances again. The stability of the financial system in the European Union will depend on these changes.

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

## 6. References

- [1] Financial Services Authority in the United Kingdom, „The Turner Review. A Regulatory Response to the Global Banking Crisis“, 2009, accessed on 5 March 2010, <[http://www.fsa.gov.uk/pubs/other/turner\\_review.pdf](http://www.fsa.gov.uk/pubs/other/turner_review.pdf)>
- [2] European Commission, „The High-Level Group on Financial Supervision in the EU – Report“, 2009, accessed on 14 March 2010, <[http://ec.europa.eu/internal\\_market/finances/doc/de\\_larosiere\\_report\\_en.pdf](http://ec.europa.eu/internal_market/finances/doc/de_larosiere_report_en.pdf)>

## Public Debt. Content. Typology. Evolution

Ionescu Ionel Eduard

*Faculty of Finance and Banking, Spiru Haret University of Bucharest, Romania*

[eionescu.fb@spiruharet.ro](mailto:eionescu.fb@spiruharet.ro)

Oprea Constantin Cristian

*Faculty of Finance and Banking, Spiru Haret University of Bucharest, Romania*

[coprea.fb@spiruharet.ro](mailto:coprea.fb@spiruharet.ro)

### Abstract

The state must accomplish its objectives. For overtaking each economical, industrial, cultural, political, technical sector needs, needs financial resources; but not always the state internal financial resources cover entirely financial needs. Therefore, each state needs to apply for external or internal loans.

**Key words:** *public debt, external public debt, consolidated debt*

**JEL:** H6;

### 1. Introduction

This paper presents briefly the concept of public debt offering at the same time a short analysis of the evolution of the concept in Romania. In a market economy in a continuous movement but also in the present economic and financial context, public debt exists and is ever growing.

### 2. General aspects of public debt

The state can be compared with a man. Thereby, like any other individual, the state has specified needs; needs that come from all the subordinate sectors. For answering of all the requirements, the state first, needs resources, rather financial resources. If it could answer of all the requirements in each domain everybody would be content; but appear the everlasting conflict needs-resources. The need, in economical sense, represents material requirements of goods and services, at various averages of activity development, of people life and activities. Therefore, its gratification presumes goods and services consuming. The resources represent all the elements that can be used for production of material goods and services calculated for needs gratifications. Financial resources, as good as other

resources are limited comparative with needs. Thereby state must appeal to multiple means for answering, to some extent, at its requirements. One of the solutions is the state internal or external loans contractions

According to law no.313/2004 – the law regarding public debt– the governmental public debt designate the integrality of internal or external financial obligations of the state at specified moment of time, coming from contracted loans direct or certified by the Government through the Ministry of Finance in the name of Romania from the financial markets. In the same law is specified the fact that all the internal or external obligations, contracted by the local public authorities, from the financial markets, compose the local public debt. Thus, the public debt contains governmental public debt and local public debt.

Generally, the state is borrowing to complete routine resources; taxes, contributions and other taxes deductible; when it has not enough cash in treasury for making its outstanding payments to subordinate domains. Thus, when the incomes are insufficient for cover the costs, the state appeal to such loans for equilibrating the state budget. In our country, the government is authorized to contract internal or external loans for different purposes such as:

- a) needs financing at short notice of the state budget;
- b) state budgetary deficit financing;
- c) governmental loans liquidation and amortization; and redemption of unpaid debts;
- d) interest payment but also of other costs related to public debt;

There are more concepts that define public debt term. Thereby, we can analyze floating public debt, as being at short notice public debt and contains contracted loans on periods up to one year, in order to cover the downs generated by the differences in time of

the income with the budgetary expenses; consolidated public debt, as being the totality of the debts resulted from the state budget contracted for medium and long term, but also of the debts that have arisen from terms extensions of loans returning which means medium and long term public debt.

In terms of creditor quality, the public debt can be gross debt, designating loans total value, whatever these are placed and net public debt which not contains loan value placed in governmental institutions.

Public debt increases every time whenever a budgetary deficit is funded by the contracted loans.

The state procure its needed both inside and outside financial resources. So we have an internal public debt and an external public debt.

For Romania, internal public debt has as an activity object the financial tools: bonds, government papers, treasury certificates but also the state loans contracted at the Romanian credit institutions or from different governmental agencies.

Regarding the external debt, in the most part it consists in barrowing from other states governments, foreign banks and different regional or international financial institutions.

Maastricht Treaty, which builds the European Union, set the economical criteria by a state can join forum. One convergence criteria, in financial field, concerned the indebtedness of relative state; this one had to be less than 60% of the State Gross Domestic Product.

Romania has fulfilled this criterion. By reference to the percentage of public debt to GDP, note that it is almost nonexistent in 1990, approximately 0.9%, then gradually increased in 2002 reaching at the percentage of 28.5%, while the end of 2009 public debt to GDP ratio reached a value of 29.29%. The following table shows the public debt ratio to GDP after 1990:

Table no. 1. Share of total public debt to GDP 1990-2009

Year	Public debt ratio to GDP (%)
1990	0,9
1992	20,4
1994	17,5
1996	27,8
1998	27,6
2000	31,4
2002	28,5
2004	22,5
2006	20,4
2008	21,8
2009	29,29

Source: calculating on Ministry of Finance data

Although the share of public debt to GDP increased in the last 3 years, it is well to remember the 7.49% percentage increase of public debt in 2009 against 2008, this thing thanks especially to contracting loans from the International Monetary Fund and from European Union but internal loans based on bond issues too. Relative with other European Union countries, we are ok, is not expected the fact that we passed the level of 60% of GDP, maximum permissible value to European Union members.

Among European Union countries members, according to some transmitted data by the de Organization for Economic Cooperation and Development (OECD), regarding debt ratio, next states are in the worst state:

- Italy – with a debt ratio to GDP of 127,2% is on third place in a top of World's Biggest Debtor States.
- Greece - with a debt ratio to GDP of 123,3% is on fourth place in same OECD top.
- Belgium - with a debt ratio to GDP of 105,2% is on fifth place.
- France – falls below percentage of 100%, in case of this state, debt ratio to GDP is 92,5%.

Relative with above data, Romania looks good, but is worrying the fact that Romanian government loans to cover current needs as budget system regular salary and pension payment instead of, for example, to invest in infrastructure debt in Gross Domestic Product of top 20 The World's Biggest Debtor Nations

### 3. External public debt – total public debt component

According to law no.313/2004 – law regarding public debt– external governmental public debt designate all financial obligations of the state coming from contracted loans direct or certified by the Government from persons or corporate body unresidential in Romania.

External public debt can be contracted directly by state or certified in state name or account. To assess external debt level characteristic to a state and for making international comparisons between states are used a number of indicators. Among them the most important are:

- external public debt in year ... (EPD);
- external public debt service (EPDS);
- external public debt ratio to GDP;
- ratio between external debt and goods export;

External public debt service represents all payments arising from external public debt repayment, outstanding rates, interest, commissions, etc.

Another analysis indicator of external public debts is ratio between external debt and export trade that shows how much time is necessary to refund state debt based on currency received from abroad sales of goods and services.

In current economical conditions, in full financial crisis, many of world state governments looked for external funding to cover budgetary deficits, fact that conducted to explosive external debt of these states.

World Bank published in 2009, top 20 The World's Biggest Debtor Nations.

In next table (table nr. 2) are presented the volume of external public.

Table nr 2. The World's Biggest Debtor Nations 2009

Source: [www.cnbc.com](http://www.cnbc.com)

Regarding Romania, external public debt continues to be a main component of total public debt. Thereby, in period 1990 – 1995 Romanian authorities' appeal constantly to foreign international agencies, Romanian authorities quit at the foreign loans and the focus is on the internal loans.

Afterwards then (in same time) with decrease of state rating given by international agencies, Romanian authorities quit at the foreign loans and the focus is on the internal loans.

Since the year 2000 is hardly returning again at the foreign loans.

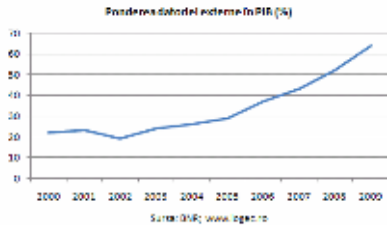
During the 2000-2003 year the relationship

Nation	Eternal Debt (USD)	GDP 2009 (USD)	External debt (% of GDP)
Ireland	2.39 trillion	77.3 billion	1,352%
United Kingdo	9.26 trillion	2.17 trillion	427.6%
Netherla - nds	2.58 trillion	652 billion	395.6%
Switzerl - and	1.23 trillion	316.1 billion	390%
Belgium	1.32 trillion	381.4 billion	345.6%
Denmark	627.6 billion	99.1 billion	315.2%
Sweden	916.42 billion	333.2 billion	275%
Austria	869.13 billion	323.2 billion	268.9%
France	5.22 trillion	2.11 trillion	247.2%
Portugal	538.1 billion	232.4 billion	231.5%
Hong Kong	659.27 billion	301.3 billion	218.8%
Norway	577.80 billion	276.5 billion	208.9%
Finland	376.8 billion	183.1 billion	205.7%
Germany	5.33 trillion	2.81 trillion	189.4%
Spain	2.53 trillion	1.37 trillion	184.7%
Greece	594.60 billion	339.2 billion	175.3%
Italy	2.71 trillion	1.76 trillion	154.6%
Hungary	231.33 billion	186.3 billion	124.2%
Australia	891.26 billion	819 billion	108.8%
SUA	13.67 trillion	14.25 trillion	95.9%

between external and internal debt was increased from 156,66% in 2000, at 292,44, which shows a much slower growth of the

internal public debt than the external one. Overall, during the 1990-2009 periods, foreign public debt was 60% from the total public debt, while internal public debt was just 40%.

**Graph. nr.1. External debt ratio evolution in GDP during 2000-2009.**

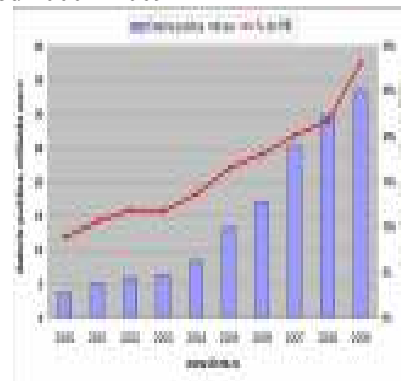


Since 2000, when the external debt ratio in GDP is registering a value of 22, 2% and until 2002 when the percent goes to 21,3%, the foreign debt registered a decline. Besides this period of evolution, the external debt ratio evolution is a progressive one.

#### 4. Conclusion

Romanian public debt is fitting into the maximum of 60% from the GDP; this limit is characteristic UE members' states and was established by the Maastricht Treaty. At the end of 2009, Romanian public debt is registering a value of 30% from GDP, as shown by the graph below:

**Graph nr. 2 Public debt ratios from GDP in period 2000 – 2009**



At the end of 2009, Romanian public debt ratio from GDP is 29, 29%. This ratio is comfortable because a public debt ratio from GDP fewer than 60% is a highlight condition for euro taking up.

#### 5. References

- 1) Anghelache Gabriela, Pavel Belean – „Romanian public finance”, Economical Publishing , Bucharest 2003
- 2) Calin Magdalena – „ Public Debt” , Didactical and Pedagogical Publishing , Bucharest, 2006
- 3) Hoanță Nicolae – „Economy and public finance” Polirom Publishing, Bucharest, 2000
- 4) Iulian Vacarel and the collective – „ Public finance” – 6th edition, Didactical and Pedagogical Publishing , Bucharest, 2007
- 5) Marin, Dinu, Mereuta, „Romanian Economy 1990-2000” , Economical Publishing , Bucharest 2001
- 6) 313/2004 law regarding public debt
- 7) BNR's annual reports 2001-2009
- 8) [www.mfinante.ro](http://www.mfinante.ro)

## A Rescue Plan for the Finances of Consumer – the Incomes and Expenses

Lupaș Ioana

*Dunarea de Jos University of Galati, Faculty of Economic Sciences,*

*E-mail: [ioanalupasc22@yahoo.com](mailto:ioanalupasc22@yahoo.com)*

Lupaș Adrian

*Dunarea de Jos University of Galati, Faculty of Economic Sciences,*

*E-mail: [alupasc@ugal.ro](mailto:alupasc@ugal.ro)*

Zamfir Cristina Gabriela

*Dunarea de Jos University of Galati, Faculty of Economic Sciences,*

*E-mail: [cristinapisica@yahoo.com](mailto:cristinapisica@yahoo.com)*

### Abstract

*The crisis is now a big problem all over the world. The impact of economic global problems over euro zone is very powerful, especially on the lay-off. The most danger for the common people in periods of recessions is the unbalance between the charges and revenues. For balance his expenses and incomes, a person needs to find different solutions. In this work, we have analyzed the budget of the household and then, we tried to give solutions for common people to survey the crises; we made a rescue plan for consumer's finances. Among the first steps of the rescue budget are: to analyze of what you have now, not what you had; make a plan with stages and objectives, then chose the most suitable modality to save the money, and always keep an historic of the incomes, expenses and saving money.*

**Key words:** charges and revenues, budget of the household, crises, rescue plan.

**JEL Classification:** D11, G32.

### 1. Introduction

A big problem in nowadays for all over the world, especially in the industrial countries is the recession. The most danger for the common people in periods of crises and recessions are the unbalance between the expenses (charges) and incomes (earnings, gains, revenues). For balance his expenses and incomes, a person need to

apply to extern sources.

But, the impossibility to applying to the extern sources because their cost is high or the lay-off, may lead to the forced execution by creditors and finally to personal bankruptcy and the lost of proper goods. Romania needs a law for person's bankruptcy, to protect persons against forced execution.

On the other way, in such periods, many opportunities come into view, especially for the acquisitions for homes and cars, because their price is low.

### 2. Steps to secure the consumer's financial future in the US

After Suze Orman a recession rescue plan should have five steps<sup>1</sup>:

*Step1: Live on half*

Whether someone is single or in a double-income household, the person needs to live only half of what he is used to, and to put the rest in the bank. If all of a sudden he fined himself without a job – or his partner fined themselves without a job – he is now going to have his income cut by 50 percent almost immediately.

By living on half now, the person will know whether he can really afford to pay his bills if the worst happens. When a person is freaked out, that is no time ...and it's never too early to start formulating an unemployment action plan.

This step is the first to use and cut expenses as necessary.

---

<sup>1</sup> Book: Suze Orman's 2009 Action Plan, Keeping your money safe & sound.



*Step2: Stash your cash*

In today's economy, cash is the king and the credit could be shrinking daily.

If the credit card is no longer available, what does the consumer do if he loses his job and have no savings? He will be in serious trouble.

Before this recession, credit cards could always be used in case of emergency. Now, credit card companies are making it more difficult for people to use their cards.

Therefore, a good advice is to pay for things in cash.

Each month can add up to big savings and a person can increase his savings even more if he fined the right account, if he compares the interest rates of savings accounts, CDs and other bank products.

*Step3: Make the stimulus package work for you*

In US, the new economic stimulus package changes the rules for tax credit for first-time home buyers.

Part of the intention behind the economic stimulus plan passed by US Congress is to create millions of jobs for Americans, but it's also designed to lend a helping hand to those out of work.

If it happens to get laid off, to lose the job, a person has 18 months where that company has got to cover him with health insurance.

*Step4: Make your home affordable*

The loan modification program is designed to help families dangerously close to foreclosure. The US government estimates it could help 3 to 4 million homeowners keep their monthly mortgage payments if and only if they are qualify in this program.

*Step5: Look at what you have, not what you had*

Things will get better, get worse ...in the next three or four years, it will start to turn around. But there are a few years until every single person feels a hope again.

This is why it is so important to look at what you have and be grateful, instead of looking at what you have lost and feel angry.

After Jean Chatzky there are 5 steps to secure your financial future:

- build a cushion

- pay down debt
- rebalance your portfolio
- keep your job
- work on your credit score.

Also, according to them, there are essentials things that a person in US can't afford to skimp on, because sooner or later will affect them, such as:

- retirement planning
- insurance
- exercise
- healthcare
- charity.

### 3. A recession rescue plan for consumer's finances in Romania

In generally, and also in Romania, we should follow the next steps for success:

- Find a motivation for savings
- Make a plan with stages and objectives
- Chose for the most suitable modality to save the money
- Make the saving money before the spending money
- Keep an historic of the incomes, expenses and saving money.

These are the steps we must follow to succeed.

The necessity of having saved money is obviously: the risk of losing the job, the risk of unwanted events, medical surgery etc.

Also, we can see some opportunities offered by the crisis if we have savings and as a paradox to save more money. An example is a person who searches to rent a house; the market price is 500 euro; he finds an owner who needs liquidities and agreed to negotiate at the price of 400 euro, 20% under the price market, with a period condition: one year or half year. In this case, the person save 1200 euro per year and the owner is satisfied to have fast liquidities.

A Romanian in media spends from 100 lei, 71, 5 lei for consumed food or goods, 15, 6 lei for taxes, contributions, dues and fees. According to the National Statistic Institute, they spend over 90% of theirs incomes.

Table1. Total expenditure of main household categories in 2008

Total expenditure of main household categories in 2008	Total households Trim 4 lei	Total households (percentage)	Households of employees (percentage)	Households of farmers (percentage)
1. Money expenditure of which, for:	<b>1753,97</b>	<b>84,28%</b>	<b>93,35%</b>	<b>68,88%</b>
-purchasing of consumed food and beverages	1282,02	61,6	-	-
-purchasing of non-food goods	61,23	2,9	-	-
-other expenditure	85,27	4,1	-	-
-taxes, contributions, dues, fees	325,45	15,6	-	-
2. Equivalent value of agricultural products consumption from own resources	327,12	15,72	6,65	31,12
<b>TOTAL EXPENDITURE (1+2)</b>	<b>2081,09</b>	<b>100%</b>	<b>2315,29 100%</b>	<b>1775,96 100%</b>

Source: *Population income, expenditure and consumption, bulletin INS, 2009 and my calculation*

Table2. Total income of main household categories in 2008

Total income of main household categories in 2008	Total households Trim 4 lei	Total households (percentage)	Households of employees (percentage)	Households of farmers (percentage)
1. Money income of which:	<b>1917,06</b>	<b>82,7%</b>	<b>90,45%</b>	<b>68,85%</b>
-gross salaries and other salary rights	1193,33	51,5	-	-
-income from agriculture	51,62	2,2	-	-
-income from non-agricultural independent activities	60,42	2,6	-	-
-income from social provisions	516,04	22,3	-	-
-income from ownership	7,03	0,3	-	-
-other income	88,62	3,8	-	-
2. Equivalent value of income in kind obtained by employees	74,34	3,2	3,68	2,36
3. Equivalent value of agricultural products consumption from own resources	327,12	14,1	5,87	28,79
<b>TOTAL INCOME (1+2+3)</b>	<b>2318,52</b>	<b>100%</b>	<b>2624,72 100%</b>	<b>1919,57 100%</b>

Source: *Population income, expenditure and consumption, bulletin INS, 2009 and my calculation*

In 2008, the final trimester, the income of household was 2318,52 lei (increasing 23%, towards 2007, and 59% towards 2006) and the expenditure of household was 2081 lei. (89,8% from total income)

A study made in January 2009 shows that

many of the Romanians have the strict necessary goods, 35% of the interviewees, but almost of them are dreaming to buy cheap goods en rates or to take a loan. Third of them intend to spend their holidays in the country and half out. Half of the consumers do not intend to reduce money

expenditure for purchasing of consumed food and beverages, but 30% intend to reduce the budget for clothes because of the crisis.

#### 4. Conclusion

In conclusion, how to escape from the debts? The consumer needs a plan for debts management. First the person should make a budget:

- -Total income: 100%
- -Total expenditure: 20% debts (for example), 80% money expenditure for purchasing of consumed food, beverages and non-food goods etc.

If for example, there are 30% debts, a person should reduce the expenses and he will have 70% money expenditure for purchasing of consumed food, beverages and non-food goods etc. and has to identify not necessary expenses.

A person can reduce the expenses by organizing the bills, not making any more debts, changing the companies who offer utilities (e.g. the phone, TV), changing the bank or the credit card etc. Some acquisitions can be postponed and it is advisable to buy cheap things.

*The first priority is the financial stability.* One of the rules is to keep more liquid money in bank products. We have to be preoccupied by the safety of money.

Regarding the financial behavior, a person must have in mind that the money mustn't been wasted. The money should covered rational and adapted charges because of the crisis. Also, the buying capacity of Romanian is going down. *It is necessary more then ever to think positive, to stop spending and to start saving and try to consume Romanian products.*

#### 5. Bibliography

- [1] Bulz, N., Ștefănescu, V., Bianca, M., Botezatu, M., Stoica, M., *Parteneriat creativ de bunăstare – Reconstrucție, modelare, simulare, emulare întru natură, societate, gândire*, Editura Aisteda, București, 2004.
- [2] Monthly Statistical Bulletin nr 2/2009, INS
- [3] Population income, expenditure and consumption, bulletin INS, 2009
- [4] Romanian Statistical Yearbook, 2008
- [5] *Suze Orman's 2009 Action Plan, Keeping your money safe & sound*, 2008
- [6] <http://www.insse.ro> – National Statistic Institute, Romania
- [7] <http://www.sfin.ro>
- [8] <http://www.zf.ro>
- [9] <http://www.capital.ro>

## Rules of Valuation and Presentation of Assets in Balance Sheets

Lupu Diana Viorica

*Faculty of Economics, University „Petre Andrei” from Iași*

*diana\_viorica@yahoo.com*

Calistru Roxana Angela

*Faculty of Economics, University „Petre Andrei” from Iași*

*roxdav@gmail.com*

### Abstract

Social, economic and legal factors resulted in differences in the financial statements from one country to another. These factors have contributed to use different criteria to recognize the structure of financial statements and the option for different bases of valuation. They also affect the scope and disclosures in the financial statements. Committee IASC is employed in mitigating these differences and seeks to harmonize regulations, standards and procedures for preparing and presenting financial statements. Harmonization requires that financial statements provide useful information for making economic decisions.

The elements in balance sheets are recognized according to four basic criteria: definition, measurable character, relevance, reliability. The valuation of the elements in balance sheets is one of the most difficult accounting issues. The elements presented in financial statements are valued using the rules of „historical cost” or basic accounting procedures.

The issue of the valuation of items that are an entity’s assets has been analysed in many studies and various opinions have been expressed, some of them transforming into real balance sheet theories. The difficulties encountered when it comes to establishing “definitive” valuation rules are generated by the aim pursued: the faithful image of assets or the user’s interest.

The elements presented in financial statements are valued according to the provisions of the regulations in force, the Accounting regulations in accordance with the Fourth Directive of the European Economic Community and the International Accounting Standards, after the rules of „historical cost” or basic accounting procedures.

**Key words:** assets, balance sheets, cost, value.

**JEL Classification:** M 41

**The historical cost** is used as a measurement basis by the external users of accounting data. Being seen as an accepted effort to obtain revenues, opposite to the market value, the historical cost can be divided over several financial years, because the revenues obtained will be connected with the efforts obtained, according to the principle of the financial year’s independence. The measurement of the elements in the balance sheet structure has advantages, but also a series of disadvantages: undervaluation of assets, overvaluation of results that affect the faithful image of data.

The opponents of the historical cost principle think that “The objectivity of the historical cost is more apparent than real [1], because:

- not all assets are purchased (it is the case of property, plant and equipment produced by the entity);
- dividing the activity over several years involves the recovery of some assets’ value in time (amortization);
- the purchase cost supposes a choice related to the manner in which additional costs are processed;
- the concepts of expenditure and result are subjective by nature”.

According to the moment chosen to determine the value of the asset, the following values corresponding to valuation bases used are recognised [2]:

- original value (inflow historical cost) that refers to the efforts, the payments made so that an asset can enter an entity;

- reproduction value (replacement cost) that refers to the amount of funds that the entity should spend to obtain an equivalent asset;
- the net realizable value that is associated with the gain obtained after selling an asset if it was sold today;
- the present value resulting from the sum of the gains obtained by using the asset.

In the IASC Framework for the Preparation and Presentation of Financial Statements, the following recommendations [3] are made in what regards measurement systems:

- historical cost;
- current cost
- realizable value;
- present value.

Specific to the American accounting system, in the measurement of the elements in balance accounts, is the provision of data that are useful to creditors and investors with different evaluation bases:

- historical costs of property, plant and equipment;
- current stock costs;
- current market values for stock market assets;
- net realizable values for short term receivables;
- present values for long term receivables.

In the American accounting system, the elements of the balance sheet are presented in a functional way, according to the economic destination of goods. According to the legal view, the presentation of elements in the balance sheet depending on liquidities-liabilities criteria is secondary, the stress being put on the destination-provenience criterion that is used to define balance sheet structures. The liquidity-liability criterion is to be found inside the structure, and additional data regarding possible “misconducts” are presented in annexes.

The assessment bases can be arranged as presented in Table 1.

Thus, the balance becomes a source of data oriented toward the requirements of external financial analyses, the information of users and resources employed each year in the business’s life, the meeting of national a ccounting requirements.

“Table 1. The arrangement of the assessment bases”

Method	Asset elements	Liability elements
Historical	The amount of cash or	Amount of proceeds

<b>cost</b>	cash equivalents paid or the fair value at the time of acquisition.	received in exchange for the obligation or, in some circumstances, the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
<b>Current cost</b>	The amount of cash or cash equivalent that would have to be paid if the same or an equivalents asset were acquired currently.	Undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
<b>Realizable value</b>	The amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal.	Their settlement values, that is, the undiscounted amounts of cash or cash equivalents that are expected to be required to settle the liabilities in the normal course of business.
<b>Present value</b>	The present value of the future net cash inflows that the item is expected to generate in the normal course of business.	The present value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

The Romanian accounting regulations referring to measurements, inspired by the Fourth European Directive and the International Accounting Standards represented by the Accounting regulations approved by OMFP no. 94/2001 takes into account the following four moments of valuation:

1. the moment of entry;
2. the moment of registration;
3. the moment of financial year-end;
4. the moment of disposal.

The provisions of articles 7 and 9 of Law on Accounting no. 82/1991 republished establish the following rules for the valuation of balance sheet elements:

**1). when they enter an entity** assets are valued and recorded in accounting at their carrying value, also called *book value*, that is determined as follows:

- the assets representing an input to the entity equity, at their *added value*, established after a valuation carried out according to the law, depending on the market price, their condition and location;

- assets obtained onerously, at their acquisition value, called *acquisition cost*;

- assets produced by the entity, at their *production cost*;

- assets obtained free of charge, at the *utility value*, established depending on the market price, their condition and location;

- assets obtained through exchange with other assets are recorded at the *fair value* of the assets received in exchange.

A special case is represented by the valuation of fixed assets whose initial cost includes the estimated costs for dismantling and removing the asset and the restoration costs for the site at the end of its lifecycle. These costs are reflected by the creation of an appropriate surplus. Dismantling/removing costs will be recorded in the profit and loss account during the life of the fixed asset, by including them in the annual amortization expenditure. The surplus thus created is used only for the purpose it was initially created.

**2). the valuation of assets during recording** is made at the present value of each element, also called *asset value*, established according to the asset's utility, its condition and the market price. In the case of receivables and debts, this value is established according to their expected proceeds and payments.

**3). valuation at the financial year-end** refers to the assets that can be valued and is reflected in the balance sheet at the carrying value and the

book value correlated with asset recording results. Carrying value or book value is compared with the asset-based value as follows:

*a. For assets:*

- plus-differences between the asset value and the carrying value are not recorded, and are kept at their carrying value;

- minus-differences between the asset value and the carrying value represent a depreciation and are recorded in accounting books in two different ways:

- irreversible depreciation (definitive) specific to property, plant and equipment, is due to physical depreciation or obsolescence. The extent of these depreciations is recorded based on amortization;

- reversible depreciation that is recorded based on depreciation surpluses.

*b. For liabilities:*

- for liabilities like debts, minus-differences between the asset value and the carrying value are not recorded in accounting, these elements being kept at their carrying value [4];

- plus-differences between the value established during recording and the carrying value of liabilities like debts are recorded in accounting books by the creation of a surplus.

**4). at their disposal** items are valued and deducted from accounts at their carrying value. For property, plant and equipment and circulating assets with an over a year production cycle, if production costs include the interest rates of the capital borrowed to finance the production of the asset, this issue must be presented in explicative notes, mentioning the value of the interest rates corresponding to the financial year.

Besides the basic accounting procedures, accounting regulations provide alternative accounting procedures, methods referring to inflation adjustments. Based on these, the values attributed to balance sheet assets can be presented at values other than the historical cost, one of the following measures being recommended in this respect:

- revaluation of corporate property, plant and equipment that takes into account inflation, the asset's utility, its condition and market price;

- valuation through methods that are designed to take into account inflation for the

elements presented in the balance sheet, including equity and the profit and loss account.

It should be noted that, according to IAS 29 – “Financial reporting in hyperinflationary economies”, entities that opt for inflation adjustments prepare and present a distinct set of financial statements encompassing the balance sheet, and the profit and loss account adjusted to inflation. These are preceded by an intermediate trial balance sheet, which will be the basis for the tax declaration, after making the corrections provided by fiscal regulations.

The implementation of the rules established by the alternative accounting procedures makes compulsory the presentation of explicative notes after revaluation. The values produced after inflation adjustments must be presented in a distinct set encompassing the balance sheet, and the profit and loss account, accompanied by explicative notes. According to IAS 16 “Property, plant and equipment”, pluses and minuses resulting from the revaluation of property, plant and equipment will be accumulated in equity under the heading “Revaluation surplus”.

It is necessary to make a distinction between current balance sheet assessment and an entity’s valuation through patrimonial methods based on the balance sheet for various commercial transactions. The balance sheet valuation is very important in accounting because it refers to asset size and to the determination of the financial year-end result; any increase in assets or in liabilities leads to the augmentation of the result and, vice-versa, the spreading of results over the years is modified.

In order to prepare a faithful image of the assets, financial statements and results obtained, the rules of implementation of the Law on Accounting no. 82/1991 provide, in article 23, that the regulations of asset valuation and the other accounting standards and norms previously presented must be satisfied in good faith.

Accounting theory and practice mention and use methods of asset valuation such as:

**a) Historical cost or carrying value**

According to this method, when they enter an entity, assets are recorded and valued at their carrying value or book value. At financial year-ends, assets are valued and reflected by the balance sheet at their carrying value, that is, the book value correlated with the inventory results.

The methods of valuation by the current purchasing power refer to the presentation of balance sheet items depending on the purchasing power at the year-end [5].

The usage of the historical cost is recommendable, in circumstances of relative economic stability, when the annual inflation rate is composed of a single figure.

**b) Indexed historical cost**

This method supposes the correction of book values in the case of assets other than cash with a single index corresponding to the general evolution of the purchasing power [6]. Because of the variations in purchasing power, cash items generate profits or loss depending on the ratio of debts, receivables and cash.

**c) Replacement value**

As prices rise, using this procedure allows the entity to build the necessary resources needed to renew property and equipment and to maintain the productive potential. This system has an impact on profits and, subsequently, on taxation.

**d) Present value** (the venal value at inventorying)

The venal value is the price that a prospect buyer of the entity is supposed to pay, taking into account the condition and location of that asset. This value is established according to the market and utility.

**e) Gross value**

It is used in the functional balance sheet, where assets are recorded at their gross value, without taking into account the depreciations registered during their operation. In order to ensure balance sheet equality, liabilities include corrective accounts.

**f) Valuation in inflation circumstances**

Inflation is a complex phenomenon with multiple aspects. The inflation phenomenon can exist and develop within limits accepted as normal but can also surpass these limits and create a hyperinflationary environment. In this case, one cannot overlook the implications that inflation has in the economic and financial results of the company.

## Conclusions

On entering into the property there is used the input value or booked value. For the inventory of the assessment the valuation is made to the current value of each element, called inventory value, determined by utility, state property and the market price. Loans and debt are likely evaluated to the probably receivable or payment value. At closure, for

the balance sheet, assets valuation is realized at the value of the property entrance, meaning the book value agrees with the result of inventory. At the exit from property the entrance value is used. The premiums on redemption of bonds are treated as an asset, which corrects the Debenture loan. If the value shown in the balance sheet significantly differs from net realizable value (if the company does not intend to use assets in the production process) and salvage (the intended use of the asset), this difference is presented in total and by category in notes.

The issue of the valuation of items that are an entity's assets has been analysed in many studies and various opinions have been expressed, some of them transforming into real balance sheet theories.

The difficulties encountered when it comes to establishing "definitive" valuation rules are generated by the aim pursued: the faithful image of assets or the user's interest.

## References

- [1] C. Colette and J. Richard, *Comptabilité générale par la méthode des flux*, Dunod Publishing House, Paris, 1990 (In: N. Feleagă and I. Ionaşcu, *Treatise of financial accounting*, vol. I, Economics Publishing House, Bucharest, 2001).
- [2] N. Feleagă and I. Ionaşcu, *Treatise of financial accounting*, vol. I, Economics Publishing House, Bucharest, 2001, pp. 361.
- [3] IASC, *Framework for the Preparation and Presentation of Financial Statements*, art. 100.
- [4] C. Staicu, *Basics of modern accounting*, vol. I, Scrisul Românesc Publishing House, Craiova, 2003, pp. 54.
- [5] A. Ţuţu, *The balance sheet in company management*, Economics Tribune Publishing House, Bucharest, 1999, pp. 59.
- [6] N. Feleagă, *Beyond the borders of accounting vagrancy*, Economics Publishing House, Bucharest, 1997, pp. 81.



## Architecture of the Public Revenues and Expenditures in Romania in the Economic Crisis

Lecturer Ph.D. Mara Eugenia Ramona

*Babeş-Bolyai University*

*Faculty of Economics Science and Business Administration*

*E-mail: ramonanandra@yahoo.com*

Ph. D. Student Niță Gheorghe

*Babeş-Bolyai University*

*Faculty of Economics Science and Business Administration*

*E-mail: gh.nita@yahoo.com*

Ph. D. Student Chirculescu Maria Felicia

*Constantin Brâncuși University of Târgu Jiu*

*Faculty of Economics Science*

*E-mail: chirculescu\_felicia@yahoo.com*

### Abstract

*This paper try to realize an analysis of the public revenues and expenditures in Romania in the last few years tacking into account the economic crisis context.*

*In this period public revenues have a different evolution characterized by decreasing of the most important tax revenues.*

*Concerning the public expenditures is a continuously increasing and the effect is higher budget deficit. The most important aim of this article is to find the causes of tax revenues decreasing and the solutions for diminishing the actual budget deficit. This issue is on the actual government agenda for avoiding an increasing of the budget deficit.*

**Keywords:** tax revenues, budget deficit, public expenditures, economic growth

**JEL Classification:** H53, H62, H72

### Introduction

Analysis of the public revenues and expenditures is important because reflect the consequences of the fiscal and budgetary policy adopted by the government.

Governments throughout the world strive to find solutions to minimize the negative effects of the crisis and, as is well known, taxation is a powerful instrument for the State intervenes to

adjust an upset balance, stimulate investment, encourage the affected sectors and discourage others.

Many European countries have entered into strength competition to provide tax relief solutions with a view to encouraging investments so that the economy can be launched on the economic growth direction.

Thus, they have cut down on the tax rates applicable to the profit obtained from certain activities, just as salary-related taxes and contributions, seeking even to contrive tax amnesty schemes and apply low tax rates on the profit obtained in tax havens or in countries where taxation is very low, all of this being done in an attempt to re-launch investment and stimulate the economic growth.

The Romanian fiscal policy is characterized by a low fiscal pressure, only 31% of GDP in 2009, comparing with the other European countries with a fiscal pressure higher the 40%.

This low fiscal pressure was favored by the flat tax rate applied in 2005. It was one of the most important fiscal measure for stimulating the economic growth and the consumption. Also the 19% VAT rate and the excises rates are lower comparative with the other EU member states.

Before the economic crisis the tax revenues were enough for covering the public expenditures and the budget deficit was under the 3% limit imposed by the EU.

Our taxation system is based on indirect taxation which reaches to 12% of GDP, especially consumption tax. It is known that the indirect taxes are not a stable source of revenues and the evolution of consumption is a major cause of evolution of tax receipts.

Economic crises is started in 2008 on the and of the year, but the most affected year was 2009, and for the moment is to early tot do a real prognosis for 2010.

Although its size and extent are exceptional, the crisis has many features in common with similar financial-stress driven recession episodes in the past.

The crisis was preceded by long period of rapid credit growth, low risk premiums, abundant availability of liquidity, strong leveraging, soaring asset prices and the development of bubbles in the real estate sector.

The fiscal costs of the financial crisis will be enormous. A sharp deterioration in public finances is now taking place. The decline in potential growth due to the crisis may add further pressure on public finances, and contingent liabilities related to financial rescues and interventions in other areas add further sustainability risk. Part of the improvement of fiscal positions in recent years was associated *inter alia* with growth of tax rich activity in housing and construction markets. [1]

### Methodology

Our analysis is based on the figures of the budgetary execution from 2007-2009, available of the Finance Minister site.

First, we realize short analysis of the absolute data of the revenues and expenditures. Then, we use a structural analysis of the main categories of revenues and expenditures on the same period.

The most relevant indicators are the share of the revenues, expenditures and deficit in GDP. These indicators correlate the evolution of the GDP with the evolution of public revenues and expenditures and reflect the global fiscal burden in Romania.

For revealing a clear evolution we must correlate these indicators with the economic growth, for anticipate the future evolution of the budget deficit and to conceive the solutions for diminishing it.

Finding solutions for decreasing the budget deficit should represent a priority for the government.

### Results

For a global view on the situation of the public finance in Romania in this context of economic crisis we have to analyze the both sides of the public budget: revenues and expenditures.

The effects of economic crisis are felt deeply in 2009 when the revenues are characterized by a decreasing trend. This evolution can be followed in the next table for the main categories of tax revenues.

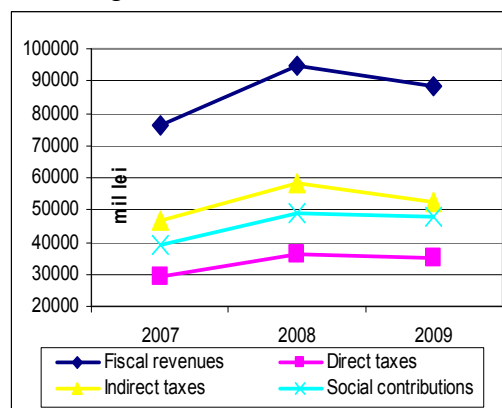
“Table 1 Budget tax revenues”

mil lei	2007	2008	2009
Total revenues	127108.2	165546.6	156624.9
Fiscal revenues	76365.8	94846.8	88324.3
Direct taxes	29263.9	36202.8	35207.6
Income taxes	26319	32948.9	31829.9
Corporate tax	10558.3	13059.4	11893.0
Personal income taxes	14374.9	18500.4	18551.4
Other income taxes	1385.8	1389.1	1385.5
Property taxes	2944.9	3253.9	3377.7
Indirect taxes	46916.8	58211.4	52727.5
VAT	31243.2	40873.6	34322.4
Excises	12511.8	13646.0	15579.2
Other indirect taxes	2306.1	2729.5	2170.4
Custom duties	855.7	962.3	655.5
Other fiscal revenues	185	432.6	389.1
Social contributions	38843	49007.8	47872.0

Source: Budgetary execution, www.mfinante.ro

In the next figure we can see that the maximum point for the tax receipts was attained in 2008 followed by a decreasing in 2009.

“Figure 1 Tax revenues evolution”

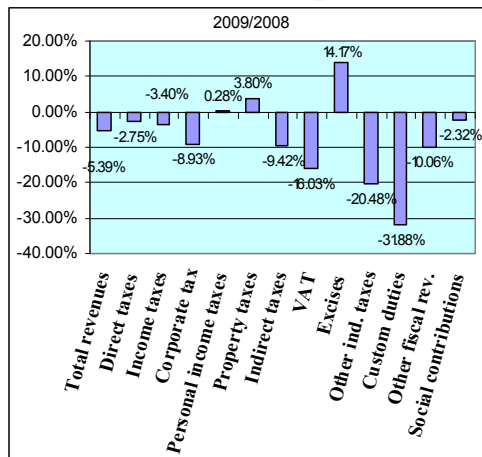


Source: Budgetary execution, www.mfinante.ro

Analysis of the absolute data of public revenues reveals major decreasing in 2009 comparing with 2008:

- the total revenues decrease with 5%;
- the fiscal revenues decreasing with almost 7%;
- direct revenues decreased with 2,7%;
- indirect taxes decreased with 9,4%;
- corporate tax revenues decreased with 9%

“Figure 2 Tax receipts evolution”



Source: Author’s calculations

But also we have in 2009 some taxes with higher receipts like property tax with 4,8 % higher revenues and excises with 14% revenues increased. As an explanation for this increasing we are agree with the taxation theory which sustain that the property taxes are the most stable sources of revenues even in the economic crises, fact revealed by the figures from the budgetary execution.

Concerning the indirect taxes we have a major decreasing for VAT with 16% decreasing explained by the consumption reduction. In this context of economic crises when consumption is lower we have a paradox because excises revenues are higher and this is happening because the tax base imposed in the case of excises is represented by the product with inelastic demand. Even if the price is increased, the demand for this product it is not decreasing and this leads to higher receipts.

The evolution (decreasing with 31%) of the custom duties is linked also by the removing these taxes in the EU starting with 2007, but also with decreasing of automobiles imports.

A little decrease is registered by the social contributions with only 2 %, because in the

2009 were increased the social contributions taxes rates

“Table 2 Tax receipts as % of GDP”

%GDP	2007	2008	2009
Total revenues	32.5	32.8	31.0
Fiscal revenues	19.5	18.8	17.5
Direct taxes	7.5	7.1	7.0
Income taxes	6.7	6.5	6.3
Corporate tax	2.7	2.6	2.4
Personal income taxes	3.7	3.7	3.7
Other income taxes	0.4	0.3	0.3
Property taxes	0.8	0.6	0.7
Indirect taxes	12.0	11.5	10.4
VAT	8	8.1	6.8
Excises	3.2	2.7	3.1
Other taxes on goods and services	0.6	0.5	0.4
Custom duties	0.2	0.2	0.1
Other fiscal revenues	0.09	0.1	0.1
Social contributions	9.9	9.7	9.5

Source: Budgetary execution, www.mfinante.ro

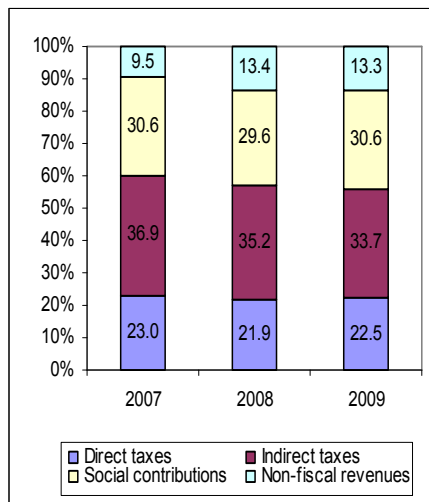
The global fiscal pressure is revealed by the percentage of the tax revenues in GDP.

The maximum fiscal pressure was in 2008: 32.8% and decreased to 31% in 2009, not because are decreasing some tax rates, but the main cause was reducing the tax base. For example reducing the taxably profit for many companies or reducing consumption

The same result as in the case of absolute data we have for property tax and excises the revenues which are increasing with 0.1 percentage points and 0.4 percentage points of GDP. The most important decreases are for VAT 1.3 % GDP and corporate taxes 0.2 of GDP.

Structural analysis of the public revenues reveals that the most important role in budget financing is played by the indirect taxes which have 33%, followed by social contribution with 30% and direct taxes with only 22% of the total revenues in 2009.

“Figure 3 Structure of tax revenues”



Source: Source: Author’s calculations

Analysis of the public expenditures reveals a continuously and generalized increase of all categories, except the capital expenditures because the rhythm of investments was reduced.

The highest increase is for the interest expenditures because the governments use to cover the lack of tax revenues some borrows from commercial banks with high interest for paying the pensions or the salaries for the budgetary employees.

“Table 3 Public expenditures”

mil lei	2007	2008	2009
Total expenditures	136556.5	190340.2	193025.4
Current expenditures	122127.8	164080.1	172340.9
Personal expenditures	25588.9	45609.7	46710.7
Goods and services	25835.1	33008.7	28835
Interests	2739.7	3650.7	6061.8
Subsidies	6873.7	7898.5	7215.4
Transfers	61090.4	73912.6	81427.5
Capital expenditures	14410.4	26727	23175.3
Deficit	-9448.4	-24793.6	-36400.6

Source: Budgetary execution, www.mfinante.ro

The share of expenditures in GDP reveals a real overgrowth of the public expenditures. Personal expenditures if in 2007 were only 6.5% of GDP reach in 2009 at 9.2% of GDP, because of the increasing of the number of employees from the public sector.

“Table 4 Public expenditures as % of GDP”

% GDP	2007	2008	2009
Total expenditures	34.9	37.8	38.2

Current expenditures	31.3	32.6	34.1
Personal expenditures	6.5	9.1	9.2
Goods and services	6.6	6.5	5.7
Interests	0.7	0.7	1.2
Subsidies	1.8	1.6	1.4
Transfers	15.6	14.7	16.1
Capital expenditures	3.7	5.3	4.6
Deficit	2.4	4.9	7.2

Source: Budgetary execution, www.mfinante.ro

But the most important issues are the budget deficit increase and covering of this deficit, fact realized through a borrowing from IMF.

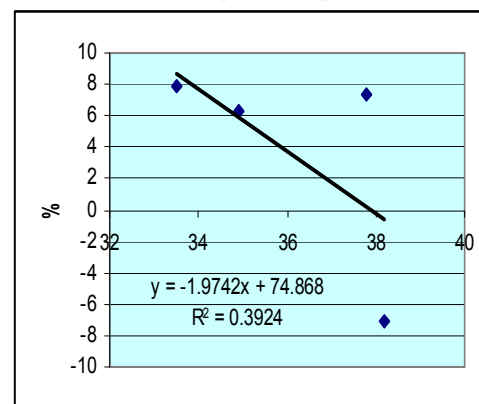
The IMF and the European Commission demanded that the budget deficit be lowered from 7.2% in 2009 to 5.9% in 2010, with the 3% target delayed until 2012.

We try to correlate the evolution of public expenditures with the evolution of economic growth for 2006-2009.

The correlation between economic growth and public expenditures is almost 40%, but is an indirect correlation because in this period of economic crisis the budgetary expenditures increase.

An increasing of public expenditures with 1% means almost 2% of economic growth decrease.

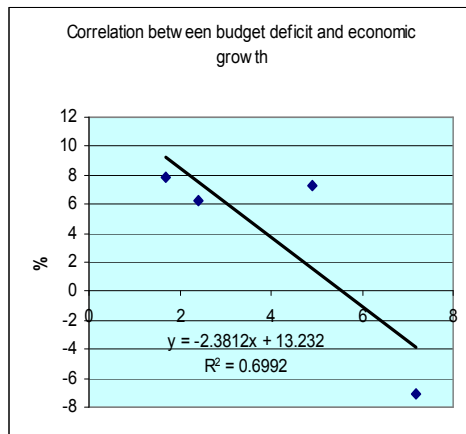
“Figure 4 Correlation between economic growth and public expenditures”



Source: Source: Author’s calculations

But a powerful correlation can be founded between the budget deficit and economic growth, almost 70%, an indirect correlation, because the budget deficit increase when the economic growth decrease.

"Figure 5"



Source: Source: Author's calculations

Results show that a weak fiscal stance, low economic growth, the timing of parliamentary elections and majority left-wing governments are the main causes of excessive deficits in the EU countries. Supranational fiscal constraints, national efforts to reduce public debts, growth promoting policies and mechanisms to avoid political opportunism and partisan effects are essential factors for an EU country to avoid excessive deficits. [2]

The actual Government is considering a reform of revenue for 2010, to increase the level of contributions paid to the budget, where flat tax, tax on profit and income tax can be maintained, but a decision on VAT is to be taken according to the sustainability of budget deficits.

Even if we have the lowest fiscal burden in Romania, this fiscal burden is hard supported especially by individuals with a low income.

May voices talk about of VAT increasing, may be for the moment is a good solution but with a few amendments: the existence of a few reduced rates for necessary goods and higher rates for example for goods considered as luxury goods.

VAT is a regressive tax and for this reason the lower income people will be the most affected by increasing of this tax.

The most distortionary measures with a negative impact on economic growth are introducing the minimum corporate tax and increasing the labor force cost through social contribution. First measure has reduced the number of companies and the second stimulate employer to tax evasion. [3]

But we have to consider also the evolution of public expenditures and try to find some solutions for reducing them. It is not enough to increase the revenues without reducing or at

least maintaining at the same level the public expenditures.

This is a general issue in any economic crisis because there are a few factors which favored the expenditures increase like unemployment, increasing of public debt.

## Conclusions

The economic and financial crisis has taken its toll on public finances and this fact is reflected in increasing the budget deficit.

The solution for decreasing the budget deficit should be based on the long term fiscal measures, like stimulus for private and public investment, accessing the EU funds for public and private projects, maintaining a limited rate of unemployment and inflation.

These conditions are necessary for helping the economy to recovering and also for acceding to euro zone for Romania in the next period.

## References

- [1] European Commission, 2009, Economic Crisis in Europe: Causes, Consequences and Responses, EUROPEAN ECONOMY, 7/2009, Luxembourg: Office for Official Publications of the European Communities
- [2] Alves de Castro, Vitor Manuel, The Causes of Excessive Deficits in the European Union (July 2007). <http://ssrn.com/abstract=1002091>
- [3] Mara Eugenia Ramona & Inceu Adrian & Cuceu Ionut & Achim Monica Violeta, 2009. "The Impact Of Economic Crisis On The Fiscal Revenues," Annals of Faculty of Economics, University of Oradea, Faculty of Economics, vol. 3(1), pages 252-257

## The role of the audit report in the enterprise evaluation

Marcu Niculina

Universitatea Constantin Brâncoveanu

[n\\_marcu@yahoo.com](mailto:n_marcu@yahoo.com),

Ene Sebastian George

Universitatea Constantin Brâncoveanu

[george\\_sene@yahoo.com](mailto:george_sene@yahoo.com)

### Abstract

*Enterprise evaluation has an economic and financial character. The evaluator's investigations regarding the enterprise financial situations as well as the numerous economic, technical and strategic analyses are finally meant to establish the real enterprise values reflected in the market value.*

*Going from the accountant information to the analysis one represents a stage imposed by the vocation of the two activities; the accounting vocation is that of observing a layout pursuing the respect of various strict rules and principles, while the vocation of the financial analysis is to formulate an appreciation of the performance of the analyzed entity, being preoccupied with the pertinence of the valuable judgments that were enunciated.*

*The information offered by the accounting department and mostly by the financial accounting department constitutes a material adapted to the needs of the financial analysis, a material used essentially for the financial diagnosis as it provides the most elaborate, systematical, synthetic and homogeneous information, required to evaluate the enterprise financial situation, its performance and the risks associated to obtaining all these.*

*In evaluating the enterprise, the financial diagnosis must provide the information needed in estimating the incomes and the expenses, so that the evaluation methods depend on the pertinence of the diagnosis.*

*The credibility of the accounting information is offered by the auditors in their auditing missions which bring the added value and a better protection for the shareholders, investors, creditors and other interested parties.*

**Key words:** financial diagnostic, audit report, standards, SWOT analysis, IFRS.

**JEL Classification:** M4, M42

Within the market economy the free property transfer represents one of the important piles of the economic mechanism. The mobile assets of the enterprises are sold (machines, equipments), real estate properties (lands, constructions), financial assets, non-corporate assets (licenses, brands) or enterprises as a whole.

The question is the following: how much do I sell with or pay for the respective property or assets? At the base of the price is the value. Both the buyer and the seller are interested in the value of the respective assets, of the real estate property or of the enterprise. If the value is estimated, the price is a tangible element resulted from the negotiation. The price could be equal, smaller or higher than the value.

According to IVS1, the market value is defined as it follows: the market value is the sum estimated for a property to be changed, at the date of the evaluation, between a determined buyer and a firm seller, in a transaction with the price objectively determined, after a corresponding marketing activity, in which the involved parties acted advisedly, prudently or without any constraints[1].

From the text of the definition, we find the conclusion that the market value is probably the price that could be reasonably obtained on the market at the date of the evaluation.

It is right this market value that the evaluator is asked to estimate in order to communicate it to the beneficiary (the seller or the buyer).

The professional in this field of activity is the enterprise evaluator. He must state his opinion competitively, considering a series of reasoning and calculations, which are finally



presented in a report named evaluation report.

The evaluation of an enterprise presents a special complexity that is why it is needed to make up a team of evaluators. This team comprises experts in various fields: jurists, movables evaluators, real estate evaluators and professionals in accounting.

The question that we try to find an answer to is that if the audit report may be used in the enterprise evaluation. To answer this question, we believe that we should analyze an evaluation report, an audit report, their contents, the addressability, the conclusions formulated in opinions.

The settlement of the enterprise evaluation is described in the International Standards of Evaluation Practice – GN6. Within this standard, we meet all the elements required to evaluate the enterprise in a pertinent manner. In the fourth part, there are various references: the enterprise evaluators reflect the market value of all the components of the accounting balance of a company to be in accordance with the Accounting Standards [2].

At the same time, the application instructions stipulate that the evaluator should take all the steps needed to ensure that all the consulted information are credible and adequate for the evaluation process as well as the financial and accounting information.

The question that comes in this context is: *who is entitled to best appreciate the way in which the financial and accounting information reflect the reality are correct, pertinent to be evaluated and transposed into value?*

We consider that within the enterprise the evaluator's role is that of achieving a corresponding accounting activity, respectively records, evidence, indicators for calculations. The financial auditor is the one who checks the correctness of this information if all the norms and the regulations in force are respected. In this sense, the auditor or the audit team will proceed to fulfilling the audit mission.

After finishing all the audit procedures, the verification of the events following the closure of the exercise and the accumulation of the final tests, the auditor should elaborate the opinion according to which the financial situations are presented or not in accordance with the general frame of financial reporting.

Thus, the auditor must decide if there are enough audit tests in order to formulate the conclusions that lay at the basis of expressing the opinion of the audit report. That is why it is

demanding to examine the entire audit report so that the auditor is sure that the audit components were adequately executed and documented and finally the objectives were reached.

For the final conclusions accuracy, the auditors may use [3]:

- The verification lists of the working documents;
- The final observations and the meetings with the client;
- The verification list of closing the undertaking;
- The general revision of the financial situations;
- The end of mission overview;
- The events overview following the exercise closure.

The audit report represents the final stage of an audit and insurance mission, the product of the activity developed by the auditor, through which the final conclusions are presented as a consequence of examining the financial information of an entity, a necessary report for the users of the financial situations.

The form and the content of the issued audit report are stipulated in the International Audit Standard of 700 "Formulating an opinion and the report of the financial situations" which treats the auditor's responsibility to formulate an opinion regarding the financial situations.

Before elaborating the report, the auditor must revise and evaluate the conclusions which result from the audit tests obtained as a basis to express an opinion upon the financial situations.

This activity of revisions and evaluation must put into evidence the way of setting up and presenting the financial if they respected the general provisions accepted by the financial reporting, either IAS/IFRS, or the national provisions in accordance with the European directives.

According to the standards, there is a certain way of presentation of the audit report in order to ensure a reasonable understanding degree by the interested parties, as well as to make the reader identify easily some special situations.

Thus, the structure of an audit report is, generally, similar to the examined financial situations, with various particularities, from

case to case, but each report presents its own way some basic elements, respectively:

a) The identification part which contains **the title** of the report and to whom the respective report is addressed, respectively **the addressee** (the recipient);

b) **The introductory paragraph** where they debate upon various issues regarding the identification of the financial situations submitted to the audit as well as the declarations of assuming the responsibilities which resort from this mission both for the enterprise management and for the auditor;

c) A description of **management responsibility** to set up the financial situations;

d) Description of the **auditor's responsibility** to express an opinion upon the financial situations and the field of audit application;

e) An **opinion paragraph** which expresses the opinion regarding the financial situations and a reference to the general applicable frame of financial situations used to set up the financial reports;

f) **The final part** where they obligatorily present the date of drafting the report and the auditor's signature.

From the addressee's point of view, the report should contain some information regarding the persons to whom it is addressed on the basis of the conditions stipulated in the engagement or in other established provisions. In general, the report is addressed to the shareholders or the Council of Administration of the beneficiary enterprise with the audit of the financial situations.

In what regards the opening part, the report must outline some dates of identification of the audited financial situations as well as the date and the period covered by the respective financial reporting.

Usually, in the report they assume some identification information from the balance sheet (the value of assets, debts and capital) and from the account of profits and losses (the size of the turnover and enterprise result).

The auditor must present in his report the applicability area of the audit, declaring that the audit was made in accordance with the established standards and practice.

The report must contain in this part a declaration regarding the way in which it was planned and the way in which the whole process was developed in order to obtain a reasonable insurance of the financial situations.

Also, the report must provide information regarding the way of examining the information using texts and tests and other procedures in order to sustain the initial sums of the financial situations as well as the other information presented; the auditor's evaluation regarding the accounting principles used in elaborating the financial situations; the evaluation of the significant estimations of the entity in drafting the financial situations as well as the evaluation of their general presentation.

The auditor will also present in his report a declaration which sustains that the audit offers a reasonable basis to express his opinion.

By far, the most consistent paragraph of the report is the reference to the opinion. The auditor's report must clearly express the auditor's opinion regarding the financial situations saying that they represent with constancy all the significant points of view (or offers a correct and truthful image) in accordance with the respective frame of financial reporting and, when there is the case, if the financial situations are in accordance with the statutory requirements.

The two terms used to express the opinion, "offer a correct and truthful image" or "present with fidelity, from all the significant points of view" chosen by the Audit Standards are equivalent.

We consider being necessary that, besides the opinion of the truthful image, the auditor in his report must include any other information used in the audit mission which made him formulate such an opinion.

It is very important that the auditor writes in the audit report the date when the audit was concluded as it marks the moment until the auditor examined all the operations and the transactions reflected in the financial situations.

And since the responsibility of drafting and presenting the financial situations belongs to the entity management, the auditor must not write in the report the date before the management staff signed and approved the financial situations.

At the end of the audit mission there is the issue of the decision that the auditor must foreshadow for the type of the most adequate audit report, considering the set of circumstances in which he developed his activity and the conclusions he reached after



examining the probing elements. The first decision deals with the existence of the elements which should identify the respective digressions and evaluate their significance as well as their influence upon the financial situations.

These determinations represent the starting point in establishing with accuracy the most appropriate type of report.

In the practice of the audit, we find the following types of expressions:

- An opinion without reserves;
- An opinion with reserves;
- The impossibility of expressing his opinion;
- An unfavorable opinion or a certification refusal.

The uniformity in the form and the content of each type of report mostly the ones which present certain modifications supporting the user for a better understanding of the reports.

The categories of audit reports according to the auditor's conclusions regarding an audit mission are:

- Without reserves - if: all the auditor's requirements are fulfilled; the auditor reaches the conclusion that the financial situations present a truthful image in accordance with the general frame of the established financial reporting.
- With reserves - if: the auditor considers that, in general, the financial situations present a truthful image, but the field of the audit mission was significantly restrained or the accepted accounting principles were not entirely respected.
- Impossibility to express an opinion – if: the limitation of the field of the audit applicability is so significant and comprising that the auditor did not obtain enough corresponding audit evidence.
- Unfavorable opinion or refusal to express an opinion

The causes that distance the auditor from an opinion without reserves must be established in an increasing order according to their gravity. In fact, the beneficiary of the audit report upon the entity financial situations will be much worried by a refusal to express an opinion than to express an unfavorable opinion (the last type of report) than a report with reserves.

Having thus formed an image about the audit report categories and the auditor's mission, we may state our opinion regarding the role of the audit report in the enterprise evaluation. We

must identify where the evaluator must use the information in the audit report. In this sense, we consider that the general presentation of the structure of an evaluation report simplifies the identification of the way in which the audit report supports the evaluator.

The structure of the evaluation report may contain five main parts [4]:

- introduction – where they present the transmission letter, the title page, the contents, the abstract of the main facts, the evaluator's certification and signature.
- premises of the evaluation – contains: the special hypotheses and the limitative conditions; the object, the purpose, the usage and the instructions of the evaluation; the evaluation basis and the type of the estimated value; the date of the estimated value; the currency of the report the methods of payment; the property inspection; the sources of the used information; the cause for non-publication.
- data presentation – implies: the enterprise description (diagnosis analysis, including the economic and financial diagnosis); the analysis of the securities market and transactions with similar participations.
- data analysis and conclusions – contains: the evaluation methodology (evaluation methods); values reconciliation and the proposed value
- appendixes

From the structure of the evaluation report, we get the idea that the audit report may be used in the diagnosis analysis, that is in the third part, but also in the fourth part of the evaluation methodology.

The third part of the evaluation report contains the diagnosis analysis of the enterprise. Here we follow the causes regarding the juridical, commercial, operational, management and human resources aspects as well as the economic and financial aspects. The conclusions of the SWOT analysis may decisively influence the value of the enterprise. The audit report may present special information to the evaluator when the economic and financial analysis as well as the SWOT analysis is made.

The importance of the financial analysis in the enterprise evaluation is essential. It must be made regardless the reason of approaching

the evaluation (on comparison, income or patrimony).

The financial analysis will reflect in:

- The synthesis of the account of profit and loss;
- The corrections effectuated upon the reported historical financial indicators;
- The analysis of the enterprise financial performance;

The International Financial Reporting Standards (IFRS) states that: the objective of the financial situations is to provide information about the financial position, the performance and the modifications of the financial position of an entity that are used to a large area of users in making various economic decision [4].

Within the global enterprise diagnosis, the financial diagnosis represents the most relevant component. The financial resources, the way of using these resources has a decisive role in the adequate functioning of the other elements.

The financial diagnosis establishes the economic and financial health condition of the enterprise. Consequently, special attention must be paid to the way in which the financial situations are presented or not in accordance with the general frame of financial reporting. The financial auditor is the one that makes his decision regarding these aspects. He has the competence to express a professional and pertinent point of view.

The audit report constitutes to the evaluator certitude that the financial and accounting activity was developed in accordance with the legal provisions. Consequently, the value will not be affected by those aspects regarding the general frame of reporting. The usual corrections will be made, which are required in such a situation.

If the audit report is signed with reserves, the evaluator should identify the causes that led to the expression of the auditor's opinion as well as the way in which those causes influence the enterprise value.

If the auditor finds himself in the impossibility to express his opinion, the diagnosis and evaluation process gets complicated. The experts should identify the causes that led to such a situation, the gravity of the facts and the influence they have on the present and future value of the enterprise. There are situations when such an opinion may determine significant corrections brought by the evaluator.

In case the auditor refuses to express his opinion or in case his opinion is unfavorable, that represents an alarm signal for the evaluator. The financial and accounting activity could not be in accordance with the legal provisions in the field, influencing negatively the company's activity. The consequences are very serious. Quantifying them is pretty hard to achieve, realizing corrections implies a special attention and the value is deeply affected.

As a conclusion, we may say that, in the enterprise evaluation, the evaluation team should have an auditor or they should have at their disposal an audit report drafted by a competent person.

### **Conclusions**

The auditors have an important role in society. The investors, the creditors, the employers, numerous experts and the large public count on the financial auditors' activity regarding the correct accounting and financial reporting, an efficient management and competitive consultancy for a variety of aspects afferent to the business and the taxation.

The audit mission finalized in an opinion without any reserves represents for the evaluator a warranty that the accounting and financial activity was developed in accordance with the legal provisions, that the enterprise value will not be affected by those aspects regarding the general frame of reporting, or if the auditor's opinion is contrary or with reserves, that could represent for the evaluator an alarm signal as the financial and accounting activity influences negatively the company's activity.

### **Bibliography**

- [1] International Evaluation Standards – The eighth edition – 2007 - IVSC – IVS1 – The market value
- [2] International Evaluation Standards – The eighth edition – 2007 - IVSC –GN6
- [3] I. Mihăilescu (coord) – Financial audit – Independența Economică, Pitești, 2008, pag. 133
- [4] Sorin Stan (coord.) – Enterprise evaluation – second edition revised IROVAL Bucharest 2006 pag.401

## Ethical Banks: An Alternative in the Financial Crisis

Mascu Simona

*Universitatea „Ovidius”Constanța*

*mascu\_simona@yahoo.com*

### Abstract

The goal of this paper is to discuss the issues of ethics, moral hazard and behavior in banking regulation of the global financial system.

The paper is focused on the specific characteristics of ethical banks, compared with those of traditional ones, and provides a picture of the extent of this phenomenon.

Through this paper I also intend to argue that the recent crisis has not just been a banking crisis, but also a crisis of professionalism and banking ethics. The credit crisis calls into question the functionality and good performance of traditional banks. The full incorporation of ethical values and principles by traditional financial intermediaries might be a form to solve their misleading financial situation.

**Keywords:** ethical banking, sustainability, financial crisis, moral hazard

**JEL clasification:** D82, D83, G01, G21

### 1. Introduction

For many of us, the expression “ethical banking” is an oxymoron. Also, the name “ethical bank” is controversial, because what is “ethical” or not is subjective.

“Ethical banking” is a term difficult to define. A very restrictive way to describe it would be as an “umbrella concept” of investing based on a combination of financial, social, environmental and sustainability criteria.

The activity of ethical banks is focused on social and human values, which emphasize the solidarity and responsibility for society and environment. In this context, it is imperative to talk about sustainable banking activity. This

means that banks involve in financing businesses

and projects characterized by social, cultural and environmental value-added, as an expression of capitals entrusted by depositors and creditors, which aim to encourage the development of responsible, durable projects. It appears that in the US, the epicenter of the financial crisis, sustainability was the last thing on the agenda of some of the largest financial institutions in the world.

Banks and financial systems have to be flexible when integrating social changing values. This process has to be public, open, and supervised by external social auditors in order to maintain and strengthen trust, which is an essential value.

### 2. Ethical banks versus traditional financial intermediaries

Ethics and banking are not words that naturally flow together. It is known that the primary aim of a bank is to make a profit.

Financial intermediation is not charities. Banks have to make sufficient profits to satisfy their shareholders. So it might be curious that banks are founded for social and ethical purposes. It might sound confusing hearing a banker saying that “money should be a tool for social good” or that “investment should be for the good of the community and the environment”.

However, banks don't operate isolated because their activities have social and ecological consequences. The ecological impact of financial activity is difficult to see, but there is a possible indirect impact through the financing of certain economic activities. This philosophy can be defined with the term of Sustainable and Responsible Investment (SRI): “This is a concept that continues to evolve. Nevertheless, the constant within this area is that sustainable and responsible investors are concerned with long-term

investment; and environmental, social and governance (ESG) issues are important criteria to determining long-term investment performance.” [1]

In table 1 are presented the most representative distinctive features of ethical and classical banks.

Table1. Ethical banks versus classical banks

Traditional banks	Ethical banks
The activity is subordinated to the reaching of several quantitative objectives, mainly the market share and profitability.	Operate with a clear set of ethical values, known, accepted and respected at all the hierarchical levels
The focus is on maximizing the financial gains.	Pursue the obtaining of both financial and social gains.
The investment strategy and risk profile are established by bank’s management	The investment decision belongs, firstly, to customers by choosing the ethical project to be financed with their funds.
Don’t provide information concerning the destination of attracted and borrowed funds.	Publish on a regular basis a list with all the investment projects that received financing.
Grants financing without taking into account the ethical behavior of the applicant, or the impact of his actions on society and environment	Finance those companies whose projects perform a positive influence on society and environment

Ethical banks reveal that their financial intermediation activity gathers customers aware of the importance of social responsibility and solidarity. In Europe, the

ranking of ethical banks term the amount of funds with ethical destination places on first place Great Britain, followed by Netherlands, Sweden, Switzerland and France. Therefore, some countries have an unexploited potential for the social value added.

In the list below are mentioned a couple of ethical banks worldwide:

- South shore Bank (USA);
- Shore Bank Pacific (USA);
- Self Help Credit Union (USA);
- Charity Bank (UK);
- Co-operative Bank (UK);
- Smile (bank) (UK);
- Triodos Bank (Netherlands);
- Banca Etica Popolare Universal;
- Ethic Bank (Italy);
- Grameen Bank (Bangladesh);
- Bank Rayita (Indonesia);
- Citizens Bank (Canada);
- Banco Solidario (Bolivia);
- Banque Alternative Suisse (Switzerland);
- Ethikbank (Germany);
- GLS (Germany);
- Credit Cooperatif (France);
- Cultura Savings Bank (Norway);
- Caisse Solidaire du Nord-Pas de Calais (France); [2]

Figure1. Ethical banks' logos



There is one high street bank in the UK with an ethical policy, and that’s the Co-operative. The bank has its roots in the co-operative movement that started in the 19th century as a way of creating a fairer model of capitalism through shared ownership. The bank remains committed to those ideals, and members all receive a share of the profits.

Table2. Sales and profits at The Co-operative Group

Financial highlights	2009	Growth vs 2008
Group sales	£13.7 bn	+ 31%
- Trading Group sales	£11.6 bn	+ 37%
- CFS sales	£2.1bn	+ 6%
Underlying Group operating profit before significant items	£473 m	+ 20%
- Underlying Trading Group Profit	£338 m	+ 22%
- Underlying CFS Profit	£177 m	+ 21%
Profit before payments to and on behalf of members (equivalent to the pre-tax profits of a plc)	£402 m	+ 85%
Members' funds	£4.5bn	+ 15%
Dividend paid to customer members	£55m	+ 16%
Net borrowings	£1.6bn	+£949m

Source: Co-operative bank

The Co-operative Bank has seen a 38% jump in new current accounts as consumers deserted the bigger banks in droves in the wake of the financial crisis. It gained 140,000 new customers, taking the total to 1.2 million, and doubled its share of the current account market to 4%.

"We're already seeing a flight to trust," said Peter Marks, the chief executive. "People are weary of big business, especially in the financial services sector. They want to feel confident about where they're putting their hard-earned savings." [3]

The Co-operative is said to have turned down £1 billion (\$2.2 billion) worth of

business over the past 15 years on ethical grounds.

Following are examples regarding the Co-operative bank's social goals in 2009:

- £11.3m invested in communities in 2009;
- £6.7m raised for charity this year;
- Voted Responsible Retailer of the Year – for the third year running;
- CFS voted Best Financial Provider by Which? Magazine;
- Revival of The Co-operative Bank's unique customer-mandated Ethical Policy;
- 250,000 young people benefited from Group community projects covering renewable energy and recycling;
- £5m pledged to support the co-operative enterprise hub;
- CFS Toxic Fuels campaign raising awareness of the impact of tar sands extraction;
- The Plan Bee campaign raising awareness of honeybee decline, funding research, and encouraging people to help bees and plant bee-friendly wildflowers;
- 15% reduction in packaging target met a year ahead of schedule; [4]

Another bank which have an ethical policy is Triodos, but it doesn't offer personal current accounts. Its services include business and charity accounts, and personal savings. They declare every loan they make, a uniquely transparent measure. Triodos set out to use money for good, and will only finance businesses that "add cultural value and benefit people and the environment". They are best known for investing in wind power in the 1980s, long before it was a fashionable cause.

The Ecology Building Society has seen a vast increase in savings deposits since the crunch, building on a 10% increase in 2009. Britannia Building Society, currently merging with the Co-op Group to form a "super-mutual", noted that 140,000 new savings accounts had been opened.

### 3. The financial crisis due to ethical crisis

The present financial crisis is much more than a financial one. It is a crisis of ethics and it was facilitated by the moral hazard. Banks assured that they were well capitalized. This was enough to convince regulatory authorities

and the policy makers that the bank's behaviour posed no risk to the economy.

In this crisis the world of finance is experiencing what the pharmaceutical world has known for a while, that product can cause 'serious and rare' adverse events that are hard to detect. Pascal Lamy, the Director-General of WTA declared:

"Finance is one of the last 'black holes'. A sick bovine or a hazardous lighter cannot cross borders; a toxic product still can". The fact is that the current financial crisis has its roots in financial innovation.[5]

Today's financial crisis has its roots in corporate irresponsibility around the subprime mortgage market in the US. If

"responsible lending' which presumes providing credit, based on background checks and professional judgement, to people who can accommodate regular repayments without getting into financial difficulty had been observed (or if tighter regulatory oversight had been imposed), we might not all be in this position right now.

The crisis in ethics was facilitated by a regulatory culture that does not adequately control hazards, moral hazard is said to lead to excessive risk taking. A number of central bankers, including Mervin King of the Bank of England, Paul Volcker, and Alan Greenspan, support that banks are "too big to fail". In the recent financial and economic crisis the number and nature of rescues in sophisticated financial markets and systems has dramatically increased the salience of the issue (too big to fail). Regulators placed their faith in market data and ignored the potential risks of bank behavior. Now, many discovered that banks may be "too big to let fail".

Although much has been said about the inevitability of banking crisis, such attitudes tend to reflect willingness to tolerate risk ignoring its consequences.

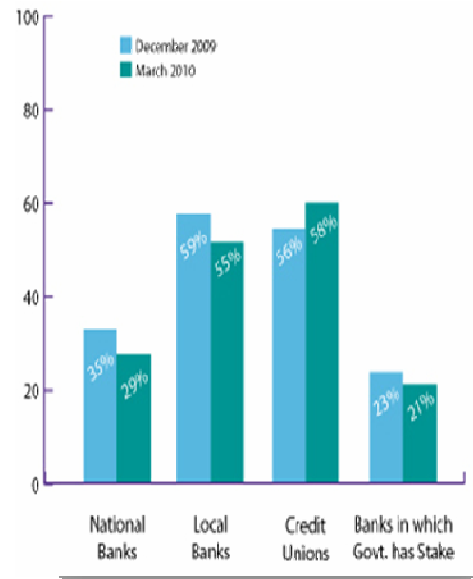
The financial draws attention to the fragility of markets and the importance of trust and organization for their stabilization. Now the idea of deregulation and free market is under observance. Financial markets are no longer seen only as a way to promote choice and efficiency, but they also need to be ordered, tamed and civilized.

The actual financial crisis has become a pervasive collapse of trust. Banks no longer

trust other lenders. Investors no longer trust banks. Lenders no longer trust borrowers. Many banks appear to be failing in their duty to society as well as to shareholders.

The Financial Trust Index captures the amount of trust that Americans have in the institutions in which they can invest their money. [6]

Graph1. Percentage of people trusting various types of banks



Source: Financial trust index

It is evident the way consumers have been flocking to ethical banks since the financial crisis began.

The present crisis is fundamentally one of trust and integrity, and therefore ethical in its foundation, its solution cannot be a mere institutional reorganization or some additional regulatory measures. It needs an ethical response at all levels: the individual, the corporation and the government and regulatory entities.

#### 4. Concluding remarks

Nowadays, profitability and solidarity are two notions which have to be brought together although longtime perceived as being contradictory.

Is time to intensify concerns in the banking system, in terms of awareness of the credit institutions to support ethical and sympathetic investments.

Banks should adopt alternative strategies, to increase customers' confidence and to configure a banking activity based on social responsibility providing investment for social and ethical purposes. It also aimed to provide a place for people savings where the customer could be sure that their money would not be used for projects they didn't approve of. The lending criteria of an ethical bank is that what the borrower plans to do with the money must be socially, environmentally or culturally useful.

The ideology of purpose that will dominate the future is one that finds acceptance and participation by society at large, unleashes human potential, draws individuals and organizations towards ethical behavior, and makes it possible for every human being to make a difference. Only the purpose of 'serving the real needs of humanity' is likely to meet these requirements." [7]

We need to get back to collaborating the old-fashioned way. That is, people making decisions based on business judgment, experience, prudence, clarity of communications and thinking about how, not just how much.

The other way of regarding our present dilemma is to see it as moral retribution for the excesses of past years.

It is time to set our moral compass so that our decisions are not governed by mere personal gain. The wider community is important and without it we cannot live a full and happy life.

## 5. References

- [1] M. Christensen, R. Edme, "Foreword from Eurosif", European SRI study, 2008.
- [2] AllExperts, "Ethical banking", Encyclopedia, 2008.
- [3] J. Kallewe, "Co-op profits surge as customers' desert UK's bigger banks", Guardian, 2010.
- [4] The Cooperative Group, "Record sales and profits at The Co-operative Group", Preliminary Results for The Co-operative Group for the 51 weeks ended 2nd January, 2010.
- [5] D. Demortain, "Credit rating agencies and the faulty marketing authorization of toxic products", Risk&Regulation, 2008.
- [6] Financial Trust Index, [www.financialtrustindex.org](http://www.financialtrustindex.org).
- [7] M. L. Wiersma, "Purpose beyond Profit", EBBF, 2008, pp.26

## Case Study on the Importance of Pertinent Costs in the Decision Making Process

Mihalache Anita

George Barițiu University, Brașov  
anita.mihalache@gmail.com

Sălăgean Liana

George Barițiu University, Brașov  
lianaugb@yahoo.com

### Abstract

*The purpose of this paper is to implement the concept of pertinent costs in practice. The primary issue discussed in the article was the decision making process and its difficulties, then generally references were made to costs, and particularly to the notion of pertinent costs. Finally, we exemplified, through a case study, the importance of these category of costs in the decision making process. The study was conducted at a company with production activities faced with several decision alternatives upon which pertinent costs theory could be successfully applied.*

**Key words:** pertinent costs, decision making process, savings, global savings, regional savings

**JEL Classification:** M4, M41

### 1. Foreword

In life, everyone faces the every day decisions elements. Whether it is a simple decision such as: what is for breakfast?, or what should I wear today?, whether it is a major decisions such as: should I change my job?, or should I enroll in MBA courses, all these decisions have a common element. This element is the basic decision making process that involves gathering information, taking into account future costs and benefits, determine alternatives and choosing one, taking action and determine the results of the chosen alternative. In this context, opportunity costs pertinent costs and relevant

revenues for each option should be considered in decision making.

### 2. Theoretical elements related to costs

One of the main goals of management accounting is cost calculation. However, some authors, especially those from the Anglo-Saxon environment, see cost accounting as part of managerial accounting (logical, because business management is interested primarily in costs). In that light, cost accounting represents an interface between financial accounting, destined for external reporting and management accounting, used only for internal purposes. [1]

Management accounting provides three types of information to the managers:

- Data on production costs, for pricing and stock assessment;
- Analysis of costs for operational planning and control;
- Special analysis to substantiate the decision-making process.

Currently, project managers must choose from several alternatives, opting for those variants that have the potential to maximize the enterprise value. In the assessments they make, managers rely on financial data strictly organized, provided by management accounting.

To achieve their aim, namely to maximize the value of the company and hence its profits, managers often are unable to act on income, or better said, their actions in this regard are limited. So, most often they use ways that allows cost reduction.

To the three dimensions defining the characteristic of cost (content, moment of cost



calculation and coverage) can be added another one referring on the pursued objectives of an enterprise and purpose of techniques adopted in costs construction. It represents the dimension of the utility of a cost, which can answer the question: why is a particular cost calculated?

A cost calculation can be justified only if the resulting indicator is presented as an element of response to a question previously asked. In the face of a determined management issues, it should be chosen a specific type of cost in order to obtain the best solution. The chosen type of cost is the one that a manager can associate to a decisional context, and it is called a pertinent cost (a cost that is useful to a specified decision). [2]

But pertinence is not the result of an inherent quality, prior to a type of cost, it comes from the adequacy of the cost as a result of a previous asked question. In fact there are as many pertinent cost as there are issues needed to be resolved. The notion of pertinence is subjective and varies from one company to another.

Decision-making process involves determining the possible events, possible solutions, evaluating the consequences of each solution, depending on different events, choosing solutions that provide the best level of satisfaction taking into account the objectives pursued in the short term forecast horizon or longer term. In fact, pertinent costs for decisions making can only be future expected costs.

An important distinction between the long term and short term decision is that the former cannot easily be reversed whereas the later can often be changed. The action that follow short term decision are frequently repeated, and it is possible for different actions to be taken in the future. [3]

The best cost is not necessarily the one that has more quality, but the cost that arises when, where and with the accuracy desired by the user.

The concept of "pertinence" is different from that of "accuracy" of the cost. Accuracy sends to validate the arithmetic calculations that allowed the determination of a cost. The accuracy degree of calculation can sometimes be achieved only with the "price" of a prohibitive information access cost, compared to the gain obtained by the precision and accuracy of cost calculation. In this context, it is best to determine an

approximate cost at an exact time, than an accurate cost at a later time. [4]

### 3. Case study

A company with an industrial profile has six factories in different regions of the country. The company has contracts with its clients and is working only with firm orders. The required product quantities, for 2010, are expressed in the following table:

Table 1. Demand for the six regions

Region	Demand
Transilvania	52,000
Maramureş	10,000
Banat	22,000
Muntenia	32,000
Moldova	48,000
Dobrogea	15,000

Currently each factory is equipped with a semiautomatic machine that needs three specialized workers to operate it. Personnel costs are proportional to the amount produced and ads up to 5.5 euro/pcs. Other variable costs on the existing equipment are 2.3 euro/pcs., and equipment depreciation expenses are worth 28,000 euro.

The general manager of the company receives an offer to buy an automated machine that requires one person to oversee it, thereby reducing personnel costs by 3.7 euro/pcs. The machine costs 380,000 euro, linear amortized over a period of 5 years. The other variable costs remain unchanged (2.3 euro/pcs).

Since buying these machines requires a considerable investment effort, the manager examines the possibility of concluding a lease for that equipment for a period of 5 years. Annual leasing rate amounts to 106,000 euro a year, and some variable costs are borne by the leasing company (0.7 euro/pcs). The residual value of the equipment at the end of the contract is 0 euro.

To determine the optimum solution in each region, in order to reduce production costs, following steps are necessary:

1. The first step is to express the annual cost for each option. This requires knowledge of cost

items for each option considered. These cost elements are expressed in the following table:

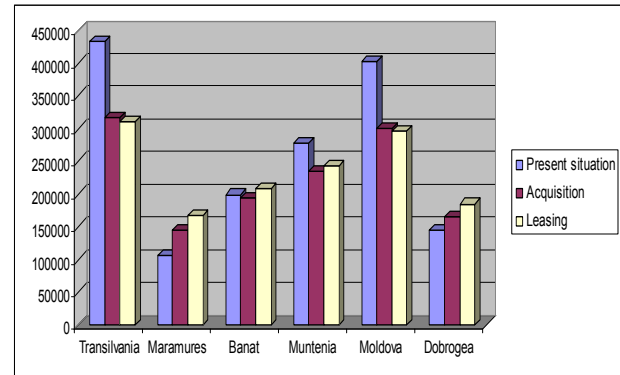
Table 2. Cost items required for each option

Option 1: Keep the current machine	
Description	Cost
Personnel expenses	5.5 euro/pcs
Other variable expenses	2.3 euro/pcs
Fixed expenses (existing equipment depreciation)	28,000 euro
Option 2: Buy the new machine	
Description	Cost
Personnel expenses	1.8 euro/pcs
Other variable expenses	2.3 euro/pcs
Fixed expenses (new equipment depreciation plus existing equipment expenses)	$76,000 + 28,000 = 104,000$ euro
Option 3: Conclude lease contract for the new machine	
Description	Cost
Personnel expenses	1.8 euro/pcs
Other variable expenses	1.6 euro/pcs
Fixed expenses (leasing rate plus existing equipment expenses)	$106,000 + 28,000 = 134,000$ euro

Table 3. Expression of annual costs for each option and each region in part

Region	Present situation	Acquisition	Leasing
Transilvania	433,000	317,200	310,800
Maramureş	106,000	145,000	168,000
Banat	199,600	194,200	208,800
Muntenia	277,600	235,200	242,800
Moldova	402,400	300,800	297,200
Dobrogea	145,000	165,500	185,000

Figure 1. Cost chart for each region in the three options



2. The second step is to determine the optimal option for each region separately. The optimal variant is to minimize the costs leading to a profit growth.

Table 4. Optimal situation in each region

Region	Optimal situation	Value
Transilvania	Leasing	310,800
Maramureş	Present situation	106,000
Banat	Acquisition	194,200
Muntenia	Acquisition	235,200
Moldova	Leasing	297,200
Dobrogea	Present situation	145,000

Optimization was made considering the cost of each variant in each region. Thereby the optimal situation means that in Dobrogea and Maramures will remain at the current situation because the existing equipment purchase or lease would not justify; in Banat and Muntenia best option is to purchase new equipment because they reduce variable costs fully covers the cost of the existing equipment, in Transylvania and Moldavia the optimal variant is the conclusion of a lease to use the new equipment.

3. The last step is to calculate the global economy made. The optimized results and the achieved savings for the studied enterprise are presented in the following table:

Table 5. Achieved economy of each region and global savings of the enterprise

Region	Present situation	Optimal situation	Savings
Transilvania	433,600	310,800	122,800
Maramureş	106,000	106,000	0
Banat	199,600	194,200	5,400
Muntenia	277,600	235,200	42,400
Moldova	402,400	297,200	105,200
Dobrogea	145,000	145,000	0
<b>Total</b>	<b>1,576,200</b>	<b>1,300,400</b>	<b>275,800</b>

#### 4. Conclusions

The best cost for each management option is obtained by applying the pertinent cost theory. It is very important to determine a cost in time in order to make forecasts upon the future economic activities of an enterprise.

Because the pertinent cost theory was applied upon the analyzed enterprise, it can develop, at least in the four regions in which the reduction of costs is possible by replacing the existing equipment. In can easily be observed (see table 5) that following the optimal situation the company makes an overall economy in costs of 275,800 euro. In the future the manager will probably replace the existing machine in the other two regions provided the extension of customer portfolio.

#### 5. References

- [1] Horngren C.T., Foster G. – Cost accounting, A managerial emphasis, 7<sup>th</sup> Edition, Prentice Hall, Enlewood Cliffs, New York, 1991;
- [2] Epuran M., Băbăiță V., Grosu C. – Contabilitate și control de gestiune, Editura Economică, București, 1999;
- [3] Drury C. – Cost and Management Accounting, 5<sup>th</sup> Edition, Thomson, London, 2003;
- [4] Budugan D., Georgescu I., Berheci I., Bețianu L. – Contabilitate de gestiune, Editura CECCAR, București, 2007.

## Intangible Capital Accounting

Mihalache Arsenie-Samoil  
“Alexandru Ioan Cuza” University of Iași / Romania  
arsenie\_samoil@yahoo.com

### Abstract

*The new economy based on globalization is increasingly important, which shows the decisive role played by intangible capital in achieving the competitive advantage of companies. However, this intangible capital is the hidden side of a company's value, as it represents the company's intangible resources, which cannot be measured by the financial metrics used to measure tangible resources. Given the functional importance of intangible capital, several models were proposed by the literature in order to explain its structure and provide an opportunity to assess it. The term most often used by accounting community is that of intangible assets. Van den Berg (2002) believes that traditional accounting and financial systems have lost the ability to inform on the value of a company, which is expressed increasingly by intangible assets. Experts estimate that intangible assets determine nowadays up to 60-70% of a company's value. The investments in intangible assets significantly exceed those in tangible assets, further increasing the difficulty of accurately assessing the value of a company. These are some reflections that cause us to focus on the issue of companies' intangible capital accounting.*

**Key words:** globalization, intangible capital, company's value, intangible assets, intellectual capital

**JEL Classification:** M4, M41

### 1. Introduction

The interest in the concept of intangible capital emerged along with significant differences between a company's market value and its net accounting value. The conceptual development of this term was achieved in three different directions.

A first direction comes from the accounting area, where the term used most often is that of

*intangible assets.* Increasingly, more and more specialists recognize the limitations of traditional financial accounting reports for companies that are characteristic to the new economy based on globalization, where the share of intangible assets far exceeds the one of tangible assets. However, they are concerned with the introduction of possibly subjective elements, such as non-financial annual reports. Therefore, they try to find relevant indicators, defined as precisely and thoroughly as possible, which is an activity regarded as a basic feature of the accounting profession.

A second direction is the finding of appropriate metrics for the intellectual capital. To this end, various models were developed for the assessment of intellectual capital. The third direction comes from the field of strategic management which points out the fact that, until the eighties, the literature relative to strategic management considered a company's external environment to be of major importance for the understanding of competitive advantage. It was believed that resources were distributed evenly and were quite easily accessible to companies in same industry. Thus, the role of management was to find intelligent ways of combining both products and markets, depending on the bargaining power of suppliers and buyers, on entry barriers, on the power of substitution products.

However, the internal factors are more important. In fact, this new insight (*resource-based view*) suggests that competitive advantage is primarily due to differences between company-specific resources. Intangible assets appear to be the only resources that pass the test of resource evaluation criteria, which provide competitive strength: the criterion of creating value for the customer, the criterion of rarity, the criterion of uniqueness, the criterion of the cost of copying.

Due to the different research directions, confusion can arise regarding the use of certain terms: intangible capital, intellectual capital, intangible assets, and knowledge assets. The term 'intangible assets' is used especially in finance and accounting, the term knowledge assets in economy, while the term intellectual capital especially in management.

In the current economic context, where human intelligence and creativity have gained an increasingly important status, intangible assets such as knowledge have become the new core of competences.

If in the traditional economy, production factors used to be the land, labour and capital, in the new economy knowledge become the essential component of the productive system.

The classical economic theory defines *capital* as one of the three production factors, alongside land and labour. It mainly refers to buildings, equipment, installations, etc. used to produce other goods (the relevant literature uses the term *physical capital*). Thus, intangible capital is a term used to signal the presence of such a capital, different from the *physical capital* and the *financial* one (Peltoniemi, 2006).

There are many approaches to this concept showing how difficult it is to define something so 'intangible,' as well as how important it has become in the economy and society of knowledge.

## 2. Intangible assets – concept and evaluating methods

Arthur Andersen defines intangible assets as those "resources controlled by the company that have the following attributes: they are not physical; they are able to produce net profits in the future; they are protected by the law" (Arthur Andersen, 1992). Intangible assets represent almost 70 percent of the market value of modern companies.

The real source of wealth of nations and companies has to be found in people, in their knowledge and competence, as well as in the internal processes and reputation of a company.

The IAS 38 standard, "Intangible Assets," defines intangible assets as follows: "An intangible asset is an identifiable non-monetary asset without physical medium and held for use in the production or supply of goods or services, to be leased to others, or for administrative reasons.

There are numerous methods used to measure intangible assets. The works of several expert authors illustrate over 30 different methods. This large number results probably from the fact that research on intangible assets and intangible capital was the result of practitioners' wish (Bontis, 2002, p. 623) to create and develop sophisticated measurement tools and methods, which meant a huge progress. In the following, we present, briefly, four of the main methods used to measure intangible assets (Luthy, 1998 and Williams, 2000).

The direct intellectual capital method (DIC) to estimate the monetary value (symbolically called value and expressed in monetary units) of intangible assets by identifying its many components.

Once identified, these components can be measured directly, either individually or as an aggregate coefficient;

The market capitalization method (MCP) that calculates the difference between a company's market capitalization and shareholders' equity, as value of its intangible assets;

The method of yields and asset recovery rates (MPA) (ROA). The average of gross return of a company over a given period of time is divided by the average of tangible assets of the company. The result is an MPA for a company, which is then compared with the average in that field. The difference is multiplied by the average of the company's tangible assets in order to achieve an average annual gain resulted from intangible. Dividing the average earnings by the company's average cost of capital or interest rate, we can get an estimate of the company's intangible assets;

The scorecard method (SC). The various components of the intangible assets and human capital are identified for the determination of indicators in the form of scores. Based on various indicators, composite indicators can be generated.

## 3. Intellectual capital – concept and evaluating methods

The interest in the concept of intellectual capital has emerged with the observation of significant differences between a company's market value and net accounting value.

The conceptual development of intellectual capital was made from two different, yet converging, directions.

The first direction was generated by the need to increase the company's competitiveness capability and achieve a strategic advantage on increasingly competitive markets by intensive capitalization on intangible resources. From these resources, the focus was on information and knowledge, trademarks and patents, organizational behaviour and organizational culture. In other words, the question is how to achieve a more efficient management of intangible resources in a company in order to increase its competitiveness.

The second direction was generated by the trend towards success consolidation of companies with a continuously growing ratio of market value and financial balance value.

Many authors have attempted to define more precisely the term intellectual capital but this is not easy due to its complexity, as well as the still embryonic phase the field is in. Consequently, both practitioners, and researchers in the field of intellectual capital prefer, as a starting point in their actions, different classifications thereof based on its ingredients. The most commonly used is one in which intellectual capital consists of human capital, structural capital and relational capital;

- Human capital includes the competence, skills and intellectual agility of employees;
- Structural capital includes processes, systems, structures, brands, intellectual property and other intangible assets owned by the company but not recorded in the balance sheet;
- Relational capital reflects all the valuable relationships established with customers, suppliers and other important contributors.

There are other classifications, but the differences are often more form and less substance.

When we speak of intellectual capital, it is a static approach. Bontis, Crossan and Hlland (2002) suggest that the level of analysis, intellectual capital represents the stock of knowledge that existed at some time in the company. It is what the company learned in a cognitive sense. Managing this stock of knowledge as they grow up is really knowledge management (knowledge management). Therefore, pragmatically speaking, knowledge management aims to evaluate and develop the intellectual capital of a company in order to

create value for consumers and other stakeholders. Semantically, both concepts are linked by the concept of knowledge.

One of the most important activities related to intellectual capital management is to evaluate it, for which various authors have proposed different models, some of which are presented below:

- Indicator of market value, net carrying value (Market-to-Book Value) - is calculated as the difference between a company's market value and net carrying amount. The market value of a firm is calculated as the product of share price and total number of shares. Net carrying amount is calculated as the difference between total assets and total liabilities. Therefore, what remains is the intangible nature.
- Tobin's Q Ratio - This index compares the market value of an asset with value representing the cost of replacing that asset.
- Balanced Scorecard - This model, developed by Robert Kaplan and David Norton, allows managers to translate mission and strategy into a comprehensive performance assessment. This model suggests to look at the company from four perspectives: learning and growth perspective, internal process perspective, customer perspective, financial perspective.
- Sveiby's Intangible Asset Monitor - This model was created by Karl-Erik Sveiby to classify intangible assets into three categories: external structure, internal structure and individual skills. Structure refers to external customers, suppliers and other stakeholders that are considered relevant for a particular company. Internal structure refers to systems, databases, processes that support company. Individual competencies refer to individual experience, the knowledge, skills, abilities and ideas of employees.
- Skandia's Intellectual Capital Navigator - This model is the result of continuous efforts made in the field of intellectual capital by Leif Edvinsson and his team from the Swedish company Skandia. Taxonomy scheme offered by the market value is used by those interested in the field of intellectual capital. Total market

value is composed of financial capital and intellectual capital. Intellectual capital is divided into human capital and structural capital. In turn, structural capital consists of customer capital and organizational capital, which is capital plus capital innovation processes.

- Assessment of intellectual capital statements (Intellectual Capital Statements) - In recent years, given the importance of becoming more intellectual capital assessment statement, with which a company reports and the "invisible" intangible of a company. These instruments have different indicators, but also certain forms of presentation. The best known such statements are: the Declaration of intellectual capital assessment developed by the Ministry of Science, Technology and Innovation of Denmark (to be found in The Guideline for Intellectual Capital Statements).

#### 4. Intangible assets bookkeeping

After a long discussion, the international accounting referential addressed first detailed accounting for intangible assets by IAS 38 (enacted in 1998), and determining criteria for recognition, measurement bases and reporting requirements of these categories of property.

Recognition of intangible assets requires the following key criteria:

- of identifiable intangible nature;
- possibility of controlling use of property;
- their ability to generate future economic benefits;
- credible assessment.

The identifiable character of an intangible asset requires that it be "distinguished from goodwill (IFRS, 2005, p. 1676). The identifiable condition is satisfied if the intangible asset is separable (i.e. can be sold, transferred, licensed, leased or exchanged and future economic benefits attributable to that asset can be distributed, without depriving the company of future economic benefits from other assets used in the same activities). At the same time, intangible rights must arise from contractual or other legal rights, whether those rights are transferable or separable from the entity or other rights and obligations.

Identifiable intangible assets include patents, copyrights, licenses, customer lists, brand names,

software, marketing rights and specialised expertise. A feature that these elements have in common is the lack of material, physical substance, and their having a useful life greater than one year (fixed or indefinite).

Some intangible assets may be kept in or on a physical medium, e.g. CD (for software), legal documentation (for a patent or a license), film, etc. Eliminating confusion for the correct classification (as property, plant under IAS 16 or as intangible as IAS 38) requires professional reasoning in order to identify the most significant element based on their relative importance or comparative.

The possibility of being in control of the use of intangible assets – Control involves both the ability of the entity to draw benefits, future economic benefits arising from the involvement of these assets and the power to restrict third party access to those benefits, benefits.

As a rule, such entities get their ability to control means of legal rights as registered copyrights, patents, restrictions on trade agreements (if this is allowed) or legal coercion of employees to observe confidentiality.

These rights missing, the entity cannot usually have sufficient control over the economic benefits expected from teams of professionals and education and training programs or from specific technical or management skills. Moreover, in the absence of rights that enable it to protect or to control its relations with customers or their loyalty, the entity is not usually in sufficient control of any economic benefits from customer loyalty and relationships with them. Thus, considerable costs incurred for staff training, building a portfolio of customers, market shares, relations with customers or their loyalty may not yet be recognized as intangible assets, although these expenditures are investments in marketing and as "the drive" that triggers long-term profits.

The future advantages (benefits) that may be associated with future economic intangible asset may take the form of revenue from sales of products or services, savings, cost reductions or other economic benefits resulting from the use of intangible asset to the company.

In general, however, recognizing an intangible asset is subject to the probability

that the economic benefits pertaining thereof return to the entity. Evaluating the probability of future economic benefits must be made based on rational calculations representing the best estimate for the set of economic conditions existing during the life span of intangibility.

Using reasoning to assess the safety of future economic benefits associated with obtaining the intangible asset attributable to the available evidence is based upon initial recognition, giving priority to external evidence. Relying on fair value, determined primarily by reference to an active market or, failing that, by using the best available information involves determining the present value of cash flow, adjusted according to the probability of its implementation and the time value of money. Even at low probability of occurrence of cash flow, it is construed that fair value can be determined and the asset will be recognized.

Credible evaluation of intangible assets is conditioned on how to obtain them, so that initial assessment is done at their cost of production:

- For a separately acquired intangible asset, the price paid for obtaining it reflects the probability that expectations of future economic benefits associated with the intangibles acquired return to the company. In other words, the cost effect is the likelihood of intangibility.
- In many cases, intangible assets are internally generated. The baseline to which they are recognized as assets is difficult to determine due to the nature of these categories of property, for which many expenses have been incurred before their being acknowledged as assets.

Expenditure on intangible assets obtained are treated according to the stage where they occur, in their creation or in the research phase or stage of development.

The whole argument is based on credible assessment of the project concept (as a set of joint actions and scheduled for a particular purpose).

During the research phase of an internal project, expenditure on activities aimed at obtaining new knowledge, searching, delivering, evaluating and selecting alternatives. These costs are recognized as costs in the period they were committed.

The development phase of an internal project involves expenses that can be capitalized if the following can be proved: technical feasibility of

completing the intangible asset, the will to complete, the capacity to use or sell the intangible, the mechanism by which future benefits are likely to evolve, the ability to assess credible costs attributable to the intangible during its development.

Categories of assets as brand names, models, and internally generated customer lists can reach values that can be estimated with difficulty and that meet the criteria for their recognition as assets separate from the internally generated goodwill.

Their non-recognition as assets is justified by the principle of prudence, associating failure to capitalize expenses with the uncertainty about assessment methods rather than with the volatile nature of their value.

The life span of an intangible asset can be very long or indefinite. There may be both economic factors and legal factors that influence the life span of an intangible asset. Economic factors determine the period in which the company will receive future economic benefits. Legal factors may restrict the period during which the company controls access to those benefits. Life span is the shortest of the periods determined by these factors and the depreciated value of an intangible asset will be allocated on a systematic basis over such period.

The life span of an intangible asset is construed as indefinite when – based on the analysis of all relevant factors (the organisation's intended use of the intangibles, typical life cycles, technology wear and tear, commercial or other types of obsolescence, stability of the domain, the expected actions of competitors, the level of maintenance expenditure, the length of control of the intangibles, the dependence of the intangible life span on another asset) – there is no foreseeable limit to the time period in which intangible is expected to generate net cash flows for the company.

## 5. Conclusions

The new economy based on globalization is increasingly important proving the decisive role played by intangible capital in achieving the competitive advantage of companies. But this intangible capital is the hidden part of the value of a company as it represents the company's intangible



resources, which can not be measured by financial metrics used to measure tangible resources. Given the functional importance of intangible capital, the literature has suggested several models to explain its structure and to provide an opportunity to assess it.

In terms of financial accounting recognition or measurement, issues of intangible assets continue to stir controversy. The more so in a society marked by competition and change, estimating future benefits arising from investments is less dependent on their physical or intangible nature and more on the characteristics of the market within which it operates (the degree of competition, the speed of technological change).

The relevance and reliability of accounting data require an appropriate accounting treatment and international bodies (IASB and FASB) regulating their accounts placed on their common agenda a long-term joint project for intangible bookkeeping.

For now, accounting rules encourage (without requiring) companies to disclose in their explanatory notes those investment categories that have long-term impact on the performance of the company, but not exceeding the limiting threshold of their recognition as assets (IAS 38) in the balance sheet.

Accounting evolution is slow and there will always be a gap between the volume of the immaterial and intangible assets recognized, because you can not make a credible assessment of all components involved in the investment process.

## 6. References

- [1] Andone I., Pavaloaia V-D., Modelarea afacerii. Intreprindere-procese-reguli, Editura TIPO Moldova, Iași, 2010;
- [2] van den Berg, H., Models of Intellectual “Capital Valuation: A Comparative Evaluation”, Knowledge Summit Doctoral Consortium 2002, <http://business.queensu.ca/knowledge/consortium2002/ModelsofICValuation.pdf>, 15.03.2010;
- [3] Brătianu, C., „Un model de analiză a capitalului intelectual organizațional”, Management & Marketing, 1(3), 2006a, pp. 17-32;

[4] Brătianu, C., „Knowledge welding”. Proceedings of the 1st South-East European Welding Congress, pp. 5-15, May 24-26, 2006b, Timișoara;

[5] Brătianu, C., Vasilache, S., Jianu, I., „Organizational intelligence development”. Revista de Management și Inginerie Economică, 5 (4), 2006, pp.11-25;

[6] Feleagă, N., Feleagă Malciu, Liliana, Contabilitate financiară – o abordare europeană și internațională, vol. I, Editura InfoMega, București 2005;

[7] Horomnea E., Fundamentele stiintifice ale contabilitatii, Editura TIPO Moldova, Iași, 2010;

[8] Horomnea E., Audit financiar. Concepte, standarde, norme., Editura Alfa, Iași, 2010;

[9] Kotler, Ph., Managementul marketingului, Editura Teora, București, (2005);

[10] Pike S., Rylander A., and Roos, G., „Intellectual capital management and disclosure In”, Bontis, N., and Choo, C. W., eds. The strategic management of intellectual capital and organizational knowledge. New York: Oxford University Press, 2002, pp 657–671;

[11] \*\*\*Standardele Internationale de Contabilitate, Bucuresti, 2007;

[12] \*\*\*Standardele Internationale de Raportare Financiara , Bucuresti, 2007;

## 7. Acknowledgements

Project POSDRU/88/1.5/S/47646

## The Impact of Using New Information Technologies on Accounting Organizations

Mihalache Arsenie-Samoil

“Alexandru Ioan Cuza” University of Iași / Romania

arsenie\_samoil@yahoo.com

### Abstract

Knowledge is an increasingly valued production factor<sup>1</sup> as by means of computer-based equipment its reproducible feature has been highlighted.

Accounting has turned into the art of warranting the success of an organisation only to the extent in which it uses information technologies with a view to obtain and manipulate information. Via this medium, any patrimonial unit can produce a maximum profit with a minimum of effort.

In order to be able to survive a within a fiercely competitive environment, the necessity of modernizing businesses appears as mandatory, by adopting the new information technology with a view to increasing their economic performance [4].

Within a global information environment, for an organisation modernizing process to be efficient, such businesses should have the following characteristics: flexibility, openness, receptivity to integration and globalization, standardization, digitalization, and artificial intelligence.

Integrating and computerizing the activities in an organisation and carrying out the operations within a digital economy and a virtual organisation, highly interconnected, calls for the expansion and acceptance of the computer-assisted accounting method, real-time work, accepting new ways of working and new activities.

Hence, it is increasingly relevant that topics as intelligent business, virtual business, the expansion of the Internet, e-commerce, e-banking, and global computerization of society are directions which mankind cannot avoid. Under these circumstances, businesses, willingly

or against their will, need to modernize.

Simultaneously, experts in accounting need to understand their field of competence through the lens of this development. In the accounting professional environment, a series of technological mutations will make their presence felt. Such mutations will strongly influence – from a theoretical as well as practical viewpoint – the financial – accounting field. All these events will entail a series of challenges accountancy will have to cope with.

The current issue at hand is: what is the impact of using the new information technology on business accounting and to what extent the use of such technology contributes to the growth of the business economic performance?

**Key words:** intelligent business, virtual business, e-banking, e-commerce.

**JEL Classification:** M4, M41

### 1. Introduction

The progress recorded in the IT field, its impact on various operation fields, the long time elapsed since the beginnings of computer-aided accounting and the experience accumulated in the field have prompted a question to us: is it the time to try to adjust accounting to IT in general, and to computer science in particular? This seems a more justified question as the relation between accounting and computer science has been so far one of a single-direction influence: computer science has adjusted to accounting. The development of the accounting information systems has limited itself to digitalising accounting procedures without producing their change. Hence, considerable advantages have been obtained with respect to processing speed,

---

<sup>1</sup> "We enter a society of knowledge, where the main economic resource is no longer the capital or labour, but knowledge, and where intelligent workers will play the central role." - Peter Drucker

the accuracy of processing and cost cutting. Which poses a new question: are these achievements sufficient?

Within this context, that computer science will determine a total transformation of accounting appears to be increasingly relevant, not only because the procedure will be modified, but because it will stop being an autonomous function of the organisation which is to be integrated in a general information processing system.

## **2. Accounting-related information technology**

The endeavour of analysing the impact of IT on the accounting field should begin with the role of accounting. The developing directions of accounting derive from the study of its goal and imply the analysis of the accounting principles, methods, and procedures that lead to meeting the goal set.

Accounting represents an information system that quantifies, processes and communicates (transmits) financial information to an identifiable economic entity, thus connecting the economic activities and the decision-making factors. [5]

The managerial information system is made up of interconnected subsystems offering the information required for an organisation to operate [5]. The accounting information system is the most important subsystem as it plays the leading part in directing the economic data flow both to all compartments of an organisation and to interested parties outside the organisation. Thus, it offers a full picture – clear and accurate – of the structure and dynamics of the assets, of the financial standing and results achieved.

Information has lately been considered as an increasingly significant production factor as the IT equipment has highlighted its reproducibility. In order to process and manipulate these data and pieces of information while using IT equipment, we need other information resources of which we would like to mention specialised personnel and software. In order for all these factors to be put to practice, we also need a way of combining these information resources, namely a working technology that we could apply as with any other technological process. Thus, we arrive at a technology based on information or, simply, the information

technology [7].

Accounting has adjusted to the requirements of those who need its information. Therefore, from rudimentary accounting of the Egyptian culture based on a simple-entry accounting system, we have come a long way to the double-entry one, where there have been attempts to eliminate the basic informative support (i.e. paper) and replace it with a less vulnerable one as well as a faster one as a means of collecting, processing, and transmitting financial-accounting data.

The transition to the means of electronic storing and processing has undergone a gradual development. The first computer and the first accounting applications were invented in the second half of the twentieth century. At the time, many users connected via non-intelligent terminals would use a central computer. During their initial stage, these systems were limited to reproducing manual accounting systems, meaning they repeated the same procedures of accounting data processing but this time by means of a computer. Consequently, the same kind of data were collected, the same information was generated which in turn were transmitted to the same recipients and the same organisational structure was preserved.

The next step was made when personal computers appeared on the market, allowing thus to decentralise data processing. The information needs at that time underwent significant changes: company management and shareholders manifested new and more diverse needs for information, such as the value of the intangibles (customers' satisfaction). There was even a demand for information uncharacteristic to the traditional accounting reports – e.g. data on the impact on the environment, the risks the organisation may face, management of the intellectual capital, the innovation capacity, the degree of customers' satisfaction, the employees' learning capacity and motivation [10].

New means of information are now available to accountants owing to which they are able to collect, manage, process, disseminate and analyse both the accurate, actual data resulted from classical economic transactions and those referring to

knowledge, the company intangibles. Such information circulates in an integrated way via some applications as the intranet, the extranet and the Internet, data mining, knowledge bases, document management, etc., among which the Electronic Data Interchange (EDI) occupies a special position.

### 3. The main information technology in the modern organisation

Here are only some of the new technologies one has to bear in mind when developing and exploiting systems, if we consider that they are no longer the prerogative of computer science experts, but they imply the involvement of users, i.e. managers, in order to ensure a successful implementation.

- The Internet, the extranet and the intranet with all their derived applications: the Web, electronic mail (e-mail), the World Wide Web, file transfer protocol (FTP), Internet Relay Chat (IRC), news groups (Usenet news groups), Gopher, Archie and WAIS, Telnet, Blog [8];
- Electronic data interchange and electronic payment systems: EDI (Electronic Data Interchange), EFT (Electronic Found Transfer), ACH (Automated Clearing House), FEDI (Financial Electronic Data Interchange) [9];
- Electronic management of documents and groupware, e-banking, e-marketing, e-learning;
- electronic systems to organize meetings: discussions on the Internet (forums, interest groups);
- e-commerce with the following business models: e-Shop, e-procurement, e-auction, e-mall, Third Party Marketplace, Virtual Communities, etc. [3];
- various functional application integrating technology: ERP (Enterprise Resource Planning), middleware technology – organization applications integrating kit (Enterprise Application Integration);
- Data warehouse, Data marts and Data mining;
- Optical Character Recognition;
- Automatic Teller Machine - ATMs;
- Artificial intelligence and its applications: intelligent systems, expert systems, fuzzy

systems, connectionist systems, genetic algorithm-based systems, multiple agent systems, hybrid systems, shape recognition, speech recognition and understanding robotics, general problem-solving equipment, computer-aided learning, natural speech processing [1];

- Multimedia systems: remote connection, telephony, videoconferences, virtual universe, radio – TV channels receipt, etc [2];

Other information technologies: we list under this category all modern types of technology designed for CAD (computer-aided design), security and access technologies - firewall, electronic signature, digital certificate, etc [6].

### 4. The impact of it use on accounting

In as far our concern is with the impact of the new I&CT on the accounting information system [4], we can point out the following trends:

- A better communication via interconnection. The internet can be used by any application of the accounting information system where communicating data intervene, offering several major advantages as compared to other network types. One of these advantages lies in the fact that it can be used on any hardware platform without any special efforts. The expanding possibility irrespective of the geographical location, attracting new customers from all over the world, communicating at any time, identifying and getting information at any time, round the clock operations;
- A stronger integration. The accounting information system should be part of an integrated application system within the organisation if one wishes to benefit from the EDI and ERP system advantages. The accounting information system is the one that offers most of the economic and financial data needed to carrying out the organisation operations. Nonetheless, it is not sufficient in itself as the efficiency of using data resources of the organisation depends on how each component of the data system interacts with the other components and to what extent they are

integrated. Consequently, the accounting information system can no longer be seen separated from the other functional components of the system but as a full part of the components as a whole, inseparable at times.

- A new support to carry out accounting records. The support on which accounting records are made is dematerialised with a view to eliminating paper support and automatically taking over the data for the accounting article directly from electronic documents. By means of this processing method the classical bookkeeping of accounting documents is also eliminated;
- An easier and faster document flow. Primary document circuit is completely different as many intermediate stages of checking and approving are also eliminated. Yet, this requires giving an increased attention both to the observance of current legislation and accounting regulations and to the observance of internal control and finance-accounting auditing procedures;
- Building up virtual archives. The ways documents are archived undergoes radical changes. We no longer resort to lacing up accounting document files, but to much more simpler ways which do not require extra work or larger room for archives. The document and record keeping concepts are being redefined; new occupations are being created such as: record manager and electronic library custodian;
- A complete transformation of internal control and auditing of the accounting information systems. These operations are given new objectives and new ways of being carried out. Hence, we are now facing the issue of performing the audit around the computer and inside the computer; the issue of creating some universal auditing systems as a result of IT system becoming internalising and globalising;

As to the impact of the new I&CT on the accounting profession [4] we can point out the following:

- The life-long training of the professional accountant. They should train on a permanent basis with a view to being updated to the novelty with an impact on their activity in the field. Hence, the accounting profession should accept the challenges imposed by the

new technologies. We refer here mainly to setting a unanimously-accepted standard with respect to with extending the method of computed-based accounting technique;

- Carrying out activity within a digital economy and a virtual strongly-connected organisation. Integrating and digitalising the activity in an organisation call for the extension and acceptance of the computer-based accounting method, working in real-time, accepting new types of work and activities.
- Shifting the stress from the microeconomic to the macroeconomic level. The context of integrated organisation functions and simultaneous large-scale use of ERP products and the digitalization of the microeconomic phenomena, the concept of national accounting may become an omnipresent one, whereas the company accounting would constitute a mere working mode;
- Developing an event-oriented accounting rather than a simple-economic fact-oriented one. The professional accountant will have to promote the idea of recording and event under all the aspects of the accounting processing applied to a simple economic fact / phenomenon. This challenge is the effect of accounting data digitalisation and integrated processing;
- Outstanding results in the artificial intelligence field. The professional accountant has to place a special focus on the instruments of artificial intelligence that can be used in their field of activity.
- The radically changed perspective of the accounting profession. For the current finance-accounting professional it is no longer sufficient to have a detailed knowledge of the accounting technique, of how to perform checking or auditing, of the legal framework or to have some knowledge they need to perform economic and financial analyses. Such professionals need to have increasingly detailed knowledge with respect to the use of the new I&CT, of the strategic advantages the company could obtain by implementing such technology, of how these advantages can be turned into profit for the organisation. Under the new

circumstances, professionals should secure their education and training necessary to carry out financial and accounting practice that meet the challenges of the new information technology.

- Eliminating the language barriers between the various professionals within the organisation. The need to know and the ongoing training of all employees in order to apply the new strategies determines the break off barriers that so often are laid between the professional of the various operating fields in an organisation;

## 5. Conclusions

Topics such as intelligent organisation, virtual company, extending the Internet, e-commerce, e-banking, and global digitalisation of society become more and more obviously the trends humankind cannot avoid. Under these circumstances, organisations – willingly or against their will – will have to modernise by implementing the new information technologies. In order to make the process of modernising organisations efficient in a globally digitalised environment, such organisations need to be flexible, open-minded, receptive to integration and globalisation, standardised, digitalised, and intelligent.

Meanwhile, accounting experts need to understand at least in part the scope of their competence from the perspective of such developments or otherwise their views will be distorted and easily influenced. In the professional accountants' field of activity a series of technological mutations are being noticed. Such mutations are likely to have a significant influence on the financial-accounting field from a practical and theoretical point of view. All these will entail a series of challenges to which the profession will have to overcome.

Accounting has grown into the art of ensuring the success of an organisation only to the extent such organisation uses the new information technologies with a view to collecting, processing and transmitting the data. Such activity allows to every patrimonial entity to produce the highest profit with the least effort determining thus an increased economic performance.

## 6. References

- [1] Andone I. Sisteme expert. Principii și dezvoltarea aplicațiilor de gestiune, Editura A92, Iași, 1994;
- [2] Andone I. Sisteme inteligente hibride. Teorie, studii de caz pentru aplicații economice și ghidul dezvoltătorului, Editura Economică, București, 2002;
- [3] Andone I., Păvăloaia D., ș.a., Modelarea cunoașterii în organizații. Metodologie obiectuală pentru soluții inteligente, Editura Tehnopress, Iași, 2004;
- [4] Andone I., Tabără N., coordonatori, Contabilitate, tehnologie și competitivitate, Editura Academiei Române, București, 2006;
- [5] Belverd E. Nedles, Henry R. Anderson, James C. Caldwell, Principiile de bază ale contabilității - Edita a cincea, Editura ARC, Chișinău, 2001;
- [6] Oprea D., Protecția și securitatea informațiilor, Editura Polirom, Iași, 2007;
- [7] Oprea D., Airinei D., Fotache M., Andone I., Sisteme informaționale pentru afaceri, Editura Polirom, Iași, 2002;
- [8] Oprea D, Dumitriu F., Mesniță G., Proiectarea sistemelor informaționale, Editura Univ. "Al. I. Cuza", Iași, 2006;
- [9] Oprea D, Mesniță G., Dumitriu F., Analiza sistemelor informaționale, Editura Univ. "Al. I. Cuza", Iași, 2005;
- [10] Oprea D, Meșniță G., Sisteme informaționale pentru manageri, Editura Polirom, Iași, 2002;

## 7. Acknowledgements

Project POSDRU/88/1.5/S/47646

## Does the Model of Evaluation Based on Fair Value Answer the Requests of Financial Information Users?

Mitea Neluța

*Associated Professor, Andrei Șaguna University of Constanța  
nelutamitea@yahoo.com*

Sarac Aldea Laura

*Assistent, Andrei Șaguna University of Constanța  
laurasarac@yahoo.com*

### Abstract

*Does the model of evaluation based on the fair value answers the requests of the financial information users?*

*The financial situations have as purposes the presentation of the information concerning the enterprise financial position, the performances and modifications of this position which, according to IASB and FASB, must be credible and useful. Both referential maintain the existence of several conventions regarding assessment, like historical cost, actual cost, the realizable value or actualized value that are characterized through different degrees of credibility and reliability. The historical cost, habitually used across the years, appears from real transactions that the enterprise underwent as a real value at the moment of initial recognition. The fair value, sustained and used lately, reflects an estimation and not only an assertion (inducing the market value) and tends to cover all the values appearing out of the economical plans. It is the only evaluation base including derived instruments.*

*Could it be asserted that the evaluation model residing in the fair value is in concordance with the needs and requests of the financial information users? This paper shows pro and against argumentations but also some necessary actions and measures to be taken by the specialists in the field.*

**Key words:** fair value, financial information, derived instruments, corporal assets.

**JEL Classification:** M4, M41

### 1. Introduction

The objective of the financial situation is the presentation of credible and useful information concerning the enterprise financial position, the performances and modifications of this position according to the two accounting referential IASB and FASB. Both referential sustain the existence of several conventions regarding evaluation, like historical cost, actual cost, realizable value or actualized value, that are characterized by different degrees of credibility and reliability. Initially, referential did not prescribe or privilege none of these possible conventions, but only made the observation that the evaluation at the historical cost is frequently used in elaborating financial situations. In the past years, the regulators are heading more and more to the support of the fair value and its extensive application.

This value is instrumented within the standards referring to financial instruments, to real estate investments or agricultural products, but it also appears within the requests concerning the evaluation of the corporal assets at a reassessed value (with some references to the real market value) or concerning the evaluation of intangible assets (especially the goodwill).

### 2. Historical cost and fair value

The historical cost results out of real transactions that the enterprise underwent, being a real value within the moment of initial recognition, most of the times a value easy to establish. According to the historical cost model, the assets are registered at cash

value or at a cash equivalent or at the real value from the moment of their acquisition. Liabilities are registered at the value of equivalents received for the debts or, in some cases (for example, the income tax) at the value which is expected to be paid in cash or cash equivalent to the satisfaction of debts arising from the activity. [1]

But the economical parameters (like purchasing power, interest rate, enterprise profitability) has evolved in time, with modifications of their values and that is why unusual items appear in financial situations to a distorted value. As I have mentioned previously, any accounting referential accepts a series of adjustments like reassessment, replacement cost or indexing to inflation but no one could assure the correct presentation of the full and fair image of the enterprise activity.

After a long presence in the financial statement, the historical cost doesn't reflect any more the true and fair image of the enterprise activity, and that is why it was necessary to use some corrections like: inflation restatement, assets revaluation or the use of a minimal value between the accounting value and actualized value (named *net realizable value* in connection to the inventories and *recoverable value* in connection to the assets).

*Fair value* (real, correct) is the amount at that we could trade voluntarily an asset or settle a liability, between parties within a transaction in which the price is objectively determined. In such a transaction it could be used the market price for goods having an active market or the replacement value for goods that don't intervene on an active market.

The fair value is the result of theoretical and practical research of *different specialists for different purposes, but with the same target*: that of expressing as correct as possible the real value of an element at a certain moment, after initial recognition. Fair value is undoubtedly the most complete term referring to assessment. Fair value consists also in determining the market value based on the principle of supply and demand. There are differences between expressing an opinion referring to market fair value belonging to an individual element at a certain moment and expressing an opinion concerning the market fair value of an entire enterprise as a whole. In order to assess the enterprise fair value there are some

considerations necessary concerning past performances, future potential gains, economic climate, involved human resources while the constraints in determining *the cost of a single element are far less intense*. [2]

Determining the fair value reflects an estimation and not just an observation (the case of the historical cost) and, like in any estimation process, expressing an opinion is absolutely necessary. Any opinion is submitted to the subjectivity and to the will of the assessor, this explaining the differences appearing in the determination of the value. Fair value induces the market value and tends to cover all values coming out from *estimations based on economic calculations*. As a consequence, fair value must not be misled with the acquisition price. Sometimes they can be equal, but the fair value is a theoretical result of the supply and demand rapport, while the acquisition price is the value at which *a transaction actually takes place* and depends on the negotiation abilities of the two parts and on *the relative usefulness* of goods for one or another parts involved in the transaction.

A. Smith is the one that offers to the value two significations: that of usefulness of a particular object (*use value*) and that of a means that allow the access to other goods (*exchange value*). In the economist opinion, for the elements that have an usefulness value that is great enough, the exchange value tends to be worthless. Smith considers that *the process of usefulness motivates the economic production process and represents the fundament of this value*, but its measurement *is reflected through cost, the one allowing an objective assessment*. [3]

This economic theory concerning the value is taken and accepted by accounting profession too, being reflected through the model of the historical cost (also named *the general model of assessment*).

It is interesting to mention that the adjustments made by accountants in order to ensure the reality of the value do not always allow an objective approach, which means that in such situations like evaluation in uncertain conditions, the accounting value of the assets is never increased by the positive differences of this value. Only in the case of reassessment and inflation, when it is



considered that uncertainty disappears through the existence of assessment paper as a documentary justification or of some indices calculated at a macroeconomic level, regulators allow the raise of the value.

The reference to historical costs and systematic underestimation of the result (through a generalized prudence) brought vehement critics to this model. The model presents asymmetrically the information and opens the way towards creative practices allowing the externalization of the latent added values in well calculated moments, reacting like a sort of controlling instrument of the result. The introduction of fair value model as an assessment model and the elimination of historical cost represent the object of reconsideration process concerning the accounting standards, a process which is not supposed to develop without criticism and without creating difficulties in the accounting normalization.

### **3. The need of financial information users and the fair value**

*Could we assert that the assessment model based on fair value answer the needs and requests of the financial information users?*

According to this model, the result of the enterprise is measured in concordance with current economic conditions, considering profit and latent loss generated by the evolution of the market parameters from the outside of the enterprise. According to the assessment model based on the historical cost, gains and losses are not recognized in accounting until the moment of the effective realization of the transaction on the market. This fundamental difference within the evaluation objectives of the performance fuels a sustained dispute with some arguments presented further on.

Those supporting the historical cost reveal the fact that, in the case of acquisition of a bond held to maturity, the fair value variations across this period of time are not pertinent at all as the enterprise is ensured to receive at the maturity the initially invested amount of money and not the bond value market. Instead, the fair value supporters sustain that, by using this value, we could better measure the performance at a certain moment, because the recognition of value differences between entry cost and the

previous value is allowed. Historical cost offers information about value differences only at the moment of assessed item derecognition. But fair value is not sustained only in the case of present performance assessment, but also of forecasts, because unlike historical cost, this takes into account some external factors affecting the enterprise activity. According to FASB, fair value concept invokes the market concept, with a purpose of emphasizing the elements that could explain the generated market price. Determining the real value resides on an assessment model whose parameters must be anticipated by the market.

The reflection of these two assessment conceptions concerning the enterprise financial situations reveals the fact that, in case of using the historical cost, the presented performance is homogenous with the evolution of cash or cash flow, because the operating activity is well defined and the immediate fluctuations are neutralized. In the same time, by using fair value model, the enterprise performance reflects immediate variations of the market, taking away the current treasury situation and the current ability to handle treasury resources. Bernheim sustained in an article that, fair value, *more than other assessment bases, is justified mostly through its capacity to offer information about future cash flows.* [4]

The difficulty in finding a replacement cost or the controversies regarding future cash flows fuelled by the multitude of actualization models, led the specialists towards a saving solution: *fair value*.

Starting with the elaboration of standards concerning financial assets, we could notice a reconsideration assessment tendency through market values, considered the end of historical cost era. Historical cost is unconditionally accepted only at the moment of initial recognition, because later on any assessment will be made at fair value which is reflected by market, as a value appearing from a normal transaction developed in equal access conditions to information for the parts involved within this transaction.

Taking into account all these, the result, as an expression of values variation concerning assets and liabilities, involves an element generated by the transaction itself,

classified as an operational element, and a virtual element classified as a financial one. In such conditions, in order to not distort the information, the enterprise might present during the Explanatory Notes the virtual part of the result determined by plus or minus latent values and might take into account this information in dividend distribution process.

Concerning the assets, FASB as well as IASB use the technique of actualized value in order to realize an assessment close to that indicated by the market. The calculation of this value involves the determination of a time horizon, of an actualization rate and of some estimated cash flows. In order to overlap the fair value, these necessary elements must reflect the anticipated features of the market. [5]

Thus it appears a sort of emphasis of time value for assets, liabilities and capitals. If this function consists in ensuring a better prediction of cash flows, then fair value is more pertinent than historical cost because it permits the realization of a distinction between two assets with a same entry value but generating different cash flows. A fair value assessment tends to depressurize the prudence principle, because both added values and minus values appear in the balance sheet. This approach should balance the predictions of cash flows generated by the enterprise activities.

Manager's decisions do influence the size of the result as the manager is the one that decides the moment of transaction and that models this result. He is the one that can decide to hurry or to slow down a transaction, not taking into account the features of the enterprise activities.

#### **4. A compromise between historical cost and fair value**

Analyzing the historical cost and fair value, C. Hoarau and R. Teller propose an accounting model of substantial or strategic value ("*le modèle comptable de la valeur substantielle*"). [6]

This is seen as an interpretation instrument of possible distortions between financial value (market value) and internal value (management value), between the issues of short term value and that of a long term strategy assessment. Strategic value results from the integration process of the value perceived by the customer and the value created by the enterprise. The

justification of this model is reflected through the cost accounting capability to model the multidimensional aspect of global performance. This is possible by overlapping the objective of simple cost calculation necessary to assess the incidence of choice reflecting the value at the moment when demand meets supply in time and space. This was put into practice within a normalization project of the accounting elaborated by Jenkins Committee (this committee is a subdivision of AICPA – an organism responsible with the regulation of financial reporting in United States). The recommendations concerned the development of an accounting model of *economic reporting (business reporting)* that could better satisfy the needs of information users and replace *the financial reporting model*. Hoarau and Teller consider such a model as an expression of the following relation:

*Fair Value = f (strategic value)*. They sustain that fair value model is created on the actual value of present and future projects. Such a model comes to ensure the investors' need for real and credible information, rather than that of other users categories of the information presented in the financial situations.

The answer at these searches must contain the fair values of the items presented in the financial situations. Any of the defined values might be considered a fair value in certain circumstances. Finally, the rightfulness of the chosen value will depend on the professional reasoning of the specialist dealing with the financial situations.

The decrease or the increase of market values generates mutations in the enterprise performance that could lead to assessments with a high sensitivity degree, influencing even the enterprise. Out of this perspective historical cost ignores the value mutations generated by the market, ensuring the continuity of the enterprise. At this point, we ask ourselves: *could the concept concerning the continuity of activity be maintained as a basis of financial situation elaboration in the context of assessment of all structures at fair values?* But markets efficiency problems are related to accounting assessments.

Furthermore, we could ask again: *have accounting standards worsened the crisis of the credits turning it from a liquidity crisis into a solvency one?*

There have been used subjective models that had not reflected correctly the real conditions in the past months. This has led to massive decreases of banks that forced other players to use a lower benchmark. This has also led to the tendency to sell before the decrease of the price, creating a vicious circle.

Like a general comment, I would assert that the preparation of the annual balance sheet will be more difficult this year and will take greater efforts and a more sustained work out from the companies responsible. The specialists have the main responsibility to present to the owners the real and correct image of the enterprise financial position.

As *vulnerabilities* of the accounting model in the context of the current financial system development, we could remember: the securitization expansion in the economic model of financial institutions; the incapacity of the accounting model to face up these innovations which allowed to „throw out from the balance sheet” of some financial assets by the means of creating entities with a particular purpose; the problems related to the derecognition of some assets; the complexity of some hybrid instruments which raises the difficulty of their reliable reassessment; the fair value and its procyclical effects; the unrealistic expectations referred to the information included in financial situations.

In the current economic context, fair value could also have some *pro arguments*:

- it is the only assessment base surprising derived instruments;
- it contains actual information;
- it permits the performance measurement using the global result;
- it assures the comparability at a moment after initial recognition for similar assets but acquired at different time;
- it is oriented to forecasts, because it is based on future cash flows;
- it permits a global accounting of the assets' value which is characterized, in some cases, by important periodical fluctuations;
- it assures a higher consistency of risks management concerning the owned assets;

- it limits the marking practices of the gains through discretionary sell of assets;
- The inexistence of active markets do not justify the fair value abandon but the development of assessment methodologies;
- Fair value didn't generate the financial crisis and its abandon will not solve the problems.

Giving up the fair value when markets are decreasing, would deprive investors of useful information, would also affect the neutrality of accounting as well as the independence of the normalization organism.

In the same time we could bring some *arguments against fair value*:

- Fair value cannot ensure the precision of historical cost;
- The lack of active and liquid markets makes fair value subjective;
- We notice some risks involved by the models in use ( the past is not a reliable basis for the estimation of the future);
- It does not reflect the management intention to keep the asset but that to sell it;
- The accounting purpose is not to reassess the entity (this is the task of the market);
- At the market decrease, the reassessment to a fair value could determine the non accomplishment of maintaining capital criteria;
- Fair value is procyclical which means that it accelerates the market decrease by encouraging the sales in order to fulfill the capital conditions.

### **5. Action directions for concerned organisms**

IASB launched a few actions leading to the resettlement of fair value. This Board admits the necessity to clarify IFRS addressed to the new markets development. IASB monitored the evolutions from the US in order to avoid inconsistencies in accounting treatments under IFRS or under American Standards (US Generally Accepted Accounting Principles-GAAP).

On 16 September 2009, IASB launched a guide project to measure the financial instruments fair value on markets that are no longer active. By this, IASB takes into

account the raise of consistency between IFRS fair value and the one given by GAAP.

IASB will work closely to FASB in order to develop a common approach to the problems related to assets and liabilities evaluation resulted from the purchasing by the means of the Emergency Economical Stabilization American Act and other international programs.

The Board will help the promotion of GAAP measures, the ones allowing entities, in rare cases, to reform financial instruments that take the form of securities.

Moreover, the GAAP allow some loans that are not considered securities to be transferred from „sale” (measured at the smallest value between its cost and market price) to „investments” (measured at depreciation cost).

IASB admits the necessity of continuing the examination of accounting principles IFRS for financial instruments, taking into discussion a possible replacement of IAS 39.

IASB consolidation projects as well as the Financial Stability Forum (FSF) responses involve a series of actions from the Council of London. IASB will improve, by rapid procedures, the accounting international standards and will be more open to the reports out of the balance sheet and to the convergence with GAAP.

At concept and standard level, things have not changed yet. But they have certain inertia. At this moment, the concept of „*fair value*” that is attributed to the assets appearing in enterprises accounting balance sheets is analyzed and revised and it is given different interpretations. It is not excluded that next year there would appear some other new issues concerning the manner according to which the assets are emphasized in the balance sheet.

## 6. Conclusion

The estimation of fair value is complex in the conditions of an inactive market full of uncertainties. In these circumstances, the expansion of fair value model utilization might be considered from the perspective of the costs involved and that of the purpose to which the financial situations are intended. A too complex model, incoherent and not adapted to the economic realities which are supposed to be represented, could harm the accounting information credibility.

The consequences of the accounting model on the behavior of the actors involved must be considered in the elaboration process of the new accounting model. This model is foreseen to reflect the way by which these entities are able to create value.

## 7. Bibliography

- [1] N. Mitea, “Contabilitate financiară”, Editura Fundației Andrei Șaguna, Constanța, 2008, pp.25
- [2] C. I. Lungu, “Teorie și practici contabile privind întocmirea și prezentarea situațiilor financiare”, Editura CECCAR, București, 2007, pp. 183
- [3] Analizat de Claude Simon în articolul „Valeur et comptabilité” publicat în lucrarea „Encyclopédie de la comptabilité, audit et contrôle de gestion”, coordonator B. Colasse, Editura Economică, 2000
- [4] Yves Bernheim, „Juste valeur et mesure de la performance financière de l’entreprise”, articol publicat în lucrarea „Juste valeur, enjeux et politiques”, coordonatori J.F. Casta și B. Colasse, Editura Economica, Paris, 2001
- [5] L. Sarac Aldea, „Particularități ale activelor imobilizate. Tratat contabil și fiscal”, autor Sarac Aldea Laura – Conferința Internațională „Dezvoltare și integrare Europeană”, Sighetul Marmației, Maramureș 16-17 octombrie 2009, Universitatea Babeș-Bolyai
- [6] Hoarau și R. Teller, „De la création de valeur au modèle comptable de la valeur: fondements et problématiques”, Juste valeur: enjeux techniques et politiques, Editure Mazars, 2001

## Cash flows management

Mitran Paula Cornelia,  
*Spiru Haret University of Constanta, Department of Economics,*  
*mitran\_paula\_cornelia@yahoo.com*  
Bebeșelea Mihaela,  
*Spiru Haret University of Constanta, Department of Economics,*  
*mihaelabebeselea@yahoo.com*

### Abstract

*Cash flow arising from relationships with third party entity that occur in connection with fighting money mutual rights and obligations are known as cash flows. Accordingly to the three types of specific activities of economic entities, we find three of its essential functions, namely: operating, investing and financing, each of these features contribute to the variation in cash. In Romania, the cash flow statement is considered part of the annual financial statements since 2001, with the entry into force of the Gazette 94/2001 for approval of accounting regulations harmonized with the Fourth Directive of the European Economic Community and International Standards Accounting.*

**Key words:** cash flow, operating, investing, financing

**JEL Classification:** M11, M41

### 1. Introduction

Any economic entity is an open system has multiple and complex relationships with both its structural components and the outside environment, generating, real flows and cash flows.

Cash flow arising from relationships with third party entity that occur in connection with fighting money mutual rights and obligations are known as cash flows [7]. Accordingly to the three types of specific activities of economic entities, we find three of its essential functions, namely: operating, investing and financing, each of these features contribute to the variation in

cash. The continental accounting system, applied in our country and the Anglo-Saxon recognize three categories of cash flows, grouped by the nature of what it generates in: cash flows from operations, cash flows from activities investment, cash flows from financing activity.

### 2. Materials and Methods

Thus, Treasury economic entity can be analyzed within flow, earnings and payments that period, but within the stock, treasury that the economic entity at a time, realizing the link between the two variables thus: treasury at beginning of period + earnings period - period = treasury payments at the end [7].

For liquidity management, used a document called cash flow forecast which will highlight future cash flows on the three types of activities of the economic entity.

In Romania, the cash flow statement is considered part of the annual financial statements since 2001, with the entry into force of the Gazette 94/2001 for approval of accounting regulations harmonized with the Fourth Directive of the European Economic Community and International Standards Accounting.

Current regulations in force, respectively Gazette 3055/2009 approving accounting regulations consistent with European Directives repealed Gazette 1752/2005 which was made a number of changes in accounting reports did not contain specific provisions related to its preparation, which

allows enforcement existing international practice. International Accounting Standard IAS 7 [1].

Cash flow statement, cash flow sets (the context of our work and cash flows) as the entrances or exits of cash and cash equivalents and cash flow by drawing panel is intended to provide a base of users of financial statements to assess the economic entity's ability to generate cash and cash equivalents and its needs to use those cash flows.

In the cash flow statement, according to the functional approach to the economic entity's activities, flows are grouped together, as I said, in three categories:

- flow generated by operating activities (operating);
- Investment flows from the activity;
- flows generated from financing activity.

Analysis of cash flows on all three types of activities is useful for correlating with cash profit or loss, cash separation of the activities involving non-cash, assessing the economic entity's ability to meet its obligations for payments cash flow evaluation cash for future activities (cash flow strategy). Utility analysis is time that global change is outlined in the Treasury cash balance resulting from management of real assets (from operations) and the results of operations and finance capital investment, know the fact that when real and monetary flows do not coincide, as it actually happened, the Treasury shall ensure gaps in payments associated with these flows[5].

Cash generated from operating activities are the result of the main income generating activities of the economic entity, they result from transactions which contribute to the formation of net income. The value of cash flows from operating activities is a key indicator of the extent to which the economic entity's activities have generated enough cash flow to repay loans, maintain the functional capacity of the entity, pay dividends and make new investments without recourse to external financing sources.

At the same used with other information, values related to operating cash flows may be useful for forecasting future cash flows related to operating. IAS 7 illustrates some of the cash flows generated by operating activities: cash receipts from the sale of goods and services, cash receipts from royalties, fees, commissions and other income, cash payments made to suppliers goods and service providers, cash payments made to and on behalf of employees, payment of taxes, payments and cash receipts generated by the purchase / sale of securities

purchased for speculative purposes (or investment transactions), given that stocks are similar.

Cash flows arising from investment activity. Investment activities are the acquisition and alienation of long-term assets [4]. In this category are classified: cash payments for acquisition of land and fixed assets, intangible assets and other such long-term assets, cash payments arising from the construction undertaken by direct labor, cash receipts from the sale of land and buildings, plant and equipment, intangible assets and other such long-term assets, cash advances and loans made to other economic entities (not if the economic entity is a financial institution which granted an advance), proceeds from repayment of advances and loans made to other parties (not If a financial institution).

Cash generated from financing activity. Financing activities are activities that are to change the size and composition of debt equity and economic entity. In this category fall: cash receipts as a result of issuing shares, cash payments to shareholders to purchase or redeem shares economic entity, cash receipts due to the issuance of bonds, the proceeds of loans received, cash repayments loans [2].

Statement of cash flows can be made, in accordance with IAS 7, using either direct

method, that information relates to receipts and payments in their rough sizes or indirect method that the net result is corrected with influence monetary transactions with nature, with elements Revenue and expenses associated with cash flows covering investment or financing activities, to influence changes in working capital items required for the treasury.

Economic entities are encouraged to report cash flows from operating activities using the direct method, since it provides information useful in forecasting future cash flows and are not available, the indirect method [3].

Although IAS 7 should use the direct method, especially for informational needs of investors who can make a better forecast of future cash flows, most economic entities prefer using the indirect method because the method of calculation closer to accounting reporting format and to the more discreet in the publication of financial statements required by the cash flow statement direct method would not benefit image entity.

We propose, for example, developing cash flow statement using direct method, for 2009, SC CANAL, based on data from financial statements (Table1.):

**Table 1. Cash flows situation**

<b>Element name</b>	<b>Previous 2008</b>	<b>Current 2009</b>
<b>Cash flows from operating activities:</b>		
Receipts from customers	7.166.698	6.688.848
Proceeds from short-term loans	-	-
Payments to suppliers and employees	5.537.580	4.949.235
Interest paid	22.287	17.307
Payments to consolidated budget	80.959	206.168
Proceeds of insurance against earthquakes	-	-
<b>Net cash from operating</b>	<b>1.525.872</b>	<b>1.516.138</b>

<b>activities</b>		
<b>Cash flows from investment activities:</b>		
Acquisition of shares	-	-
Purchase of tangible fixed assets	838.028	470.111
Proceeds from sale of tangible	61.612	62.943
Interest received	10.831	31.409
Dividends received	-	-
<b>Net cash from investment activity</b>	<b>-765.585</b>	<b>-564.463</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issue of shares	-	-
Proceeds from long-term loans	-	-
Payment of financial leasing liabilities	247.861	121.044
Dividends paid	131.917	143.900
<b>Net cash from financing activities:</b>	<b>-379.778</b>	<b>-264.944</b>
<b>Net increase in cash and cash equivalents</b>	<b>380.509</b>	<b>686.731</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>-</b>	<b>380.509</b>
<b>Cash and cash equivalents at end of period</b>	<b>380.509</b>	<b>1.067.240</b>

### 3. Conclusions

The presence of the cash flow statement helps to improve information for users but also to strengthen the prime source of accounting information, because is the basis of any strategic and financial analysis.

#### 4. References

- [1]. Bărbulescu, C-tin., și colaboratori, *Economia și gestiunea întreprinderii*, Ediția a II-a, Editura Economică, București, 2000.
- [2]. Dragotă, V., Ciobanu, A., Obreja, L., Dragotă, M., *Management financiar. Politici financiare ale întreprinderii*, vol 1 și 2, Editura Economică, București, 2007.
- [3]. Halpern, P., Weston, J. F., Brighman, E. F., *Finanțe manageriale*, Editura Economică, București, 2000.
- [4]. Marmuse, C., *Gestion de tresorerie*, Vuibert Entreprise, Paris, 1998.
- [5]. Onofrei, M., *Management financiar*, Editura C.H. Beck, București, 2006.
- [6]. Partenie, D., Sucală, L., Pop, I., *Contabilitatea de gestiune*, Editura Presa Universitară, Cluj-Napoca, 2003.
- [7]. Țugui, I., *Contabilitatea fluxurilor de trezorerie. Modelări, analize și previziuni financiar-contabile*, Editura Economică, București, 2002.
- [8]. IAS 7 Situația fluxurilor de numerar



## The effects of the Global Crisis on the Loan System

Mocanu Nelu

*Universitatea Liberă Internațională din Moldova*

*E-mail: nelly@cta.ro*

### Abstract

*This paper offers a broad introduction to the workings of the global financial system, the dynamics of the main financial markets, the nature and goals of the key financial institutions and the crucial role played by central banks and regulatory agencies. An important part of the paper focuses on the 2007-2009 global economic and financial crisis, reviewing its causes and consequences, as well as evaluating the merits of the numerous government intervention schemes in the U.S. and Europe. In the end, however, such a blister would not be possible either without an inadequate regulation framework.*

**Key words:** global crisis, loan system, financial crisis, financial market, central bank.

**JEL Classification:** G01, G21

### 1. Introduction

The temporary liquidity bottleneck could by the actions at first are overcome. Nevertheless, the crisis is not yet put up, because it just concerns not a pure one liquidity crisis, but around a loan and solvency crisis from not yet to foreseeable dimensions. Above all they are unclear Back effects of the financial crisis on the "real" economy, thus on investments, production and above all the private consumption.

But how could it at all generally come? For a first several ropes, that transported this process, must crisis analysis is brought together: to the one, the interest level plays a crucial one in the USA Role and with it the global interest rate differential, the new finance market protagonists and instruments are to the other to name, that dominate this "game" decisively. Building, the potential repercussions become on this analysis the finance crisis on the "real" economy sketched and in conclusion some, the "favourable"

opportunity appropriate regulation suggestions presented.

### 2. Interest politics and global interest rate differential

Starting point of the analysis is the bursting of the new economy - blister before good seven years. The American consumers chose the international economic network: the US market its consumer for one fifth of the global consumption responsible is, the most important home market of this is world and consequently the private consumption absolutely has one in the USA critical world-economic meaning. That was notwithstanding interest level in the USA still higher than in other countries, exactly in the direct comparison with Japan. The Japanese one central bank pursued as reaction to a stubborn one namely deflation de facto zero interest politics. This with it walking around global interest rate differential provided the necessary and steady one capital stream in the USA. The interest rate differential was an important factor, so that its role as a global "debtor and consumer the USA further-plays last authority" on high accomplishment balance deficit could.

At the end of this years-long one(s), from low interests supported it came upswing phase at the American real estate market this summer now however to one for a long time prophesied correction. The trend reversion consists at first those they real estate prices no more into the infinite climbs but a cooling found out. The global liquidity, that to big extent in the US-market flowed, became into the hands of American home candidates given, even if these under normal circumstances for not financially sound would have been considered, so-called "Supreme Mortgages", too German: second-class mortgages.

No personal capital for such loans was required not rare odder abandoned the

acquaintance payments for years, what it boom, major-driven, kindled even further.

What from the immobilize-crash in the USA a global credit crisis could do, new finance market instruments were, this itself in the last years of big popularity pleased. The mortgage banks in the USA tried over the bonds, its cancellation risks of this from time to time more than questionable, To pass on real estate credits, in that on the other hand others banks the separate credits focused and at investors in it to whole world as special bonds, it sold. The most popular instrument products structured such; the so-called ones were "Collateralized Debt Obligations" (CDOs). That is a promissory note that in several trenches-after kindness and cancellation risk the underlying credit pool-was apportioned.

The bigger the cancellation risk, the bigger the risk prize. This deceptive at such constructions was, however, that even the trenches, that seemingly quite good against losses protected was and in so far as from the pertinent rating - marked agencies wrongly with topmost music became, pulled in effect with a market collapse became. Speak, an IKB or Saxony LB that as well itself such CDOs secure allegedly had swamped, suddenly stood in it's for tax and supervision reasons to Ireland evacuated investment vehicles, named also "Conduits", before red numbers.

The crucial protagonist group in this game of the global one(s) the speculative hedge were concatenation of credit risks funds as well as investment banks. This most narrowly into the credit network entangled protagonists, the hedge funds, therefore fall also already by the dozen about. That would be essentially not further problematically; they would become with the insoles exclusively its customers-in normally extremely moneyed privateers-works.

However, their business model is based on the so-called one to the one "Leverage", that is they work with credit levers, in that it on the insole capital a multiple about foreign capital picks up.

Become with the so multiplied total capital then among other things the high-risk trenches the structured finance products bought. The credits for their levers get it of the big credit institutes that even in normally also such funds drive. To the other, there is their model in the

transformation of periods: Long-term, little fungible and partially illiquid and intangible assets become in normally at short notice financed. The systemic dynamite lie justified in this "Term Mismatch" now on the one hand and on the other hand in the intangible investment structure.

The credit cycle with the inter result closes with it, that the global credit system over Conduits and speculation businesses into the break-in of the US-American mortgage market entangled is. The interconnection explains also the interventions the big central banks: the credit system threatened literally, to dry up. The mistrust of the credit institutes can among each other potentially to the drying up of the interbank market leads and there still is the danger that they Credit-giving banks her/its/their positions "herd-nicely" liquidate must. then, many have to structure products, for them, it up to now at all no market prices gives, compulsory-sold becomes and would cause a chain reaction. However, the real size of the too expectant credit and solvency crisis is absolutely foreseeable,

### 3. Stake and its real consequence

Not only the USA even have interest in a strong demand in the USA but the entire world economy, all in front the big export countries like China, Japan, the OPEC states and Germany. Consequently, the real estate boom was in the USA for long time, at least short-term interest of the entire participant.

While from official side conciliatory a "cleaning thunderstorm", this, is spoken of to a more realistic reappraisal of the risks leads and greeting in this respect is, the reactions of the governments speak and grade banks another language.

The reason for it is in the central meaning of credit money for the real economics. The nature of the credit funding if it is to be accelerated economic activities, this regulatory agencies buying power level is lifted. In the reverse conclusion, the current restraint means with it credit award a lowering of the buying power. The credit cancellations is not moreover restricted on the real estate market but can itself on CDOs with credit cards and auto credits as well and with the funding of private-equity-investitures stretches. Now

what he/it as liquidity crisis of sides still. It is played down banks, can change fast into a solvency crisis; with entire economic consequences in form one, at first US-American, economic situation break-in absolutely with global dimension.

Admittedly, the grade banks can reduce the money in price further, they have however nevertheless only restricted direct control over them money quantity. The willingness of the banks, that them from the grade banks, to call accessible done liquidity, it can don't influence directly. Moreover, also the central banks know not, where the risks lie and they have which size. Short: the means and instruments of the central banks, the crisis, to catch, are restrict.

#### 4. A time window for new rules

The limited money politics therefore must through more strongly preventive working, political measures are supplemented-in these senses must the crisis used as chance for the regulative protagonists becomes. At first place, Hedge would have to funds and this other market protagonists and its owners (big banks, investment banks) are regulated clearly more strictly. After this youngest experiences with these protagonists signal in the meantime also the USA and Great Britain willingness, the rules, to intensify. However, this industry is to the biggest share to find in different finance locations, why itself for an effective control at first only the increase of this it offers domestic banks - and finance market regulation.

The finance market crisis threatens worldwide the prosperity. However, in her latest pointing cooperate false developments of the markets and policy which often go back far back in the past: the global deregulation of markets without suitable political-institutional imbedding and control; the retreat of the state in many lands which has subjected more and more economic activities to the imperative of the capital markets; the process of independence of the finance sphere; the growing dissimilarity with the accumulation resulting from it of the assets which go hunting after more and more unrealistic yields and worth increases.

#### 5. References

- [1] Azcona, Nestor. "Essays in International Finance." Ph.D., New York University, 2008.
- [2] Bardhan, Ashok. *Of Subprimes and Subsidies: The Political Economy of the Financial Crisis*. Berkeley: Haas School of Business, University of California, Berkeley, 2008.
- [3] Bianco, Katalina. M. *The Subprime Lending Crisis: Causes and Effects of the Mortgage Meltdown*. Chicago, IL: CCH, Wolters Kluwer Law & Business, 2008.
- [4] Bookstaber, Richard. *A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation*. Hoboken, NJ: Wiley, 2008.

# The Involvement of the International Monetary Fund in Financing the Heavily Indebted Poor Countries

Irena Munteanu

*Universitatea „Ovidius” Constanta*

*irena.munteanu@yahoo.com*

## Abstract

The International Monetary Fund was created following the agreements reached at the monetary and financial Conference of Bretton Woods (July 1944) and it is one of the most important international organisms for exchange rate and financial cooperation. Although its objectives were and still are hard to reach, the importance of the IMF derives precisely from its ambitious policies of stabilizing the balances of payments. Considered by many analysts as the “rich countries club” - due to the votes’ assignment procedure weighted on the contribution to resources, the IMF is, nevertheless, a real support for transition and poor countries.

Within our study, starting from the official data provided by the IMF, we have carried out an analysis of the financial support activity for the heavily indebted poor countries (HIPC). The research allowed us to observe that the role of the IMF has intensified over the recent period. This does not support the analysts’ critical opinions that the IMF activity should restrain. Moreover, we have noted that, as the financial crisis spread from the developed countries to the developing ones, the IMF has reinforced its support to the low-income countries. The new initiatives will conclude in the increase of the IMF preferential loans volume up to 17 billion euro by 2014. In this context, we consider our research takes into consideration present-day, interesting issues for a large range of users.

**Key-words:** loans, credit facilities, poor countries, PRGF, HIPC.

**JEL:** G20

## 1. Introduction

The Agreement of the IMF represents the legal framework which defines the rights and obligations of the member states.

The Agreement of the IMF has been modified three times after the Bretton Woods conference. [7] According to its Agreement, the IMF undergoes activities that fall within the system (loan operations, production of financial-monetary information, etc), but, especially activities that fall within the regulatory connection of the international financial and monetary system. [5]

According to the first Article of the Agreement, the IMF has the following objectives:

- to promote monetary cooperation;
- to facilitate the expansion of international trade;
- to remove the exchange restrictions in international trade and financial flows;
- to offer member states short and medium term loans in order to address temporary difficulties in external payments balances, without these countries having to adopt potentially damaging measures for the national and international prosperity;
- to promote exchange rates stability and avoid monetary devaluation as an international competition means;
- to shorten the duration and diminish the external payments balances difficulties of the member states. [6]

According to its objectives and the means at hand, the IMF is also implicated in financially supporting poor countries.

## 2. Poverty Reduction and Growth Facility

In September, 1999, the IMF introduced the Poverty Reduction and Growth Facility (PRGF)

in order to make the poverty reduction and economic growth goals even more important for the loan operations towards the poorest member states.

Starting with August, 2008, 78 countries with low incomes are eligible for PRGF assistance. Eligibility is mainly based on the IMF evaluation of a country's per capita income, drawing on the maximum eligibility limit for eligibility to World Bank preferential lending (currently the 2007 per capita gross national income of \$1,095).

The PRGF loans have a 0.5% annual interest rate. The repayments are made twice a year, starting in the second half of the fifth year up to the tenth year since the disbursement.

Among the eligible countries confirmed as of August 2009 there are: Afghanistan, Albania, Angola, Armenia, Azerbaijan, Bangladesh, Benin, Bhutan, Bolivia, Uganda, Uzbekistan, and Vietnam.

An eligible country may normally borrow up to 280% of its IMF quota under a three-year engagement, although it can be increased up to 370% of quota in exceptional cases. In each case, the amount depends on the country's balance of payments need, of the strength of its adjustment program, and its previous and outstanding use of IMF credit. In the initial three-year arrangement is 140% of quota is accessed, then 125, 110, 90, 70, and 50% of quota for those using the facility up to six times. [8]

"Low-access" PRGF arrangements with a standard level of 10% of quota may be used by members with little or no immediate balance of payments need, which still desire an engagement with the Monetary Fund as guidance for policy implementation. PRGF-eligible members with per-capita income above 75% of the maximum eligibility limit for World Bank preferential lending, or members borrowing on commercial terms, may combine PRGF arrangements with lending from the IMF's non-preferential Extended Fund Facility. [1]

In the recent years, most borrowings from the IMF were made through the PRGF initiative.

### 3. The Exogenous Shock Facility

Member states may also access the Exogenous Shock Facility (ESF) which helps countries deal with economic shocks, such as

price increase on food products and fuel, or natural disasters that cannot be managed by the governments and which have a negative impact on economies. The 0.5% interest rate is the same as for the PRGF, the repayment period is between 5 and 10 years. [2]

During the first eight months of 2009 the new PRGF-ESF agreements have reached 2.1 billion SDR compared with the same period of 2008 when the amount was only 0.8 billion SDR. This amount includes:

- (i) SDR0.8 billion to four countries with new agreements,
- (ii) increases for seven arrangements totaling 0.3 billion SDR,
- (iii) approximately SDR0.1 billion in ESF financing for ten countries.

According to the data provided by the regional departments for each country, the new engagements from the end of 2009 were of approximately 0.7 billion SDR.

### 4. Policy Support Instrument

In the past years, many low-income countries (LICs) have made significant progress towards economic stability and no longer require financial assistance from the IMF. Still, many of these countries continue to seek the Fund's counsel, as well as its monitoring and approval of their economic policies. In order to come to the aid of these countries, the IMF has created a support and policy signaling program called the Policy Support Instrument (PSI). [3]

Aside from loans, some of the low-income countries are also eligible for debt-relief according to two key-initiatives:

-The Heavily Indebted Poor Countries – HIPC-Initiative introduced in 1996 and consolidated in 1999, through which the creditors offer debt-relief in a coordinated manner in order to reestablish debt durability;

-The Multilateral Debt Relief Initiative where the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) have cancelled 100% of their debt claims for certain countries in order to help them advance towards reaching the Millennium Development Goals.

### 5. New Instruments. Provisions for facilities agreements over 2010 – 2014

The IMF support to the poor countries needed an update, first of all because of the improved economic conditions of the respective countries. More states have made great steps towards macroeconomic stability. In the 90's the great majority of the low-income countries were confronted with long term economic problems that required a long-term radical changes policy, which was often accompanied by debt relief or cancellation.

Nowadays, despite all that, many of these countries have become more open and integrated in the world economy. The low-income countries are now joining the international capital markets, entering the goods and services markets, attracting foreign investment, cultivating their financial sectors and benefiting from the money sent home by the citizens working abroad. [4]

Despite this large international opening, there also comes a greater vulnerability and an exposure to the world economy ups and downs. This was pointed out by the impact the sudden booms in food and fuel prices had on many countries' economies over 2007 and 2008. There followed the economic crisis. It was obvious that a new generation of more stable, yet more vulnerable low-income countries would need a new generation of support loan facilities from the IMF.

On April 23, 2009, the Executive Board of the IMF adopted a series of ample reforms of the concessional loans for the low-income countries, thus creating a new range of facilities that is more flexible and more adapted to the increasing diversity of low-income countries and their needs. These reforms will become effective and operational as soon as all current creditors and collaborators of the PRGF-ESF trust give their consent and the additional loan arrangements shall be guaranteed by the community.

In order to satisfy the credit demand up to 2014 there is estimated that there shall be needed loan resources of SDR11.3 billion (\$17 billion).

Taking into consideration the available resources, there shall be mobilized supplementary loan resources of SDR9 billion (\$14 billion) and new undertaken resources of SDR1.5 billion (\$2.8 billion). It is foreseen that, just like in the past, the required additional loan resources will be mobilized through bilateral contributions.

Nevertheless, the greatest part of the necessary additional resources will come from the internal IMF resources – including those related to the limited gold sales approved by the Executive Board on September 18, 2009, with additional bilateral contribution of SDR 0.4 billion required in order to complete the financing package.

There is expected that these reforms should increase the available resources to SDR 11.3 billion (\$17 billion) by the end of 2014, including \$8 billion over the following two years. This overcomes the G-20 estimates that foresaw additional loans of only \$6 billion over the following 2-3 years.

This reform shall also offer exceptional debt relief.

## 6. Conclusions

The role played by the IMF in supporting the development process derives from its functions. This institution is the main environment for the coordination and surveillance of the national monetary and fiscal policies. Moreover, the IMF was actively involved in the reform processes of the transition countries. As the IMF officials pointed out, this institution has a determining role in ensuring a profitable dialogue in view of analyzing the problems these countries undergo and establishing the most adequate strategy to solve them.

The organization was accused of supporting the capitalist military dictatures befriended by the European and American corporations. The critics also add that the IMF is hostile to the democracy, human rights and work rights ideas.

Still, the greatest reforms of the past two decades at the Fund's level were in the LIC support area. The IMF has activated a new package of loan facilities for the poorest nations of the world, a measure taken partly due to the present economic crisis.

The world financial crisis had and still has a powerful impact on the poor countries, many of them being confronted with a significant deterioration of their external positions. The loan request up to October 2009 was stronger than expected (the new borrowings reached SDR2.1 billion by mid-September 2009, compared with SDR0.8 billion over the entire 2008).

The concessional financing request of the

IMF is expected to remain at a high level over 2010 since many poor countries will continue to be confronted with a hostile environment, even if the global demand starts to recover.

Consequently, the IMF has to be prepared for the possibility that financing shall maintain at the present level of approximately SDR 2.7 billion (\$4 billion) for at least another year to the end of 2010. On the medium term, there is estimated that request could reach SDR 1.5 billion per year, double the historic long-term medium. Based on that, the total concessional loans is estimated to SDR 11.3 billion (\$17 billion) up to the end of 2014. These forecasts take into consideration doubling the access limits approved by the Governing Board in April 2009, as well as the implications of the new facilities range.

Although there are voices criticizing the activity of the IMF, we cannot deny its role along monetary history and accept that the facilities offered to poor countries are sometimes the only chance they have not to enter financial collapse.

## 7. References

- [1] Dreher, Axel, "The Influence of Elections on IMF Program Interruptions," *Journal of Development Studies*, 39 (6), pp. 101-120, 2003
- [2] IMF - The Poverty Reduction and Growth Facility, <http://www.imf.org/external/np/exr/facts/prgf.htm>
- [3] IMF - *Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries*, Prepared by the Finance Department September 24, 2009

[4] *IMF- A New Architecture of Facilities for Low-Income Countries Prepared by the Strategy, Policy, and Review Department, the Finance Department, and the Legal Department, June 26, 2009*

[5] Munteanu I, *Monedă și operațiunile instituțiilor de credit. Noțiuni teoretice și studii de caz.*, Editura Ex Ponto, 210 pg.45-49, Constanța 2008

[6] Munteanu I., Popovici Norina, Udrescu Margareta - *The role of The International Monetary Fund in the current period*, Analele Universității "Ovidius" Constanța, seria Științe Economice, Constanța 2008

[7] Ozlem Arpac, Graham Bird, Alex Mandilaras *WHAT DETERMINES THE IMPLEMENTATION OF IMF PROGRAMS?*, 2006;

[8] Tatsuyoshi Miyakoshi, Yoshihiko Tsukuda, Junji Shimada, *The Effects of IMF Supported-Program on the Asian Crisis*, Discussion Paper 07-24, Discussion Papers In Economics And Business.

# Aspects Regarding the Dispersal of the Financial Crisis within the Banking Systems of the USA and the UK

Irena Munteanu

*Universitatea „Ovidius” Constanta*

*irena.munteanu@yahoo.com*

## Abstract

The problems related to the financial crises or banking systems have fascinated the public and have been reflection subjects for economical analysts. The present financial crisis offered us the possibility to study a broad range of aspects regarding financial crises in general, the deficiencies of the modern banking systems, but also the strong connection between the two phenomena. In the present-day context, when we inevitably stumble upon the smaller or greater effects of the international financial crisis, the issue has become even more exciting. Starting from the general framework of the present crisis, we have analyzed within our research its effects on the American and the British banking systems. Although the specialized literature contains many materials referring to financial Crises, the present study contrastingly emphasizes the problems the two banking systems were confronted with, which represents a novel approach. Moreover, as the effects of the crisis are felt by everyone, the issue at hand is still “hot”.

**Key words:** financial crisis, sub-prime, financial debt, banks nationalization, non-performing loans.

**JEL:** G01

## 1. Introduction

The crisis, just like any other cyclical fluctuation is presented as an accumulation of errors leading to the wrong allocation of an enormous amount of capital at the level of the society. Crises have common elements and specific characteristics [8] (Munteanu, 2009),

and the characteristics of economies, their capacity to attract revenue, the inclination for savings or consume, position states differently in times of crisis. [2] (Balaceanu, 2009).

The financial crisis of 2007 had the unique aspect that it had started in the banking segment and later went to all other markets. The banking sector had always represented a crucial area of the economy, as a system, but also as a financial mediator or active participant to all financial and capital markets [1] (Anghelache, Anghelache, 2009). Nowadays, the econometric models penetrate the economic and financial analysis [7] (Druică, Cornescu, Munteanu, 2008), and the results are often relevant to the end-users.

Within the banking sector, central banks are a cardinal pillar, and during crisis conditions, it is the monetary policy decisions that can truly make the difference [5] (Cecchetti, 2008), especially that in the present crisis situation there is a strong relation between the monetary policy and the financial assets' price volatility [4] (Bernanke, 2000).

## 2. The impact of present crises on the American banking system

The duo *Financial Crisis – the American Banking System* may be regarded from the cause-effect point of view both ways. [9]

Since the dedicated literature has touched many aspects regarding the causes of the propagation of the crisis, we shall concentrate especially on the quantifiable effects at the banking system level.

It is already well known that at the



origin of the crisis lie the mistakes made on the US mortgage market, in the great volume of sub-prime loans given over 2005-2007. Therefore, high risk credit companies have given a total of 7.2 million credits amounting to \$ 1300 billion. Apparently, almost \$1000 billion were given by only 25 companies, which most American analysts regard as the originators of the crisis.

Approximately 25 banks relied on giving sub-prime loans, loans which did not take into account the assumed risk and were given without any security to insufficient income people.

After the crisis began, many people became unable to pay when the interest rates got higher. Thus, mortgage loans delinquency grew because the clients that had gone for sub-prime credits were no longer able to honor their promises of payment.

It can be noted an ascending trend of the late repayment credits starting in 2007. If during this year the share of 180 delay days credits was 6% of the total credits, in 2009 it rose to 14%. More and more people became insolvent once interest rates went up, causing losses to banks. This was only possible due to the fact that eligibility criteria had not been analyzed prior to the authorization of the loan.

The debt determined by floating sub-prime credits were afterwards transformed into securities backed by the mortgaging US government corporations – Fannie Mae, Freddie Mac, Ginnie Mae, etc – and then sold on Wall Street.

But the debt level of the owners of such titles was already extremely high, and the capital reserves, minimal. In their effort to stay solvable, exposed banks went for loans on the financial market to cover their losses. This, in turn, led to an interest rate increase pressure which finally generated the liquidity crisis on the market.

The financial services sector on the whole, suffered losses amounting to thousands of billion dollars, some companies being more affected than others.

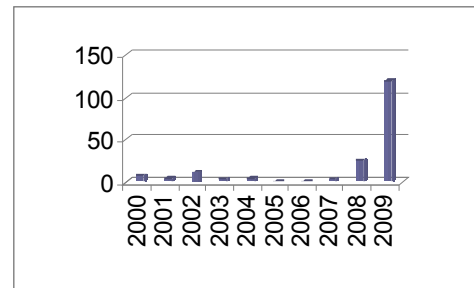
As a result, the value of Citigroup recorded the most significant loss in absolute terms over 2007-2008, the price of its shares dropping by over 70%.

The drop is more than \$20 billion larger than the one suffered by UBS bank which lost 75% of its value. The losses of Citigroup,

amounting to \$68.1 million, together with those of UBS amounting to \$44.2 million, and other American corporations, led to the total loss of the sector of \$692.5 million.

The effects of the crisis were deeper carved by the bankruptcy of numerous banks all over America, their number recording an upward trend over 2007-2009 reaching an unprecedented average of 11 bankruptcies per month.

Figure.1: The number of bankrupt banks in the USA over 2000-2009



Source: Federal Deposit Insurance Corporation.

According to the graph, after a three-year period, 2005-2007 when there was either no bankruptcy or the figures are no reason for concern, starting with 2008, starting with the massive losses recorded, with the fierce lack of liquidity, many banks became insolvent and their assets were taken over by various companies.

The banks' bankruptcies started in 2008, but in 2009 reached their peak at a total of 120, after the insolvency in early November of five more financial institutions.

The biggest of the five banks was United Commercial Bank of San Francisco with \$7.5 billion in deposits and subsidiaries in USA, Hong Kong and Shanghai, followed by United Security Bank of Sparta, Home Federal Savings Bank of Detroit, Prosperan Bank of Oakdale and Gateway Bank of St. Louis.

Thus, in 2009 there were around 11 insolvencies a month and the resources of the guarantee authority dropped under the \$10 billion threshold, compared with \$45 billion only the previous year. The figures come close to those recorded in 1992, the most

difficult year for the American banking system, when there were closed 181 financial institutions.

### **3. The particularities of the propagation of the Crisis in the British banking system**

The financial crisis was felt in the Great Britain banking system immediately after its beginning. It was already showing signs of going towards a recession similar to that of 1992 because of the common element – the excessive increase of debts.

The Bank of England had already called attention on the matter of the great share of debt that UK families had in the total debt.

In early 2009, the total volume of British personal debts rose to £1460 billion, exceeding the amount the country produced per year. This amount recorded an increase of approximately 165% since 1997, every British family having an average debt of approximately £60 000. Obviously, the crisis expanded in a natural manner to the UK, as well.

Moreover, it is obvious that the greatest share of the debt was represented by mortgage loans.

The impact of the financial crisis over the British banking system stood up through: banks nationalization, stock market shares drop the necessity of emergency credit acquisition from the Bank of England, stopping loan floating.

The most important nationalization was that of the Bradford & Bingley bank in September 2008, a British financial institution specialized in mortgage loans with a network of approximately 200 subsidiaries. In order to save the bank from collapse, there was perfected an agreement with the Spanish group Santander to take over the retail deposits and the subsidiaries network for the amount of €504.9 million. Santander acquired over 2.7 million savings accounts from B&B containing deposits of €26.5 billion, these accounts being transferred to Abbey, another bank acquired by Santander in 2004.

Another bank the crisis had a major impact on was Northern Rock, a bank nationalized in February 2008, the value of its shares having dropped by approximately 40% on the London stock exchange in September 2009. thus, the market value of the fourth greatest

loaner in UK reached £1.2 billion. The stock value drop determined the bank's clients to draw a total of approximately £2 billion, meaning almost 8% of the bank's deposits.

Northern Rock contracted an emergency loan from the Bank of England as it was mostly counted on capital markets than clients' deposits in order to finance its activity, 73% of the income was covered in loans from other banks.

Besides Northern Rock, Bradford & Bingley, which was also counting on inter-bank credit to finance its mortgage credits, also recorded decreases in stock value in September 2009. The value of Bradford & Bingley shares dropped by approximately 7.7%, recorded the greatest decline since 2000 and reaching the level of 329.75 pence / share.

Share devaluations were also recorded for the Royal Bank of Scotland and Lloyds Banking Group, banks rescued from bankruptcy by the state. UK Financial Instruments, the organisms managing state shares in nationalized banks announced a £10.9 billion loss over the stock exchange depreciation of the two banks' shares.

Regarding the loans offered by the British banks during the crisis, the Royal Bank of Scotland and Barclays Plc, two of the largest banks in UK, reduced loan floating even after promising the government that they would offer more credits in order to support the comeback of the economy.

RBS and Lloyds Banking Group Plc, the two large banks saved through governmental help, together with Barclays Plc, reduced the total amount of credits by £165 billion over the first half of 2009. RBS and Barclays reduced loan floating by 11%, the greatest drop recorded over large banks in Europe, diminishing the loan level for private personas and companies by 9.5% over the first half of 2009.

### **4. Conclusions**

The effects of the 2007 Crisis were in deed dramatic, both from the financial and the psychological points of view. The United States, "the country of all possibility", fully deserved the collocation, only this time in a negative way. In a country where citizens felt

secure, protected by the developed American economy, deeds almost unimaginable for the first decade of the 2000's: chain bank insolvencies, unemployment and forced sales, companies nationalization.

In the British system the total loans authorized by the top five UK banks dropped, in average, by 5.4% over the first semester of 2009, a drop five times bigger than that recorded for the top ten banks in Continental Europe.

RBS, 70% owned by the government, reduced its loans portfolio by £91 billion, Barclays by £50 billion and Lloyds by around £24 billion.

As a conclusion, UK recession had at its basis the financial services, different from other states such as Germany and Japan where problems were represented by decreasing demand, government inability to find ways to stimulate industries, etc.

Practically, if these latter countries had a more industrial crisis, the UK was confronted with a credit crisis, greatly due to its connection to American economy. The UK Treasury spokesman declared: "British economy has suffered the economic equivalent of a massive heart attack and it is still weakened. With a banking sector still in trouble, we are not out of danger".

Actually, the UK and the US will only be able to recover if they correct the fundamental imbalances, especially since the countries' economies are based on financial services.

## 5. References

[1] Anghelache G. Anghelache C.- Risk and profitability – basis of the financial analysis, *Metalurgia International*, Special issue no. 12/2009 pp.120-124

[2] Balaceanu C. - The influence of saving process to reduction the effects of international financial crisis, *Metalurgia International* Vol XIV 2009 pp.143-144

[3] Barbu M. C. – Financial crisis-between causes and effects, *Metalurgia International*, Special issue no. 12/2009 pp.117-119

[4] Bernanke B., Gertler M. - "Monetary Policy and Asset Price Volatility", NBER Working Paper No. W7559, February 2000

[5] Cecchetti S. – „Monetary Policy and the Financial Crises of 2007-2008”, Centre for Economic Policy Research, Policy Insight nr. 21, April 2008

[6] Cecchetti S. – „Monetary policy responses to the financial crises of 2007-2008”, 10 June 2008

[7] Druică E., Cornescu V., Munteanu I. - (1+1)-EA for Econometric Models. The Comassability of the Matrix of States, *Communication of the IBIMA*, Vol. 9 nr. 12/ 2009, pp 87-93,

[8] Munteanu I. - Considerations regarding financial crises. Resemblances of the present-day crisis to the crisis of 1929-1933, *Metalurgia International*, Special issue no. 9/2009 pp. 60-63

[9] Munteanu I., Negrea Al., Popovici N., The Monetary policy of the highly industrialized states during The Financial Crises 2007-2008, *Metalurgia International*, Special issue no.3/2010 pp. 108-110

## Materiality – Precondition or Consequence of Applying Professional Reasoning in Preparing and Presenting Financial Statements

Prof.univ.dr. Victor Munteanu

Lector univ.dr Marilena Zuca

Lector univ.dr. Alice Țîntă

Universitatea Româno-Americană București

E-mail: a2c\_vm@yahoo.com

### Abstract

*The reliability of the accounting information is one of the most significant features in terms of quality and refers to its capacity to influence investors, creditors and other users of the financial statements in their decision-making. A reliable piece of information helps users assessing present, future and past events, confirming and correcting potential past errors.*

*The use of materiality in the accounts helps us simplifying processing of accounting information, but we must be very attentive to the results and if they are needed in the present format.*

*The threshold of materiality is not applied in a rigid way, but every year we need to make difficult decisions in this regard, decisions which consider both the size and characteristics of the company and its specific situation, decisions which will tend toward a degree of accuracy of 100%, only by practicing in time of the professional reasoning by the certified accountant or accountant expert.*

**Key words:** financial statements, information, reliability.

**JEL Classification:** M4, M41

The information's reliability regarding a certain element which must be acknowledged in financial statements, may not be assessed distinctly, but it must be assessed within the frame of the main objective of the financial statement, namely to provide useful information for decision-making with respect to investments, financing or exploitation. Moreover, the relevance must be taken into account within the frame of the drafting of the entire set of the financial statements and the

way according to which an acknowledged element is useful in the decision-making process.

### *Example<sup>1</sup>*

The ALFA Company manufactures apparel for the BETA Company, which operates a domestic retail chain. In time, BETA has become the main client, ensuring 80% of ALFA's retail market. Although, the international standards do not provide explicitly such case, the ALFA management has to provide in their financial statements, information regarding the sales' preponderance towards BETA in order to ensure the relevance of the information provided. BETA is a significant client, which may affect the future economic situation of ALFA. Therefore, failure to provide such relevant information may affect the decisions made by users based on the financial statements.

The *General IASB frame* claims that the information's quality depends on the contribution of the **information's nature and materiality benchmark** when drafting the financial statements. The information's nature refers to the information's descriptive feature (related to a new activity segment, related to an incorporeal immobilization, etc.) and the materiality benchmark endorses the information's numerical feature (the value of the outcome achieved within the new segment, the value of the reported incorporeal immobilization, etc.).

By means of an original disposition, the *British standard* presents the materiality benchmark as a self-contained feature and moreover the most significant feature. This significance arises from the fact that failure to provide significant information leads to complicated financial statements, which limit the understandability of the other information provided.

<sup>1</sup> Price Waterhouse Coopers, *Applying IFRS*, www.pwc.com

The two positions regarding the reasoning ascribed to the materiality benchmark regarding the qualitative features are blended in the *American frame*. This defines the materiality benchmark distinctly from the qualitative features, but closely related to relevance and reliability.

*For instance*, the decision to not provide certain information may be made due to the fact that investors (main users according to the American definition) do not need such information (it is not relevant) or the involved elements are too small (both in nature and value) to be provided (the information is not significant).

In accountancy, the **materiality benchmark** is defined under the form of a principle named the *Principle of the materiality benchmark*, (materialité or relative importance in French, with the remark that these expressions are not standardized).

The materiality benchmark represents the grounds of the concept of *true and fair view* from the British accountancy and from there it has been taken-over as concept by the International Accountancy (and Financial Reporting) Standards and as feature of the true and fair view in the European directives. It should be noted that in the European accountancy the principle of the materiality has been hardly assimilated and is not explicitly defined among the principles defined in the *Fourth Directive* of the European Union.

In Romania, until 1999, the concept of materiality was called *relative importance*. The relative importance is defined as the significance that an uninformed user, which seeks a decision, assigns to an item or event.

At present, this principle is not explicitly stipulated in the Accounting Law no. 82/1991, modified and republished, but following the attempt to harmonize the Romanian accounting with EU Directives and International Accounting Standards, the principle of materiality is clearly defined between the nine principles listed in the *Accounting regulations in Romania*. Moreover, the order regarding accounting regulations refers to this principle, the notions of significance and professional reasoning to be applied as regards the presentation of information, more concise and more detailed: "the elements of the Balance Sheet and the Profit and loss account indicated by Arabic numerals may be combined into a single

element in the financial statements of the company, where individual values are not significant to evaluate the property, profit or loss for the year". Although there have been published mandatory schemes for the Balance sheet and the Profit and loss account, likely to limit the freedom of those who prepare such situations, the Explanatory Notes can reflect the professional reasoning.

In the development regarding the implementation of the concept of materiality in the accounting rules, the American regulators have been those setting the cornerstone. In a first stage of the legislative process, the American accounting regulation authority, FASB (Financial Accounting Standards Board) introduced in each accounting standard requirements of the form: "the provisions of this standard should not be applied to items which are not significant". FASB defines the concept of materiality as the magnitude of omission or wrong declaration of the accounts which, in the light of existing circumstances, is likely the reasoning of people who rely on that information to be affected by that omission. A decision not to disclose some information may be taken, for example, if the amounts in question are too small to have any significance (not significant).

The concept of **materiality** is provided by the *General framework for the preparation and presentation of financial statements* as a component of the qualitative characteristics of financial statements, specifically as part of the information's relevance. This means that **a piece of information is material** when *it is likely for that person who used it to act differently if he did not have access to that information*. A piece of information is material if it can reasonably affect the assessments and decisions on the report or if its omission or erroneous declaration could influence the economic decisions of users. When assessed whether an item is significant, there are assessed together the nature and size of item. Depending on each situation, either the nature or size of the item could be the determining factor.

### *Example*

As a result of the financial control that occurred in the last quarter of the concluded financial year, the

ALFA Company received fines totaling 10,000 u. m. This amount represents 1% of the company's total expenditure. Viewed from this perspective, the received fines can be considered insignificant in value. Since fines are received for irregularities found in the work, they can be considered as significant, this requiring their presentation separately in the Profit and loss account.

However, the concept of materiality is directly related to the concept of *aggregation*. Thus, the definition of the materiality principle states that any item that has a significant value should be presented separately in the financial statements, and insignificant items, but having similar nature or functions, will be added up, not requiring a distinct presentation.

In this respect, the *IAS 1 Presentation of financial statements* states that the financial statements result from the conclusion of a large number of transactions that are structured by aggregation, by group, depending on their nature or purpose. If an item is not individually significant, it is combined with other elements either in the financial statements or Notes. There are times when an item that is not significant enough to be presented in the financial statements may be significant enough to be presented in the Explanatory notes. For *example*, individual assets of the same nature and function are aggregated in the Balance sheet, even if individual values are high. However, items which differ in nature or function are presented separately.

Applying the principle of materiality and aggregation, in terms of values, we can group small items with low values in a line-item called *Other fixed assets*, and the production line, transportation means and buildings separately because they present high values.

But in applying the principle of materiality we should not take into account only the quantitative aspect. To also apply the quality aspect of materiality, we should consider in conjunction with the presentation requirements of *IAS 1 Presentation of financial statements*, firstly the standard requires the presentation of the following categories of fixed assets: tangible, intangible and financial. Also, it states that detailed information on components of the three categories can be submitted in Explanatory notes. Consistent with the stated above, the listed items may be presented

in the Balance sheet as follows:

*Excerpt from the balance sheet of ALFA Company on December 31.12. 200X*

Fixed assets	Values
Tangible assets	260.000
Intangible assets	3.000
Financial assets	12.000

In the case presented above, although the values of the financial assets and intangible assets are lower than the values of the tangible assets, they must be presented separately due to their relative importance in terms of nature. Since the line-item "*Tangible assets*" includes structures significant in value, an explanatory note on the item may be presented.

Another rule which focuses heavily on the notion of significance is the *IAS 8 Accounting policies, changes in accounting estimates and errors*. The revised definition adds materiality definition and guides companies in selecting accounting policies by providing relevant and reliable information, and therefore significant. The previous standard was a reference to materiality in relation to the accounting treatment of significant errors: "errors found in the current period and which have an important significance threshold, so that the financial statements related to one or more prior periods can no longer be considered giving confidence at the date of their issuance". This version simplifies the notion of error and refers to significant and insignificant errors; the formulation of accounting addresses directly the notion of error, without different references for significant or insignificant errors occurred in the same period. Therefore, we consider that any error (significant or not) occurred in the current period must be corrected before the approval for publication of financial statements, and significant errors discovered in previous periods during the current period are corrected by retrospective treatment to ensure comparability of information presented for earlier periods.

An importance maybe as high as in *IAS 1 Presentation of financial statements* is given to materiality when applying *IAS 10 Events after balance sheet date*. This rule requires that events

subsequent to the date of the balance sheet to be submitted if they are of such importance that their failure would affect the ability of users of financial statements to review and make decisions.

The *General framework for the preparation and presentation of financial statements* shows that the relevance for economic decisions requires consideration of the nature and importance of significant events.

These are just some of the rules referring to the materiality threshold, but if we analyze all the rules we may say that whenever the idea of applying the professional reasoning in a business there raises the necessity of determining a threshold of materiality.

### Measuring and assessing materiality

FASB contends that, in most cases, the relative size, rather than the absolute one influences reasoning in determining the materiality of an item. Losses due to undecided customers or due to assessment errors in inventory, easily borne by a large company, can create major difficulties to any small company, generating, at the limit, even bankruptcy.

Another factor that affects reasoning in determining materiality is the degree of precision that can be achieved in estimating the size or nature of the item. It is considered that the size of cards considered immaterial may increase as the degree of accuracy decreases. For *example*, debts to suppliers can be estimated with a greater accuracy than contingent liabilities arising from litigation, and a deviation considered insignificant in the first case becomes significant in the second.

Owing to the difficulty of *determining an exact threshold of materiality*, we can remember only *conventions*, in the sense that there are considered significant, for example, all items that exceed 5-10% of total assets. In practice simple rules are used, such as applying certain percentages of income, assets or net profit or a relevant element of the financial statements. Such quantitative limits must be applied, however, very carefully to each case, taking into account qualitative factors such as the nature and frequency of occurrence of an item, possible

long-term effects and the cumulative effect in some similar items.

Although this random materiality threshold is of great help in determining the relative importance, professional reasoning cannot miss, especially when it comes to judging the nature of an item or event.

According to our studies, we have found guidance based on practical experience of British specialists. According to it, the meaning of a structure, an event or a transaction is calculated taking into account the following elements:

- The size of the item is compared with the general (total) amount resulting from accounts;
- The size of the item is compared with its previous values;
- The size of the item is compared with the entirety from which it makes part and if it has a high weight, it is necessary to present it in a distinct item-line;
- The nature and size of the item is considered;
- It is considered that certain elements are always deemed as significant.

The American experts, by means of the Securities Commission (SEC) have determined several levels for the materiality threshold. Thus, the following are considered relevant:

- Debts to directors or shareholders higher than 1% of the assets' value;
- Any item higher than 5% of the assets' value; and
- Any activity related to oil or gas exploitation which represents more than 10% of the incomes' value.

The threshold of materiality does not claim that insignificant item in nature or value should not be counted or reported.

For *example*, fraud is an important element, regardless of amounts' size. Freedom is wider in the American practice, in particular, which argues that if a certain element is not considered significant, it does not matter whether it is accounted for by a theoretically wrong manner. For example, for a computer of 10,000 um, that, in principle, must be recorded as expense according to its usage, the company may decide to record it directly as expense. Considering the

amount as insignificant, the relative significance is low, which makes the theoretically wrong method of recording element in the financial statements to not influence the decision of an investor or other user of the financial-accounting information.

Most practice cases in which the materiality is at question involve much more vague information and are more complex than that presented by us and requires a careful and specialized examination by a professional. The reasoning on the threshold of materiality depends on the specific situation of each case. An amount considered insignificant in a situation may be significant in another situation. The decision depends on the nature of the item, the absolute value and weight of the item in the total amount of revenue, expenses, assets or liabilities, firm size and other indicators of activity, as appropriate.

We have determined that materiality is a concept both qualitative and quantitative. Information is deemed significant if its lack determines a wrong decision. Certain elements are important only in nature, regardless of their size or the amounts involved.

## Conclusion

In our opinion, **the threshold of materiality should not be applied only to the presentation of financial statements, but to any accounting processing in a company in order to obtain relevant information** given the low cost of processing in terms of the advantages arising from the use of such information. This leads us to believe that processing of events that have an insignificant impact compared with the company's total assets may be performed in an aggregate manner and even by derogation for the basic accounting principles.

The standard provides the concept of materiality as a distinct criterion for the classification of assets in the balance, but also as a feature of the profit and loss account, and last but not least we can consider that exactly this principle of materiality is the one that underpins the preparation of Explanatory notes which are included in the financial statements. We can illustrate the above said by the requirements of *IAS 1 Presentation of financial statements*: "the rationale for separate presentation of assets is based on assessing the nature and liquidity of assets and their materiality threshold, leading in most cases to separate presentation of the business fund and assets from the costs of development, the monetary and non-monetary assets and current and fixed assets".

Moreover, as a result of the uncertainty inherent in conducting business, many elements of financial statements cannot be measured accurately, but only estimated. The assessment involves judgments based on the most recent information available and may relate to determining moral wear and tear or lifespan of inventory, consumption of economic benefits from depreciation of assets, or percentage of sundry debtors.

## Bibliography

- [1] *Greuning H.* – Standardele Internaționale de Raportare Financiară. Ghid practic, translation certified by the World Bank, Ed. IRECSON, Bucharest, 2005;
- [2] *Ministry of Public Finance* - Order 1752/2005 for the approval of the Accounting Regulations harmonized with the European Directives .
- [3] CCE – European Directives IV, VII and VIII;
- [4] IASB - Standardele Internaționale de Raportare Financiară, translation, Ed. CECCAR, București, 2007.



## DEVELOPMENT OF LIBERAL PROFESSIONALS DURING THE FINANCIAL CRISIS

Authors:

Professor Doctor Negoescu Gheorghe

*”Ovidius” University Constanta, Faculty of Economics  
negoescugl@yahoo.com*

Lecturer drd. Radu Riana Iren

*”Dunărea de Jos” University Galați, Faculty of Economics  
raduriana@yahoo.com*

Lectured Doctor Ioan Viorica

*”Dunărea de Jos” University Galați, Faculty of Economics  
ioan\_viorica@yahoo.co.uk*

### Abstract

Liberal professions in Romania are going through a difficult period, of adapting to conditions in economic, financial, educational, moral and other crises specific to a transitional period from planned economy to a market economy, excessive competitive.

In Romania, the economic field is disputed by several associations representing liberal professions, such as: accounting experts (CECCAR), auditors (CAFR), evaluators (ANEVAR), insolvency practitioners (UNPIR), economists (AFER), engineers (AGIR), lawyers (bar associations), notaries (UNNPR), tax (CCF), legal advisers (UCCJR) and others.

The financial crisis has deepened the gap between school and liberal professions and associations. It appeared mafia clan structure to promote the interests of certain groups in the liberal professions which have accepted it. I therefore consider that it is time to unite legal and economic formations under one name, as shown in this paper.

**Key words:** financial crisis, liberal professions, free professions

**JEL Classification:** A11, G01

### 1. Observations on liberal professions in Romania

As a concept, **liberal profession** means an intellectual activity carried on by a person on

its own (self-employed) part necessarily of a professional nature [1].

Although traditional expression is the **liberal profession**, the Romanian language explanatory dictionary (DEX, 1998 edition), as well as the regulations in the past decade, use the term **free profession**. DEX defines liberal professions as exercised by a person on their own (without being permanently employed in an institution or enterprise).

In Romania, the professions are currently in the process of organizing on “mafia clans”, in which the initiative group of professional interests are to maximize through undemocratic practices that apply in the first phrase: “if I vote no for me, you are against me and then you will be removed”. Following the principle “if you're not with me are against me” in Romania is established and then disbanded or gone many associations, NGO's or foundations.

Five associations that occurred in the economic field share the field interest: CAFR, CECCAR, ANEVAR, UNPIR and CCF, which, as I mentioned before, promote the interests of some person or groups in the liberal professions who have accepted .

A close look at what happens in ANEVAR, CECCAR, UNPIR, CAFR, CCF, AFER, AGIR, etc, leads to the following conclusions developed in the scientific communication:

- There are no performance evaluation standards in the profession
- Nepotism dominates the organization of the professions

- There is no transparency in the allocation of work.

Also, between school professionals and associations of liberal professions there is a critical failure which is ignoring one to another: the school does not promote the liberal professions and liberal professions exclude teachers from associations. The phenomenon is widespread and it is practical manifested by outsourcing teacher from associations and, especially, from their management (the exceptions prove the rule).

### 1.1. Liberal profession or free professional activity?

- Using the expression of *free profession* is criticized because, *a contrario*, suggests "*there are professions that are not free, which would be forced or compulsory labor, in violation of art. 4 of the European Convention on Human Rights and art. 42 the Romanian Constitution, republished*".

- Meanings of those two phrases do not overlap completely. Free professional activity means "profession exercised by a person on their own without being permanently employed somewhere". Liberal profession means an intellectual profession, which belongs to the spiritual culture (architecture, philosophy, law, medicine) or/and that depends by an "order", an unconventional professional body, with a particular pay.

## 2. The Union of Liberal Professions from Romania. CEPLIS (European Council of Liberal Professions)

**In Romania, liberal profession are formed in the following:**

- Order of Architects from Romania [2];
- Chamber of Financial Auditors from Romania - CAFR;
- National Union of Bars from Romania;
- Experts and Licensed Accountants from Romania - CECCAR;
- National Association of Assessors from Romania - ANEVAR
- National Union of Romanian bailiffs
- The body of technical experts from Romania - CETR;
- College of Pharmacists in Romania

- National Union of Practitioners in Reorganization and Liquidation from Romania;
- College of Physicians from Romania
- Private Practitioners Association of Dentists from Romania;
- Veterinary College from Romania
- National Union of Notaries Public from Romania
- Order of nursing, midwives and nurses from Romania
- Order of Dental Technicians Romania;
- Romanian Press Club
- Romanian Association of Real Estate Agencies - ARAI
- Order Geodesy from Romania
- College of Psychologists from Romania
- Chamber of Fiscal Consultants [3];
- Mediation Council

General Assembly of the European Council of Liberal Professions - CEPLIS, which took place on November 17, 2009 in Brussels approved, at a proposal from the Executive, a number of priorities - guidelines of this organization for year 2010, among which we remind [4]:

1. Tracing, carefully, all developments of the liberal professions in the EU and establish a dialogue with European institutions to promote the views of our socio - economic sector. Important documents such as the "Small Business Act", a proposal for a Directive on "patients' rights in cross-border health care" and in "Green Paper on the managerial staff", will occupy an important place in CEPLIS concerns.

2. Establish an intergroup of MEP's concerned about the future of liberal professions and actively participate in all events organized by CEPLIS;

3. Promoting the document "Liberal Professions Act for Europe" which is to take the form of a European Commission Communication, as it has happened with the document "Small Business Act", which establishes principles to govern relations between liberal professions and institutions. This document should propose specific measures and support mechanisms that promote the principles of relations between liberal professions and institutions.

4. Support for its members to adopt Codes of Conduct at European level, which include shared values of the liberal professions,

developed by CEPLIS in collaboration with the European Commission.

A major concern of CEPLIS in this direction is to start a broad action regarding the sharing of these common values to the general public, which has not been "salted" enough in front of negative stereotypes on liberal professions' social - economic sectors.

In this regard, CEPLIS will require to its members to publish articles in national newspapers to advertise through radio and television liberal professions' shared values and codes of conduct which give specificity to our socio – economic sector.

5. Developing relationships with organizations representing customers and patients professions. In this regard, CEPLIS will establish a Standing Committee which will deal with relationships' developing with clients' organizations.

6. Involvement in a great measure, of CEPLIS members to work organization and improving representation in the structures CEPLIS.

7. A CEPLIS priority in this project is to increase the number of members who, ultimately, to constitute an "academic network, and ensure the viability and visibility of the Institute;

### 3. What we propose?

It's time to **unify** the interests of liberal professions organizations in the economic and legal field under a single name: "**Association of independent experts in accounting, liquidation, evaluation and audit from Romania**", whose bases have already been released. We mention that availability proof of the name was obtained from the Ministry of Justice, following the Association's statutes to be submitted to the court.

Association of independent experts in accounting, liquidation, evaluation and audit from Romania has the principle to defend the interests and rights of all members and affiliated bodies.

Principles of organization of this new association is developed in this work, among we mention:

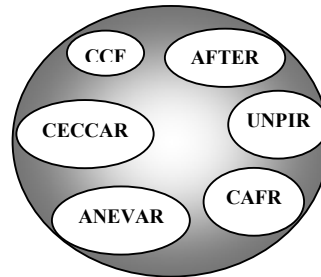
- Integrity
- Justice, honesty, sincerity
- Objectivity, independence, professional secrecy (confidentiality)

- Professional and technical compliance
- Professional competence and ethical competence (good reputation)
- Universality
- Collegiality
- Harmonization.

"Association of independent experts in accounting, liquidation, evaluation and audit from Romania", further named "the Association", may join with other non-profit legal persons, national and/or abroad, or may enter into unions or federations and may establish collaborative links with similar organizations in order to achieve its goals and objectives.

Practically, the Association will have the following structure:

**Figure 1 The structure of "Association of independent experts in accounting, liquidation, evaluation and audit from Romania**



AFTER - Association of Faculties of Economics from Romania

CECCAR - Body of Expert and Licensed Accountants from Romania

UNPIR - National Union of Insolvency Practitioners from Romania

ANEVAR - National Association of Assessors from Romania

CCF - Chamber of Fiscal Consultants

Association of independent experts in accounting, liquidation, evaluation and audit from Romania may have branches or subsidiaries in the country or abroad, as territorial structures, based on certified decision of the General Assembly, through which will be allocated a property.

Subsidiary have not legal personality it could function as independent structures of the Association. Legal personality of the branch is acquired under the legislation in force in the country in which it is based the established subsidiary.

Subsidiary is led by its Board of Directors composed of at least three members. The procedure for selecting the branches of the Association Board is established by the Association of independent experts in accounting, liquidation, evaluation and audit from Romania.

Branch is an entity with legal personality and may enter in their own name, legal acts of management and conservation as determined by the General Assembly through its constitutive act and may conclude legal documents, in the name and on behalf of the Association, only on prior decision of the Governing Board of the National Association.

The association can set up branches, as territorial structures based on authenticated decision of the General Assembly through it is allocated a property.

Patrimony of the Association is composed of a patrimonial asset originally, worth 2000 lei and comprises: computer, phone, fax, multiplier, printer, filling device with plastic ring, library with limited access for members, membership dues.

The entire property will be shown and maintained in accordance with Romanian law in force, on behalf of the Association and will be used exclusively to achieve its objectives.

### 3.1. Association's activities

To achieve the stated purpose, the association aims to achieving the following activities:

a) Establishment and publication of books, periodicals, pamphlets, posters, brochures, software and other information materials, accounting and financial interest. The first publication that will appear it will be called "Financial and legal advisor".

b) Organizing training courses, seminars, conferences, public debates, and organizing marches and other related financial activities.

c) Advice and guidance to persons interested in financial accounting, assessment, audit, and in other areas of interest relating to economic life.

d) Development of own and in partnership with public authorities in the country and abroad.

e) The development of their economic activities for self-financing.

f) Other activities provided by law, according to the purpose of the association.

g) Issuance of European driving license and organization maintenance;

h) Organization of seminars and summer schools for continuous training of members;

i) Promoting of independent expert at national level.

Changing of scope and objectives of the Association shall be made only by the founders or founders most alive, and if any one of the founders is not alive, this could be done only by vote meeting of four-fifths of the members of Board.

In all cases, the change of the Association's scope may be done only if it was made in whole or in part, or, at the proposal of at least two members of Association, it can not be fulfilled.

### 3.2. Association Members

The association is composed of:

a) Founding members - who were founded the association and contributed to the material and moral foundation and social heritage and creation;

b) Associated - members - members who are joining after founding the Association, which are part of any recognized professional and graduates of an exam of entrepreneur and investor;

b) Honorary Members (without vote);

c) Volunteering;

d) Staff employed under labor law;

Can become a member of the Association of independent experts in accounting, liquidation, evaluation and audit from Romania, any person who submits a letter of this adhesion. Membership is acquired through adhesion approval by the Board. Honorary Membership is awarded by the Board of Directors for having an important contribution to this activity or association who had a special activity in the areas of interest of the Association. Exclusion can be done by the Board of Directors, at the proposal of at least two members of the association, for very well founded reasons, with appeal right for those proposed to be excluded.

### 4. The main purpose of the Association

The association aims to protect and respect the rights of its members, respecting national laws, without interests of groups, without

discrediting a member for others, as we see that happening in the present organizations, which have their own "laws" not taking into consideration the main laws of the country, which are clearly stating in their content terms of appeals and deadlines for solutions.

We believe that the right to complain and to appeal of the members who consider themselves injured by decisions of the organizations where they are affiliated, should exist and should be legislated. In current circumstances, we must submit to unjust decisions without the right to appeal, although we contribute to these organizations, but the interests of certain groups are higher than respectful to the liberal profession itself.

## 5. References

- [1] <http://ro.wikipedia.org>
- [2] [www.oar.org.ro](http://www.oar.org.ro)
- [3] <http://www.uplr.ro/principalr.html>
- [4] <http://www.ogr2007.ro>

## Some Considerations on the Measures to Counter the Risk of Bankruptcy for Small and Medium Enterprises during the Financial Crisis

Authors:

Professor Doctor Negoescu Gheorghe

*”Ovidius” University Constanta, Faculty of Economics*  
*negoescugl@yahoo.com*

Lecturer drd. Radu Riana Iren

*”Dunărea de Jos” University Galați, Faculty of Economics*  
*raduriana@yahoo.com*

Lecturer Doctor Ioana Lupasc

*”Dunărea de Jos” University Galați, Faculty of Economics*  
*ioanalupasc22@yahoo.com*

### Abstract

The financial crisis in Romania has expressed in an eloquent manner and meant large negative effects, such as external factors generated by the trigger of the financial crisis in Romania in October 2008 and internal factors for society that fundamentally influenced the decreasing of funding in 2009.

In 2010, promotion of private initiative is, in our opinion, one of the methods that attenuate the financial effort of state for social segment which generates costs and, is producing revenue for the state. In this paper we promote the idea of opening a fundamental process of restructuring the SME's management mentality, that of safeguarding of the enterprises with existing instruments, but also with new proposals to the Government, for regeneration as soon as possible of the country's economic and human factors capable of working.

**Key words:** risk, financial crisis, enterprises

**JEL Classification:** G33, G01

### 1. The influence of some factors on financial indicators in 2009”

-Global economic recession has affected all Romanian companies, from largest to smallest. Moreover, access to the funds that the bank could provide for business was locked by the state. Basically, through the Ministry of Finance which borrowed from private banks

almost all the money from market to pay salaries and pension budget, the Government, indirectly, locked the national economy. Thousands of companies throughout the country unreasonably have long waited the repayment of VAT to which they were entitled, and that the financial taxation delayed to make it, deadlines being exceeded with months. Instead, for every invoice issued, but not received, the state further requires for firms to pay VAT de-capitalising them and pushing them towards bankruptcy. Establishing flat tax to be paid even by companies which were not registered profit, has determined in 2009, that 120.509 companies to suspend its activities. -Currency depreciation; it equaled or exceeded the substantial discounts of cars sellers that showed discounts and promotional prices about 30 - 40%.

-Transactions with new cars had a significant rebound, and volumes were decreases of 50% or even 60% compared to the same period last year, some car dealers being forced to close their showrooms and to lay off some employees.

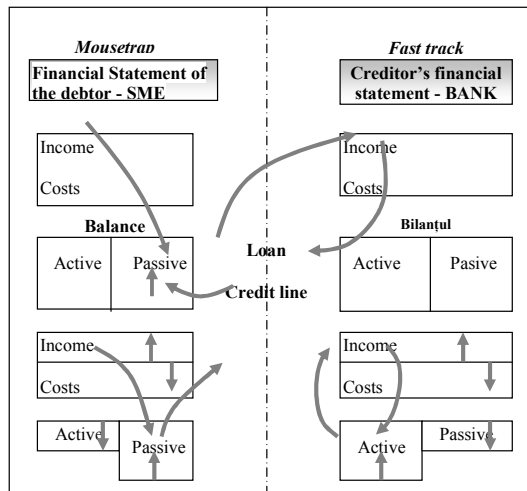
-Romanians real income levels have been affected by currency depreciation: those who had paid rates have experienced the strongest rate shock. Payment amounts were not to be neglected, the rates increased from one quarter to another and even 30%, while nominal revenues remained constant or even declined in condition of rising unemployment. This could lead only to

overdue and late payment, short-term liquidity problems, increasing leases terminated, an influx of requests to reschedule the payment obligations.

-Decrease of the credit line.

☒ We present you below the scheme regarding the financial flows in Kiyosaki's view, where the bank is the creditor and the SME is the debtor.

“Fig. no. 1. Financial flows in Kiyosaki's view”



SME	Bank
Income < Costs	Income > Costs
Debts < Receipts	Loans < Capital
Asset accounting=Sheet liabilities	Asset accounting=Sheet liabilities
Real asset < Actual liability	Real asset > Actual liability

“Table no. 1. Fundamental correlations in economic cycle in financial crisis”

## 2. Financial crisis in Europe

Except Poland, where the number of bankruptcies in the first nine months of 2009 remained below 1.000, in all other countries, the recession has felled many SMEs. Romania is by far the most affected, given that in the first six months of 2009, over 100.000 SMEs went into bankruptcy, from a total of 600.000 registered at the ministry.

**Germany.** German SME's bankruptcies mean problems for Europe. Germany's economic recovery could slow because more and more midsize companies - the skeleton of industry - can not face with market's conditions and bankruptcy. This situation has a negative impact on euro area, under the condition in which, according to The Wall Street Journal,

Germany, has the largest economy on the continent [1].

In **Poland**, 497 companies have declared bankruptcy in the first nine months of the year 2009 compared with 317 during the entire 2008, according to Coface, the credit insurer. In the first half of 2009 the SME sector has been hit by falling demand and by the tighter credit conditions.

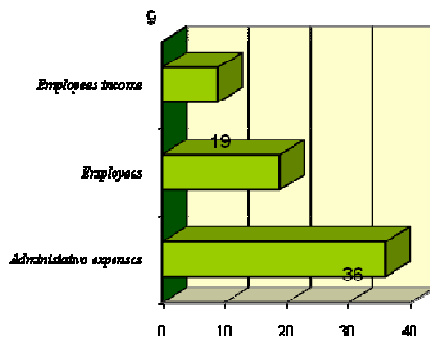
In **Hungary**, SMEs have been affected by evaporation of demand and by reducing the access to financing, but unlike Poland, the current situation shows no improvement. Industrial production continues to be 20% lower than in 2008, and SMEs production has fallen by a fifth.

In the **Czech Republic**, 6591 entities (companies and individuals) were asked in the first nine months of 2009, the reorganizing under bankruptcy protection, up 70% compared to last year. 58% of all complaints are made by companies, according to Creditreform, credit agency. Czech Union of SMEs said that access to credit is the main problem with which is facing the sector. Lack of funding leads to postponement or cancellation of investment plans.

## 3. Economic crisis' situation in Romania

In our country, 90% of SME's are affected by economic and financial crisis, difficult economic situation leading to increased number of bankruptcies. Among the measures that companies have taken to decrease the impact of economic crisis, 36% of them have reduced administrative costs, 19% have reduced the number of employees and 9% have reduced the income of employees, as represented in the chart below.

Fig. no. 2. Anticrisis measures taken by Romanian SME's



Year 2010 has not yet good signs for Small and Medium Private Enterprises in Romania. Last year alone, over 190 thousand SMEs and authorized individuals have ceased. Specifically, we present in table from below, cases that favor bankruptcy and measures to avoid bankruptcy, some of them being even proposed by SME and NCPSMER (National Council of Private Small and Medium Enterprises in Romania), as measures for the economic crisis.

“Table no. 2. Causes that promote SMEs bankruptcy and measures to avoid it”

Causes that promote SMEs Bankruptcy	Measures to avoid SME's bankruptcy
-Depreciation of national currency.	-Reducing costs through layoffs.
-Lower transaction with cars.	-Employee salary reduction.
-Decrease real estate transaction.	-Reducing administrative costs.
-Reduce your credit line.	-Icing liquidity.
-Reduced access to financing and funding hinder.	-Simple bookkeeping and halving the tax on buildings[2].
-High costs of interest.	-Allocating of minimum 0.5% of GDP for the foundation and development programs for SME's [3].
-Exports decline.	-Widespread of the absence of taxation of reinvested profits and reinvested dividends.
-Low income.	-Ministry of SMEs of
-Increasing the CAS's costs.	
-Introduction of minimum tax.	
-Sales decrease.	

-Price increases.	programs on an emergency immediately after the 2009 budget approval.
-Incapacity of paying.	-VAT payment when goods are delivered, services are rendered or works are executed.
-Entering into insolvency.	-Elimination of abusive controls on companies.
-Declining real incomes of Romanians.	- Encouraging exports through subsidies.
	-Creating Counter-Guarantee Fund of the credits in the first half of 2009.
	-Significant and urgent reducing of extra-taxation.
	-Simplification of procedures for accessing structural funds and increasing access to consulting services in this area [4].

#### 4. Anti-crisis measures taken by the current Government

Emil Boc's government took steps that led to the cancellation of firms. By eliminating the taxation for microenterprises with 3% of incomes, Boc government put most common obstacle to self-employment solutions. In addition, by introducing flat tax, hundreds of thousands of small companies, generally with a single employee, were closed.

Also, there are many companies that are in bankruptcy, but have not yet said so. Many require judicial protection, asking for insolvency, to be safe from creditors. Among **crisis measures** already taken by the Government is allocating the largest share of GDP over the past 20 years, for investment, facilities for hiring unemployed and purchase of nearly 17.000 homes through "First Home" program.

Continuing Rabla program, building houses for rural specialists, rehabilitation of thermal and county road blocks, First Silo Program, NHA housing selling to tenants, supporting SMEs and local authorities which are accessing EU funds by providing state guarantees and technical unemployment are other measures already



taken by the Government and presented by Emil Boc.

Among the measures to support businesses, the premier noted reinvested taxed profits, deferred payment of outstanding obligations, accelerating tax refund, state aid, incentives for energy and chemical industry, reducing taxes and tariffs parafiscal. Among crisis measures, Emil Boc recalled including VAT at 19% and maintaining a flat at 16% [5].

But all these measures seem not to be the best and not sufficient for the effective exercise of SMEs because, due to other measures adopted by the Government such as the introduction of flat tax, there are favorable conditions for progress.

## 5. Some considerations upon anti-crisis measures

Experts say the biggest problem of business is restricted access to credit, and bad news is that banks will not finance companies resumed in 2010, because it will analyze the situation of companies which will seeking loans on the balance sheet situation of 2009, which "looks disastrous."

On the other hand, banks have their own reasons to think twice before approving a loan. In 2009, arrears over 90 days were recorded in loans, over three times higher than in 2008 and represented 75% of all amounts due.

Neither in terms of tax payment obligations to the state, companies did not do better. Experts recommend to the companies with debts of more than 30 thousand lei and debts to the budget over 30 days, to avoid insolvency and forced execution by preventive composition with regulated by Law 381/2009. Preventive composition is an amicable settlement between the debtor and creditors that hold at least two thirds of the value of receivables.

### 5.1. How can you be protected from insolvency?"

According to the law, insolvency or bankruptcy of the debtor's assets are characterized by insufficient cash funds available to pay outstanding debts.

It is considered that it may declare bankruptcy when the debtor, after 30 days in arrears, has not paid its debt to one or more creditors. Bankruptcy is imminent when the debtor

proves that it can not pay at maturity, outstanding debt incurred with the funds available from the due date.

For companies trying to save his business, the next step is the **process of reorganization.**

## 6. Reorganization – as a measure against bankruptcy risk for SMEs

In the current economic situation is expected as part of economic agents continue to encounter difficulties in activity and even to go insolvent.

**Unfortunately, most of those traders who go into insolvency, unnecessarily are trying to recover the activity of society through their own efforts, without resort to specialized consultants in the field and without the use of legal provisions designed just for protection.** Such attempts of recovery leads mostly with a failure, so that society finally comes to bankruptcy, without any possibility of economic recovery.

Law no. 85/2006 of insolvency ("Insolvency Law") specifically provides judicial reorganization, as a extent of recovery of economic activity of a company in a state insolvency or in impending insolvency, being real chance of recovery and continuing a business that normally would be under bankruptcy.

### 6.1. Reorganization procedure Romania

Unlike the laws of other states, Romanian legislation does not regulate the judicial reorganization procedure, which still can not remove a conventional reorganization. This method of reorganization involves, in practice, debtor negotiations with major creditors on rescheduling the debt payment, but in such a procedure the debtor has no legal protection [6].

Judicial reorganization, aim the "redressing of the debtor and payment of liabilities in terms of restructuring the company and its activity" [7], and saving in this way, a company in default, but still viable.

Judicial reorganization is triggered by an application for entry in insolvency which the debtor in insolvency or in a state of imminent insolvency or a creditor, submit

to the Court. In this application the company must accompany the several pieces, among which the declaration by the debtor and shows its intention to enter into the reorganization procedure.

After introducing the application and verification of documents submitted by the debtor, if the legal requirements are met, the judge will order the opening of the general procedure. By this decision to initiate proceedings, the judge will appoint an judicial administrator. To qualify the reorganization procedure it must be proposed such a plan by the debtor, by the judicial administrator or by the creditors. **The plan should contain concrete ways to restructure the company, which may take the form either the debtor's restructuring and continuing future business or liquidation as part of the debtor, or a combination of two previously proposed methods.**

Reorganization of the company closes when you have met all payment obligations assumed by the reorganization plan.

### **6.2. Advantages for entering into reorganization procedure**

There are several advantages of opening the reorganization procedure for a company in difficulty, such as:

- From the date of opening of the reorganization law there **are suspended all judicial or extrajudicial actions** aiming to achieve claims against the debtor or his property. Thus, under art. 36 of Law no. 85/2006, the law suspended all judicial or extrajudicial actions to achieve the claims against the debtor or his property, so that no creditor can no longer operate separate companies in insolvency proceedings to recover his claim. Also under this article there are suspended any levy of execution or attachment of company accounts. All payments made during the insolvency proceedings will be made by a single bank account, which can not be stopped.
- **No longer pay outstanding debts than under a reorganization plan without paying interest or penalties.** From the opening of proceedings, under art. 41 of Law no. 85/2006, no interest rate, increase penalty or charge will not be added to claims arising, prior to the opening of proceedings (excluding guaranteed

debt). Thus, by stopping the flow of interest and penalties, it is prevented the increasing liability company.

- The possibility of **rescheduling payment of debts** by creditors, etc.

- The company that was willing to open insolvency proceedings may be subject to judicial reorganization under a reorganization plan, through which can be obtained in certain circumstances or may even require, rescheduling of payments to creditors during the reorganization, which may take up to three years, with possibility of extension for another year.

- In judicial reorganization, the debtor business is conducted by a special administrator named by the company management, who may even be the administrator. Thus, leadership activities of the debtor may remain in the hands of the debtor's former management bodies, which are best placed to continue the company's activities. Their work is supervised by the judicial administrator.

- According to art. 77 of Law no. 85/2006, applications for the recovery procedure or other rights shall be exempt from stamp duty, which is an advantage in making steps to recovery.

- In the judicial reorganization, the company operates on the principle "business as usual", remaining an economic market player, and can keep customer brand and heritage.

- During insolvency, the company does not pay and does not charge VAT.

### **7. Mergers - another measure to counter the risk of bankruptcy during the crisis**

Fusion is a "technical and legal process through which the restructuring of companies is done" [8], when two or more companies come together to form a single society. Fusion brings benefits related to strengthening of the company's market, getting a larger share local market or even expansion into other geographic regions. Another advantage of fusion is related to business saving and personnel rescue in conditions of market competition and its impact on business. Vertical integration of business is another benefit of the fusion, so

that it shortens the chain of production and distribution. For example, a furniture manufacturer may purchase a wood supplier to eliminate the problem of raw material acquisition. Because it will be reduced certain costs, it will increase company's profits. Another advantage of the fusion is diversifying its product portfolio by launching its own range or buying a player that already offers that product. Fusion also offers an advantage in terms of taxation.

## 8. References

- [1] <http://www.zf.ro/business-international>.
- [2] <http://www.financiarul.com>, April 1th, 2010.
- [3] <http://www.newschannel.ro/stiri/masuri-anti-criza-pentru-imm-uri>.

- [4] <http://www.newschannel.ro/stiri/masuri-anti-criza-pentru-imm-uri>.
- [5] Source: Wall-Street.ro.
- [6] <http://www.avocatnet.ro>.
- [7] Bela Csaba Nász – The opening of insolvency procedure, C.H. Beck Publisher, Bucharest, 2009, pag. 42
- [8] St. D. Cârpenaru, S. David, C. Predoiu, Gh. Piperea - Companies Law, Comments on articles, Issue 4, C.H. Beck Publisher, Bucharest, 2009, pag. 919

## Comparative study on the insurance market between AIG Life products and ASIROM Vienna Insurance Group

Nicodim Liliana

*“Ovidius” University Constanta*

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

Nitu Claudiu Valentin

*Faculty of Dimitrie Cantemir Chiristian , University Bucuresti*

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

Bucur Crina Raluca

*Faculty of Dimitrie Cantemir Chiristian , University Bucuresti,*

*E-mail: [ralucacrinapetrescu@yahoo.com](mailto:ralucacrinapetrescu@yahoo.com)*

### Abstract

An increasingly confirmed theory in recent decades claims that a product is purchased for what it represents for the customer, and not for what it is itself (subjective utility theory), the product is purchased for the service they provide, for the safety, for the comfort, for fashion, for what it gives to its user. Life insurance is a way of financial protection, safeguard and preserve the family property. It is part of a family financial plan, along with other real estate investments, shares, bank deposits, insurance is a guarantee fund related to the availability of needed cash in case of unexpected situations, without being affected the other saving forms, usually with pre-established terms.

**Key words:** market, insurance market, customer, financial plan, investment

**JEL Classification:** G22, G24

SWOT analysis is a synthetic analysis instrument of strategy implemented by an organization.

Aims to determine whether the current strategy of the organization and the weaknesses are relevant and able to cope with changes in external environment. It can be used to assess whether there are opportunities that can be exploited and / or continue using existing resources and organizational skills.

A SWOT analysis has two components:

#### 1. Internal analysis

a) strengths (assets) of the company: for example, a prestigious company, which enjoys a high reputation, high quality offer, good sized distribution network, well trained staff:

b) weaknesses (deficiencies) of the company: confusing market position, brand is unknown, insufficient promotional pressure, downgrading of some of the models / lines / ranges of products, lack of investment, new trade marks etc.

#### 2. External analysis:

a) market opportunities (occasions): new (external) markets penetration capacity, offer diversification;

b) threats (hazards, risks) low purchasing power of population, increased competition, etc..

**AIG LIFE INSURANCE SWOT ANALYSIS**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• AIG Life is one of the major life insurance companies in Romania, a subsidiary of American International Group, the world leader in insurance and financial services.</li> <li>• AIG Life has the highest ratings for financial stability, enjoying a AAA rating since the first assessment made by Standard &amp; Poor's in the 80s.</li> <li>• AIG had a spectacular evolution over time, currently having offices in approximately 130 countries and jurisdictions.</li> <li>• AIG insurance policies give its owners a real financial security.</li> <li>• AIG Life has an excellent reputation in the market regarding the payment of benefits and compensation awarded.</li> </ul>	<ul style="list-style-type: none"> <li>• Due to the large area of coverage the company AIG Life is sometimes difficult to control all the agencies.</li> <li>• Distribution of financial products through brokers may have a negative effect providing unprofessional customer support services.</li> <li>• Human Resources Management needs to be improved for staff retention through adequate training and motivational packages.</li> </ul>

<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Market share increase by offering flexible financial programs to customer requirements.</li> <li>• Revaluation of market niche related to the east area of the country by opening new agencies</li> </ul> <p>Promote and develop the skills and experience of sales force</p> <ul style="list-style-type: none"> <li>• Active involvement in development of the private pension system</li> </ul> <p>”Product development of "bancassurance"</p>	<ul style="list-style-type: none"> <li>• market leadership position threat of the recent purchase by Wiener Staedtische Omniasig Life</li> <li>• market penetration of new life insurance operators.</li> <li>• loss of clients due to unfair practices of insurance competing companies.</li> </ul>

A SWOT analysis is useful to summarize the relationship between the influence factors of external environment, the organization's strategic skills and the possibility of implementing new strategies. Information synthesizing from the SWOT analysis lead to the following conclusions of the strategic nature:

- Company AIG Life, through the organizational position and culture, enjoy a privileged status today among the most important insurance companies in Romania. Therefore, the company must take an active role as market maker. This means investment in advertising, press conferences, TV appearances, etc.
- The company must combine experience and professionalism of its employees with the know-how, financial strength and reputation of the American International Group.

- AIG Life has to properly promote the group offer products and adapting to the needs of companies with state majority.

Regarding human resources, radical changes of employee-employer relations are necessary, mainly for administrative functions personnel (departments SOP, New Business, Claims, Underwriting, IT). In this sense, change is needed for awarded salaries, and for the staff preparation and development.

Thus, despite existing globally tensions, AIG continued to expand its world action area and build strategic alliances with companies in other industries (eg bancassurance partnership with Raiffeisen Bank). Adopting a cautious market strategy, focusing on strengthening of financial stability and achieving long-term results, the company is a growing life insurance company. In my opinion, a more aggressive marketing policy is required, the exact delineation of target market segment and market imposing by increasing the competitive advantage - maximum financial security for its customers.

ASIROM VIENNA INSURANCE GROUP  
SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• For over 17 years, ASIROM (Romanian insurance) is a Romanian traditional insurance company, giving them security and comfort they need, always defining the local insurance market trends.</li> <li>• ASIROM is among the top 40 companies in the region which consolidates the VIG team.</li> <li>• opinion leader and market maker in Romania The most powerful organizational structure and the largest territorial network.</li> <li>• special quality of ASIROM products and services led to the award by the well known certification organism, Moody International, of ISO 9001 quality standard certificate (voted three times consecutively).</li> </ul>	<ul style="list-style-type: none"> <li>• In 2007, the company reported losses of 9.54 million euros.</li> <li>• Distribution of financial products through brokers may have a negative effect providing unprofessional customer support services..</li> <li>• Human Resources Management needs to be improved for staff retention through adequate training and motivational packages.</li> <li>• Reduction of the general insurance market share, which was due to the policy of lower commissions with key brokers, which have reduced gross underwritten premiums.</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Increased market share.</li> <li>• Asirom has proposed this year a 30% increase in the level of gross underwritten premiums compared with 2007.</li> <li>• rebranding program for refreshing company image and for entering under the Vienna Insurance Group umbrella.</li> <li>• Because VIG benefiting over 180 years experience in insurance</li> <li>• Active involvement in development of the RCA and CASCO insurances.</li> </ul>	<ul style="list-style-type: none"> <li>• market position threatened by the emergence of new competitors on the market</li> <li>• new market penetration of life insurance</li> <li>• Loss of customers due to unfair practices of insurance companies competing</li> </ul>

## Conclusion

Company ASIROM Vienna Insurance Group is now in a good enough position in insurance companies top. To assess the strength and experience of Vienna Insurance Group. Both companies have a good rating, AIG internationally, ASIROM VIG nationally, as a romanian insurance company. Due to the rebranding program, ASIROM and UNITA Vienna Insurance Group will represent a significant competitor to AIG Life Romania. AIG objective is to keep top spot, and for Asirom Vienna Insurance Group, a bigger market share, and one held up as the top companies.

## References

- [1] PRIMM Insurance Magazine Collection (2001-2008)
- [2] Insurance Profile magazine Collection (2001-2008)
- [3] Report of the Insurance Supervisory Commission of the work and evolution of insurance market in the period 2000-2008
- [4] [www.aiglife.ro](http://www.aiglife.ro)
- [5] [www.aig.com](http://www.aig.com)
- [6] [www.csa-isc.ro](http://www.csa-isc.ro)

## National budget – an ethical dilemma of financial crisis

Nicodim Liliana

*“Ovidius” University Constanta*

*nicodimlili@yahoo.com*

Nitu Claudiu Valentin

*Faculty of Dimitrie Cantemir Chiristian , University Bucuresti*

*valynitu@gmail.com*

Bucur Crina Raluca

*Faculty of Dimitrie Cantemir Chiristian , University Bucuresti,*

*E-mail: ralucaCrinaPetrescu@yahoo.com*

### Abstract

*Expectations related to the draft budget and action plan of the government are high, but the possibilities are limited, fiscal policy needs time to regain credibility after two years of drift. Although the economic crisis knocking on the door Romanian government has a few available means to stop it. Regarding the quality of the budget, this is far from what might be called a model of good practice.*

**Key words:** budget, ethical dilemmas, crisis, financial crisis, deficit, saving

**JEL Classification:** H6, H61

Although at the beginning of the year 2009 global economic crisis knocking on the door of Romania, the government has little available means to stop it. Fiscal policy of the last few years for growth was completely unpredictable, deepening macroeconomic imbalances, while remaining on the agenda of structural reforms have been left aside. The state is still contributing about 30% of GDP, because the privatization was stopped lately, and Romania is the last place among new EU members in transition to a market economy chapter, and sometimes exceeded by Bulgaria (after some indicators EBRD). We missed the opportunity to make deep fiscal consolidation and reform of how budgets are built on the time when the economy "was thumping" Instead we managed to reach a deficit of almost 5% of GDP in conditions of economic growth of nearly 8% .

Unfortunately, the quality of the budget process is far from what it might be called a model of good practice. How the state have such a share in the economy, the impact of poor management policies of public funds is much

amplified. Deficiencies appear everywhere: in the ability to make a coherent program, both the Ministry of Finance and the ministries, revenues and expenses are unpredictable, often occurs the temptation of allocation of significant slice of the budget for social measures taken in blue, for budget sector wages, pensions, without an analysis of the long term financial impact or on other programs. In addition, as budgets are actually public statements on government policies, how fiscal policy has been built in recent years speaks volumes about the quality of governance in Romania.

Analysis of the parts that worked poorly in our fiscal policy would be useful to us, even in crisis, for two reasons. First, we can formulate realistic expectations of what government can actually do in the coming months. Second - and perhaps even more important - the crisis is an opportunity to forced reform, but rapid, of our public finances, as the Romanian economy bankruptcy in the second half of the '90s triggered the transition to economy market.



Of course, if we are not careful it can happen vice versa: the economic crisis can be an excellent excuse for poor governance, for the proliferation of exceptions to rules and laws, for opaque and corruption generating policies.

It is recommended to be analyzed and corrected the next deficiencies that chronic manifest itself in Romanian fiscal policy.

1. Romania should have a four years budget, instead it has four to six budgets yearly.

2. Some types of expenses are overstated (capital expenditure), while others (current cost) always end up being higher than originally scheduled

3. Spending peaks in November and December

4. Overestimation of budget revenues, whether as the result of populist promises before elections or just as lack of competence, was the rule of last years.

5. Arbitrary budget allocations: regression in terms of good governance and a return of previous reforms road.

6. Significant slices of public budgets are allocated to sectors with significant recurrent costs (education, health, agriculture, railroad)

7. The promised increases in salaries and pensions in the last two years, in combination with a low GDP growth (2-3% maximum) are a serious threat to the sustainability of deficit in 2009.

8. Deficits are now very expensive for Romania

#### **What to do**

- *Increased transparency of the budgetary process and enhance administrative capacity in the Ministry of Finance and the ministries.*

It is unlikely that the fiscal policy can be anti-cyclical used in 2009 after escaping total control in periods of economic growth. But we hope to fiscal consolidation and deficit reduction correction. This can not be done in practice by

increasing revenue, but a rationalization of expenditures made in the context of a medium-term reform program. A strong and credible commitment to reform itself could bring additional revenue to the budget: international financial institutions, IMF and EU itself are willing to provide financial assistance coupled with a clear program of reform, if there is the certainty of good uses of funding. Administrative capacity improvement is a long process for sure, but even now it must be accelerated if earlier the opportunities were wasted. So, the crisis would provide an opportunity for reform to a better fiscal policy. If the budgets are based indeed on "multi-annual budgetary programming", must be clearly linked to macroeconomic developments, and the deviations from original plans must be justified. As mean, placing any program or new measures should be considered as a cost-benefit analysis and compared with other alternatives for use of public money (opportunity cost). In addition, there is urgent need strong institutions to verify how public money is spent. This depends on the performance of internal auditors of the budgetary institutions and the external auditor (Court). In addition, performance and the execution of public budgets must be more transparent to the public because of the crisis. Same should be more transparent the work of these auditors. As public information, there are quite a few data on budget execution compared with initial budgets, complete data about budget revisions and their justification, analysis of revenue and expenditure changes. As well, the work of the Court is quite obscure to the general public.

- *At least until it will increase the ability to make quality predictions, forecasts should be very cautious, especially on the revenue, and expenditure that are not required to be reduced.*

No need to be a doctor in economics to realize that the "jumps" in the collection of 6 to 7% of GDP from year to year on the budget income are unrealistic. Not to mention that in countries with solid fiscal institutions is hard to predict what will happen with the budget revenues in 2009, so prudence is essential. Yet, because the most important budget revenues are

received quarterly (VAT, income tax), we will not know which was the real effect of the crisis on the 2008 budget until February. If again the revenue will be overstated and expenditure will be spread by these excessive amounts, we have higher deficits and it will not be covered only by using non-renewable resources, as the money from privatization and reserve funds. On the expenditure side, as I said, the crisis would have an opportunity: it should finally revised the structure of government and how to pay public sector. Will be more difficult than it first seems to reduce salary costs (which will still be needed in 2009 because of shortage) if a clear justification is not provided, such as a credible reform of the administration. We can look at public sector strikes in Hungary to see what awaits us if budgeting living with a wrong impression. Will require general criteria, paying targets in public sector, promotion, bonuses, redundancies, criteria that are similar in whole bureaucracy and not appear against a certain class.

- *Budget volatility should be reduced, if we do not want fiscal policy to deepen the crisis itself.*

Although some flexibility is needed, adjustments should not be as reasons for sudden changes in public policy or, worse, the introduction of expenditure and revenue were simply "forgotten" when was the first budget. Corrections should take place mainly due to the revision of macroeconomic indicators scheduled by the Commission for Prognosis and the Ministry of Finance. At the same time, exceptions to the rule - this time motivated by "public interest in times of crisis" - should be avoided. These include transfers to municipalities besides law, county councils, exemptions from the public procurement law (as has already happened at the beginning of this year on Energy). Long-term losses in terms of good governance far outweigh any short term gain (if there any) and can return the way reforms made with much effort in recent years.

## Conclusion

In conclusion, in fiscal policy of Romania there are no short term solutions other than long term. If the fiscal institutions are not strengthen once and for all, even during the crisis, the government will have no capacity to "control" the public policy tool to use it against recession, or at least not to put additional pressure on a suffering economy. How much time will not increase the capacity of the Ministry of Finance and resort, huge sums are spent inefficiently, while the private productive sector may not get the money to restore the economy afloat. Where saving money is used elsewhere, together with realistic and prudent estimates of budget revenues should ensure, though, that fiscal policy is not continuing its pro-cyclical tradition.

## References

- [1] [www.wall-street.ro](http://www.wall-street.ro)
- [2] [www.antena3.ro](http://www.antena3.ro)
- [3] [www.ziare.com](http://www.ziare.com)
- [4] [www.cotidianul.ro](http://www.cotidianul.ro)
- [5] [www.capital.ro](http://www.capital.ro)
- [6] [www.evz.ro](http://www.evz.ro)
- [7] [www.bursa.ro](http://www.bursa.ro)
- [8] [www.realitatea.net](http://www.realitatea.net)
- [9] [www.dailybusiness.ro](http://www.dailybusiness.ro)
- [10] [www.marketwatch.ro](http://www.marketwatch.ro)
- [11] [www.financiarul.com](http://www.financiarul.com)
- [12] [www.standard.ro](http://www.standard.ro)
- [13] [www.ccib.ro](http://www.ccib.ro)
- [14] [www.insse.ro](http://www.insse.ro)
- [15] [www.economie.hotnews.ro](http://www.economie.hotnews.ro)

## Impairment of assets - between regulation and deregulation

Professor Traian Nicolae, Ph.D.

*Affiliation: Faculty of Economic Studies,  
University Ovidius Constantza, Romania*

*E-mail: traiannick@yahoo.com*

### Abstract

Objective of IAS 36 *Impairment of assets* is to prescribe procedures that apply to an undertaking to ensure that its assets are carried at amounts not exceeding their recoverable amount if the carrying amount is recoverable in full. An asset is carried at an amount not exceeding the amount will be recovered through its use or sale. If this case proves, is described as impaired assets and IAS 36 requires the company to account for a loss of value. Also, the rule specifies that a business case should include (lessen) a loss of value and should provide information on assets that have depreciated.

There may be situations in which external influences or changes in production methods within the entity led to decreased value of an asset far more than is acknowledged in annual depreciation costs. In this case, it is said that the asset is impaired.

**Key words:** Impairment , recoverable amount, value in use

**JEL classification:** M41

### 1. Introduction

To identify whether a revalued asset may be impaired depends on the basis used to determine its fair value:

- if the asset's fair value is market value, the only difference between the fair value of assets and net selling price is given by the direct additional costs required for disposal of the asset;
- where disposal costs are negligible, the recoverable amount of a revalued asset is necessarily close to or greater than its revalued amount (fair value). In this case, after the revaluation requirements have been applied, it is unlikely that revalued asset is impaired and recoverable amount should not

be estimated, and

- where disposal costs are significant net selling price of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if the value of use is lower than the revalued amount (fair value). In this case, after the revaluation requirements have been applied, an enterprise applies this standard to determine whether the asset may be impaired, and

- if the asset's fair value is determined on a basis other than market value, asset revalued amount (fair value) may be higher or lower than its recoverable amount. Therefore, after the revaluation requirements have been applied, an enterprise applies this rule to determine whether the asset may be impaired. Example of assets covered by the rule IAS 36

- land, buildings, machinery, equipment and financial investments held at cost and other assets recorded on the market value model under IAS 16 and IAS 38;
- intangible assets and goodwill;
- investments in subsidiaries or joint venture.

### 2. Definitions

The following terms are used in this rule, having the meanings specified:

1. Active market is a market where the following conditions exist:
  - goods traded on that market are homogeneous;
  - at any time, under normal conditions, one can find buyers and sellers, and
  - prices are publicly available.
2. Carrying amount is the amount at which an asset is recognized after deduction of combined depreciation and accumulated impairment losses.
3. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows from continuing use,

entries that are largely independent cash inflows from other assets or groups of assets. Definition of "cash generating unit is clear. However its implementation is difficult and is based on estimates.

4. Corporate assets are assets other than goodwill that contribute to future cash flows, both cash-generating unit of analysis and those of other cash-generating units.

5. Disposal costs are additional costs directly attributable to disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

6. Cost of an asset is depreciated value or other value in the financial statements replaced cost less residual value of the asset.

7. Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life period.

8. Net fair value is the amount you can get from the sale of an asset or cash-generating unit, voluntarily, between parties to knowingly, in a transaction where the price is determined objectively, less costs of disposal.

9. An impairment loss is the difference between book value (higher) and the recoverable amount of an asset or cash-generating unit.

10. The recoverable amount of an asset or cash-generating unit is the maximum of fair value less costs to sell and value in use.

11. Useful life is either long the expected use of the asset by the entity or the number of production units or other similar entity expects to obtain from the asset.

12. Value in use is the present value of future cash flows expected to be derived from an asset or a cash-generating unit.

### **3. Identifying an asset that could be impaired**

As a general rule, an asset is impaired when its carrying amount exceeds its recoverable amount. A company must establish each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset.

Moreover, whether or not evidence of an impairment, it must also:

- annual test for impairment any intangible assets with indefinite life or intangible asset not yet available for use by comparing its carrying

amount to its recoverable amount. This impairment test may be made at any time during a reporting period, provided they make the same point in each period. Various intangibles can be tested for impairment at different times. However, if such an intangible asset was initially recognized in the current period, that intangible asset will be tested for impairment before the end of the current reporting period.

- annual testing of goodwill acquired through business combination.

In addition to analyzing prudential principle at least once a year book value of assets of the estate, the concept of materiality and to identify whether the recoverable amount of an asset must be estimated. For example, if market interest rates or other market rates of return on investments have increased during the period, a company not required to make a formal estimate of recoverable amount of an asset when:

- if the discount rate used in calculating the amount of use of the asset is unlikely to be affected by the increase in these rates on the market. For example, increases in short-term interest rates may not have a significant effect on the discount rate used for an asset that has a long useful life remaining, or

- if the discount rate used in calculating the amount of use of the asset is likely to be affected by these rate increases on the market, but prior to detailed analysis in relation to the recoverable amount shows that:

- is unlikely to be a significant decrease in recoverable amount because future cash flows likely to grow. For example, in some cases a firm may be able to demonstrate that adjusts its revenues to offset any increase in market rates, or

- it is unlikely that lower recoverable amount is the result of a significant impairment losses.

#### External sources of information

- During the market value of an asset has declined significantly more than expected as a result of the passage of time or normal use.

- During the period there were significant changes in business or adversely affect such changes will occur in the near future, the technological environment, market, economic

or legal firm operating in the market or an asset that is dedicated .

- market interest rates or rates of return on marketing investments increased during the period and it is possible that these increases affect the discount rate used in calculating the value of an asset utilization and significantly reduce its recoverable amount.
- book value of net assets of the reporting enterprise is greater than its market capitalization;
- The available evidence of obsolescence or physical asset.

In Appendix B to IAS 36, which amends and IAS 16, is an important addition to these indications, namely:

- During the period there were significant changes in adverse effect on business, or is expected to occur in the near future such changes extent or manner in which an asset is used or expected to be used. These changes include non asset, plans to discontinue or restructure the business that owns an asset, the disposal of an asset before or reestimarea previously expected useful life of an asset as limited rather than unlimited.

Once the asset meets the criteria to be classified as held for sale (or included in a group classified as held for sale), is excluded from the scope of this standard and is accounted for under IFRS 5 Non-current assets for disposal and discontinued operations.

#### Internal sources of information

- Cash needed to acquire the asset or cash after his operation and maintenance requirements are significantly higher than originally projected.
- Net current cash flow or operating profit or loss generated by the asset are significantly worse than expected.
- There was a significant decline of net cash flows or operating profit forecast or there is a significant increase in projected losses generated by the asset.
- The increased operating loss or net cash outflows for the asset, when current period figures are similar to those expected.

If there is an indication that an asset may be impaired, this may indicate that during its remaining useful life, depreciation method and residual value of the asset should be reviewed and adjusted based on international accounting

standard applicable to the asset, even if not recognized for it any impairment loss.

#### 4. Measuring recoverable amount

An impairment occurs when the carrying amount of an asset exceeds its recoverable amount. Asset's recoverable amount is the maximum time of:

- Fair value of assets minus sales costs, and
- value in use.

There will always be necessary to calculate both figures above. When one of them seems to be higher than book value when the asset is not impaired, and therefore no need to calculate another number.

Under IAS 36, there are three situations to three rules for determining the recoverable amount of an individual asset:

1. If fair value less costs to sell, or use of the asset value greater than book value when the asset is impaired and there is no point calculating or estimating the recoverable amount.

2. If fair value less costs to sell can not be reasonably estimated because there is no basis to make a reliable estimate of the amount of active sales obtainable freely between parties to knowingly, in a transaction in which target price is determined, then the recoverable amount the asset may be considered of value to use.

3. If the asset is held specifically to be sold, the asset's recoverable amount can be considered equal to its fair value less costs to sell.

If the company has assets that do not generate cash inflows from continuing use of, entries that are largely independent of those from other assets or groups of assets, then the recoverable amount is determined for the cash-generating unit to which the asset belongs , except if:

- or fair value less costs to sell is higher than book value, or
- use of the asset value can be estimated to be close to fair value less costs to sell and the latter can be determined.

Determination of fair value less costs to sell IAS 36 provides several cases or rules for determining fair value less costs to sell, so:

I. If there is a binding contract of sale, the fair value less costs to sell is determined whether the transaction price to target price, the price is adjusted for the additional costs would be directly attributable to asset disposal.

II. If there is no sales contract, but an asset is traded in an active market, fair value less costs to sell is the market price of the asset less disposal costs. When the current auction prices are not available, the most recent transaction price can provide a basis on which to estimate the net selling price, which demonstrates that there have been significant changes in economic circumstances between the transaction date and the date is estimates made.

III. If there is no contract of sale or an asset in an active market, fair value less costs to sell is based on the best information available to reflect the amount that an enterprise could obtain, on balance, the sale assets voluntarily, between parties to knowingly, in a transaction in which the target price is determined after deducting the costs of disposal.

Sales costs in the standard sense, not all costs and overheads involved in the sale, only direct costs of the asset sale process. Examples of such costs:

- Legal costs, postage, and fees for similar transactions;
- travel costs of the asset;
- additional direct costs to bring an asset in the optimal condition for sale.

Benefits to conclude contracts of employment (as defined by IAS 19 Employee Benefits) and costs associated with reducing or reorganizing a business that is not an asset transfer additional direct costs for its disposal. The current standards do not provide a clear pattern of calculation or reasonable estimate of fair value and that, as the amount of use is very subjective because it relies on estimating the parameters or factors actually difficult to validate. The latest information emerging [www.iasb.org](http://www.iasb.org) site, it appears that FASB is working on a handbook to estimate fair value and the IASB to provide a working model.

## 5. Determining value in use

Calculation of asset value in use analysis should reflect the following:

- estimating future cash flows that the firm expects to obtain from the asset;

- expectations about possible variations in the amounts or periods related to these cash flows;
- time value of money, represented by risk-free interest rate market;
- price level of uncertainty inherent in the asset, and
- other factors such as nelichiditatea, which will reflect market participants in valuing future cash flows that the firm expects to obtain from the asset.

This model involves two important factors:

- future cash flows (cash inflows and outflows arising from continued use of the asset and its ultimate disposal), and
- appropriate discount rate for these future cash flows.

Such as the Company may adjust future cash flows and discount rate used. Whatever the business approach to reflect expectations about possible variations in the amounts or periods related to future cash flows will result to reflect the estimated present value of those cash flows, ie the weighted average of all possible outcomes. Appendix A to IAS 36 provides additional guidance in using present value techniques for assessing value in use of an asset.

Principles as the basis for determining value in use:

- Cash flow projections should be based on reasonable assumptions and admissible as the best estimate of management on the set of economic conditions that will exist during the remaining useful life of the asset. A greater importance should be given to external evidence;
- Cash flow projections should be based on the latest financial projections and forecasts approved by management, but shall exclude any estimated future cash flows resulting from improvements or improvements to asset performance. Projections based on these projections and forecasts shall cover a period not exceeding five years unless it can be justified for a longer period, and
- Projections for cash flows, outside the period covered by the latest predictions and forecasts to be estimated by extrapolating the projections based on forecasts and projections using a constant or decreasing growth rate for subsequent years, unless an

increasing rate can be justified. This growth rate should not exceed the average long term growth for the products, sector or country or countries where the company operates, market or asset that is used unless a higher rate may be justified.

Estimates of future cash flows should include:

- projections of cash inflows from continuing use of the asset;
- projections of cash outflows required to generate cash inflows from continuing use of assets (including cash outflows to prepare the asset use) and can be directly attributed or allocated assets, on a reasonable and consistent, and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of useful life.

Future cash flows have been estimated for the asset in the current state.

IAS 36 that are based on management's estimates about future cash flows are based on latest forecasts and forecasts up to five years, they in turn are analyzed for consistency and correct the causes for the differences between past projections cash flows and actual flows achieved.

#### Determination of Discount Rate

Rate (or rates) should be a discount rate (or some rates) before tax that reflects current market assessments of:

- time value of money, and
- asset specific risks for which future cash flow estimates have been adjusted.

Example: A rate that reflects current market assessments of time value of money and risk-specific asset is the return that investors would ask her if they chose an investment that would generate cash flows with the amounts, timing and risk profile equivalent to those the firm expects to be actively generated.

## 6. Cash-generating units

A cash-generating unit is the smallest identifiable group of assets which includes assets and generate cash inflows from continuing use, entries that are largely independent cash inflows from other assets or groups of assets.

Recoverable amount of an individual asset can not be determined if:

- use of the asset value can be estimated as a

value close to fair value less costs to sell it (for example, when future cash flows from continuing use of the asset can not be estimated as negligible), and

- asset does not generate cash inflows from continuing use, entries that are largely independent of those from other assets.

In such cases, the use and therefore recoverable amount can be determined only for cash-generating unit of the asset.

Example

A mining company owns a railway to support its mining activities. The railway can be sold as scrap and not only generates cash inflows from continuing use, entries that are largely independent cash inflows from other assets of minei.Nu is possible to estimate the recoverable amount of the railway, because the value of its use can not be determined and probably differs from the residual value. Therefore, the company estimates the recoverable amount of cash-generating unit that owns the track, this unit is represented by the mine, taken as a whole.

Identifying cash-generating unit that owns an asset involves the application of professional reasoning. If recoverable amount can not be determined for an individual asset, the company identifies the smallest group of assets that generate largely independent cash inflows.

To identify whether cash inflows from an asset (or group of assets) are largely independent cash inflows from other assets (or groups of assets), the company takes into account various factors, including how management monitor its activities (eg monitoring product lines, the business, individual locations, the district or regional areas, or otherwise) or how management makes decisions on the continuation or disposal of assets and business operations .

Example

A transport company on a contract basis, providing the municipality that requires minimum service conducting operations at five tracks. Assets and cash flows associated with each route can be identified separately. One of the routes operating with significant loss.

Since the company has no option to reduce any of the routes, the lowest level of

identifiable cash inflows from continuing use that are largely independent of those cash inflows from other assets or groups of assets, is the cash inflows generated by the five routes together. Cash-generating unit for each route is the transport company as a whole.

#### Recoverable amount and carrying amount of cash-generating unit

The recoverable amount of a cash generating unit is the maximum fair value less costs of disposal unit and value in use. The carrying amount of a cash-generating units must be determined consistently with how it is determined the recoverable amount of cash-generating unit. Thus, it:

- includes only the book value of those assets can be directly attributed or allocated on a reasonable and logical unit generating cash assets that will generate future cash inflows expected to quantify the use of cash-generating unit, and
- does not include the carrying amount of any liabilities recognized unless the recoverable amount of cash-generating unit can not be determined without taking into account that debt.

In some cases, although some assets contribute to predicting future cash flows, that can not be allocated to cash generating units on a reasonable and consistent. It could be if goodwill or assets of a corporation, such as those belonging to the corporate headquarters.

In determining the recoverable amount of cash-generating unit may need to be taken into account certain liabilities recognized. This can happen if the disposal of a cash generating unit would require the buyer to take over the job. In this case, the fair value less costs to sell (or estimated cash flow from disposal at the end) of cash-generating unit is the estimated selling price for the assets of cash-generating unit and also for debt, less costs of disposal.

In order to make a successful comparison between the carrying value of cash-generating unit and its recoverable amount, the carrying amount of the debt is deductible when determining both the book value of cash-generating unit and its recoverable amount.

#### Impairment loss for a cash-generating unit

Impairment loss shall be recognized on a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated or a corporate asset) if and only if the recoverable amount of the unit (group of units) is less than its carrying amount.

Impairment loss should be allocated to reduce the book value of assets of the unit in the following order:

- First, any goodwill allocated to cash-generating unit (group of units), and
- then, other assets of the unit (group of units) on a proportional allocation (pro rata) based on book value of each asset in the unit.

In allocating an impairment loss under the policy mentioned above, the carrying amount of an asset shall not be reduced more than the maximum of:

- fair value less costs to sell (if determinable);
- amount of use (if determinable), and
- Zero.

## 7. Bibliography

- [1] Epstein B.J., Jermakowicz E.K., Wiley IFRS 2010: Interpretation and application of International Financial Reporting Standards, John Wiley & Sons, 2010.
- [2] International Accounting Standards Board (IASB), International Financial Reporting Standards IFRS 2010, IASC Foundation, 2010.
- [3] International Accounting Standards Board (IASB), International Financial Reporting Standards IFRS 2006, IASC Foundation, 2006.
- [4] Feleagă, N., Feleagă, L., Financial Accounting. An european and international approach, the II edition, Publisher Economica, 2007.
- [5] Nicolae T., International Accounting, Publisher Ex Ponto, 2007.



## Aspects on improving the financial reporting framework

Professor Traian Nicolae, Ph.D.

*Affiliation: Faculty of Economic Studies,  
University Ovidius Constantza, Romania  
E-mail: traiannick@yahoo.com*

### Abstract

Access to financing from capital markets is conditional on fulfillment of financial communication, accounting rules set by local authorities. But accounting rules in each country depends on national traditions, accounting as a social phenomenon, strongly conditioned by cultural factors, broadly (ie economic, social, legal, fiscal, political and even religious in each country). In October 2002, international accounting standardization (IASB: International Accounting Standards Board) and American (FASB: Financial Accounting Standards Board.) signing an agreement on that date (called the "Norwalk" FASB agreement ) with the purpose to ensure a greater convergence of accounting frameworks issued by two accounting regulatory bodies.

**Key words:** international accounting standardization, financial reporting

**JEL Classification:**M41

### 1. Introduction

Convergence process is visible to the IASB's work: a first phase, the "improvements" to existing IAS standards have been reviewed several of the IAS, one has been repealed (IAS 15) and others created and still an improvement project separately (IAS 32 and 39 for financial instruments). In addition, new rules were adopted, (the nine standards IFRS), converging with U.S. accounting referential. Were also taken important steps towards convergence and standardization of the American body. FASB has issued several standards that eliminate differences in relation to international referential (eg. SFAS

151, 153, and 154) and modified one (SFAS 123) to be closer to international treatment.

Major directions of convergence between FASB and IASB are:

- a) Convergence of financial statements (financial reporting);
- b) The convergence of business combinations;
- c) Convergence on the accounting framework;
- d) Convergence of revenue recognition.

Convergence between the two referential concerns but other issues, such as leasing operations, debt settlement, reporting earnings per share or income tax. In essence, the term "harmonization" has been replaced by the "convergence", which shows an increase in compatibility between global accounting frameworks (IFRS and U.S. GAAP) due to U.S. financial market importance in the global economy. Following convergence efforts made by both bodies of normalization, in November 2007, the SEC agreed that firms listed on the New York publishing financial statements comply with IFRS standards without reconciliation to U.S. standards.

### 2. FASB- IASB convergence project on financial statements

FASB-IASB joint project objective is to establish a common standard for presentation quality financial statements to enhance the ability of individual investors, creditors and other users of accounting information to:

- a) understand the present and past financial position of the entity;

b) understand operating, financing or other past activities that change the financial position of an entity;

c) use the information presented in financial statements (together with other sources) to assess the value and uncertainty of cash flows generated by the entity.

This standard will address presentation and manner of reporting information in financial statements, including classification and presentation of totals and subtotals.

FASB and IASB share human resources and research for this joint project and work together to coordinate issuing a discussion document to be submitted. The project involved members ASBJ (Accounting Standards Board of Japan), FASB and IASB. The project is conducted in phases, as follows:

**Phase A:** to be discussed include a set of financial statements and requirements for presenting comparative financial information. IASB and FASB have concluded deliberations in this phase in December 2005.

**Phase B:** addressing fundamental issues of disclosure in financial statements. Phase B includes:

a) develop principles to guide the aggregation or disaggregation of each financial statement information;

b) determine the totals and subtotals to be reported in financial statements each (may be included categories such as operating and financing);

c) a decision on recycling / reclassification of items of other comprehensive income in profit or loss for the period and the characteristics of transactions and events should be recycled, and when their recycling.

d) to reopen discussion of standards FAS 95 and IAS 7 "Cash Flow Statements" including the possibility of prescribing the method using only the direct or indirect.

Phase B is the first result of a discussion document submitted was published in the second quarter of 2008.

**Phase C:** addressing the presentation and report interim financial statements under U.S. accounting system (U.S. GAAP). IASB may reconsider some of the requirements of IAS 34 "Interim Report". Phase C is to:

a) the financial statements be included in an interim report;

b) entities should be allowed to submit financial statements in an interim report in a condensed form, and if so, provide guidance on the manner in which accounting information can be condensed;

c) the comparative period required or permitted to be interim reports.

d) if the principles for public entities differ from those non public entities.

### 3. Convergence on the composition of a complete set of financial statements

A complete set of financial statements in international accounting system comprises:

(A) a balance sheet;

(B) a profit and loss account;

(C) a statement of changes in equity, reflecting either: (I) all changes in equity; or (II) changes in equity other than those arising from transactions with owners acting in that capacity;

(D) a statement of cash flows;

(E) notes, comprising a summary of significant accounting policies and other explanatory information.

Following the efforts of convergence, the IASB revised IAS 1 in september 2007 so that a complete set of financial statements comprises:

(A) a statement of financial position at the end of the period;

(B) a statement of comprehensive income for the period;

(C) a statement of changes in equity for the period;

(D) a statement of cash flows for the period;

(E) notes, comprising a summary of significant accounting policies and other explanatory information, and

(F) a statement of financial position at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when reclassifies items in its financial statements.

### 4. Reporting overall performance

Total comprehensive income includes all components included:

- Profit or loss for the period and
- Other elements of the results overall.

Other comprehensive income is defined as items of income and expenses (including related reclassification adjustments) that are not recognized in profit or loss for the period, as allowed by IFRS standard. Components of other comprehensive income include:

(a) changes in revaluation surplus (IAS 16 rules under "Tangible assets" and IAS 38 "Intangible Assets");

(b) actuarial gains and losses relating to defined benefit plans recognized under par. 93A of IAS 19 "Employee Benefits";

(c) gains and losses arising from translating the financial statements of foreign operations (according to IAS 21 "Effects of Changes in Foreign Exchange Rates");

(d) revaluation gains and losses on available for sale financial assets (under IAS 39 "Financial Instruments: Recognition and Measurement ");

(e) gain or loss resulting from the hedging instrument that is determined to be an effective coating operation (under IAS 39 „Financial Instruments: Recognition and Measurement ").

Adjustments for reclassifications represent amounts that have been recognized as other comprehensive income elemente in the current period or prior periods reclassified to profit or loss for the period.

Under revised IAS 1 (para. 81), company performance can be reported:

(A) in a single financial statement: statement of comprehensive income, or

(B) two statements:

1) Profit and loss, the components of profit or loss period, and

2) Statement of comprehensive income, beginning with the reporting period and the profit or loss of the components included in other comprehensive income. For clarity, hereinafter, we call this form of presentation "simplified format.

At minimum, the following statement of comprehensive income includes all elements:

(A) revenue;

(B) cost of financing;

(C) the profit or loss resulting from associates and joint ventures accounted for using the equity method;

(D) income tax expense;

(E) a single sum total including: i) gain or loss (after tax) from discontinued operations and ii) the profits or losses (after tax) recognized at fair value less costs of sale or disposal of assets or asset groups failure which is discontinued;

(F) profit or loss;

(G) each component of other comprehensive income classified as such (excluding amounts in (h));

(H) the part of other comprehensive income relating to associates and joint ventures accounted for using the equity method;

(I) total comprehensive income.

Information in paragraphs (a) - (f) is minimal information to be submitted as an unreviewed IAS in the income statement. These will be reported according to IAS 1 revised, all in a profit and loss account, if an entity decides reporting financial performance in the two situations, otherwise this information is reported together with other related elements of global performance for a situation of comprehensive income.

Paragraphs (g) - (i) is specific information other comprehensive income and they will be included in a "simplified" situation of comprehensive income, if an entity decides reporting financial performance in the two situations, either with other elements related performance for a comprehensive statement of comprehensive income, if an entity decides to establish a single financial statements.

In consolidated financial statements, statement of comprehensive income should, necessarily, disclosure and information on the breakdown of profit or loss for the period, but the total comprehensive income:

- Attributable to minority interests,

and

- The share equity holders of the parent.

If an entity chooses reporting financial performance in the two situations, where information on the breakdown of profit or loss will be presented in the income statement.

Under IAS 1 revised comprehensive income situation structure (complete or simplified) and profit and loss account (if made) can be enriched with other elements

in place, headings and subtotals when managers appreciate that this information is relevant for understanding the entity's financial performance. So in addition to the minimum required by IAS 1 revised rule, an entity may supplement or amend the order of the items reported to offer the most relevant for understanding the presentation of financial performance achieved and anticipated future results. This should take into account factors like the materiality or the nature and function of various components of revenue and expense recognized.

Before the last revision of IAS 1 states that an entity shall be in the income statement or statement of changes in equity or in the notes, the amount of dividends recognized as distributions to shareholders during the year and the amount of, the action ( appear. 95). According to IAS 1 revised reporting this information can not be done unless the situation changes in equity or notes. In other words, the revised IAS 1 prohibits disclosure of dividends recognized as distributions to owners in the statement of comprehensive income or loss (if made). This is because the statement of comprehensive income or profit or loss (if made) are changes in equity not resulting from transactions with owners. However, distributions to owners should be reported separately from information on performance or statement of changes in equity (which groups the changes in equity from transactions with shareholders), or in the notes (IAS 1 revised, IN16, BC75).

IAS 1 revised reiterates ban reporting of income and expense items as extraordinary items either in the statement of comprehensive income, profit and loss account (if established) or in the notes.

## **5. Reporting information on profit or loss for the period**

Revised IAS 1 has basically the same reporting requirements on profit or loss for the period (whether they are presented in a separate statement- income statement, whether reported in the statement of comprehensive income) as its initial version.

Thus, just as in the penultimate review (August 2005), the new IAS 1 does not require presentation of earnings operation as a separate item in the profit and loss, his motivation

remains the same fact . Thus the Basis for Conclusions of IAS 1 before the last revision is argued that this omission was made because IAS 1 does not define "operating activities", and therefore can not rule requires reporting an undefined element. However, it implicitly recognizes that in practice some companies have such information, asking is that if companies choose to report the result of exploitation, it does not exclude elements that are normally considered operational, such as the example, adjustments for depreciation of assets on the grounds that these items do not appear regularly, and depreciation expense by virtue of the fact that they do not generate cash outflow (11-12 BC).

These recommendations are made out of IAS 1, raises, but questions about their authority in financial reporting practice.

Also, the revised IAS 1 (para. 97) requires, as a previous version, as when certain items of income and expenses are significant, the nature and value are presented separately, stating that such information may be reported either in notes or the statement of comprehensive income or loss (if made). For example are given the same circumstances that can lead to disclosure of such income and expenditure (para. 98)

a) making adjustments for depreciation of inventories to net worth or tangible achievement to recoverable amount, and also resumption of such adjustments for depreciation;

b) restructuring and recovery business entity of any provisions for restructuring costs;

c) sales of tangible assets;

d) investment sales;

e) discontinued operations;

f) settlement of disputes;

g) other reversals of provisions.

As with its predecessor, IAS 1 revised (§ 99-100) requires the presentation of an analysis of expenses recognized in profit or loss for the period are by nature or by position, recommending that the analysis is presented in comprehensive income statement, or account profit and loss (if made). In the revised rule are given the same classification examples included with the

previous standard (IAS 1 revised look. 102-103).

**Presentation by the nature of expenses:**

- Income
- Other income
- Changes in inventories of finished goods and work in progress
- Raw materials and consumables used
- Employee benefits expense
- Depreciation and amortization expense
- Other expenses
- Total expenses
- Gross profit (before tax)

**Presentation by expenditure's functions:**

- Income
- Cost of sales
- Gross margin
- Other income
- Expenditure Distribution
- General administration expenses
- Other expenses
- Gross profit (before tax)

Like the previous version, a revised IAS recognizes both forms of analysis of expenses recognized in profit or loss for the period, managers may opt for that method of classification of expenditure which they consider more relevant and credible. It also requires that entities present in the statement of comprehensive income or profit and loss account (if drafted) expenditure classified by functions of the company to report additional information in the notes on the economic nature of such expenses (including depreciation expense and impairment and costs of benefits granted to employees). This communication is further justified by the fact that information on the economic nature of expenses is useful in estimating future cash flows (para. 104-105).

Similarly, IAS 1 revised rule does not require, but encourages companies to submit an analysis of expenses by nature or by function in the statement of comprehensive income or loss (if made). Therefore, some companies may show a mixed review of expenditure in the income statement as long as the notes are shown after analysis by function and nature of expenses.

## 6. Reporting information on transactions with owners

Revised IAS 1 requires an entity to disclose changes in equity when all changes in equity during the year as a result of transactions with owners, unlike a previous rule that allowed IAS reporting all changes in equity, including those related to performance. The new vision (revised IAS 1 para. 106 (b)), changes in equity statement must include:

(A) total comprehensive income, showing separately the amounts attributable to owners of stock and minority interest;

(B) for each component of equity, the effects of restatements or the retroactive application in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";

(C) the amounts of transactions with owners acting in that capacity, stating separately their contributions and distributions in their favor;

(D) for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change or changes in the equity component.

Revised IAS 1 (para. 109) reiterates the theoretical distinction between two types of changes in equity: those related to performance and those related to transactions with owners, awards presented, moreover, and IAS 1 before the last revision ( appear. 98). In this regard it is noted that changes in equity between the two reporting dates reflect the increase or decrease in net assets during the period. And also that, unless "changes resulting from transactions with owners that are manifested in their capacity as owners (such as equity contributions, redeem the entity's own equity instruments and dividends) and transaction costs directly related to such operations, the overall change in equity during a period represents the total amount of revenues and expenses, including gains and losses generated by the entity during the period (whether those items of income and expenses are recognized in profit or loss or directly as changes in equity).

Revised IAS 1 (para. 110) clarifies that equity adjustments evidence of prior periods (correction of errors or changes in accounting policies), in accordance with IAS 8, there are changes in equity, but balances adjustment elementlor initial equity (mainly of retained earnings). As prescribed revised IAS 1 (para. 106 (b)) an entity shall disclose separately the effect of adjustments relating to corrections of errors (retrospective restatement), respectively related adjustments of accounting policy changes (retrospective application). These adjustments must be reported for each prior period and the beginning of the period. Revised IAS 1 prohibits disclosure of dividends recognized as distributions to owners in the statement of comprehensive income or loss (if made). This is because the statement of comprehensive income or profit or loss (if made) are changes in equity not resulting from transactions with owners. Therefore the revised IAS 1 (para. 107) prescribes that an entity shall disclose the amount of dividends recognized as distributions to shareholders during the year and the amount of the action when changes in equity or notes.

## 7. Bibliography

- [1] Epstein B.J., Jermakowicz E.K., Wiley IFRS 2010: Interpretation and application of International Financial Reporting Standards, John Wiley & Sons, 2010.
- [2] International Accounting Standards Board (IASB), International Financial Reporting Standards IFRS 2010, IASC Foundation, 2010.
- [3] International Accounting Standards Board (IASB), International Financial Reporting Standards IFRS 2006, IASC Foundation, 2006.
- [4] Feleagă, N., Feleagă, L., Financial Accounting. An european and international approach, the II edition, Publisher Economica, 2007.
- [5] Nicolae T., International Accounting, Publisher Ex Ponto, 2007.

## Present and future of the accountant in the Romanian economic environment

Ph D Professor Nicolaescu Cristina  
 “Aurel Vlaicu University”, Arad  
 Ph D Lecturer Pantea Mioara Florina  
 “Aurel Vlaicu University”, Arad  
 cristina\_nc2@yahoo.com,  
 miofp75@yahoo.com

### Abstract

*The accounting professionals currently have an important role within the enterprise and society. Investors, creditors, employers and other departments of the financial community, including the government and the public, rely on professional accountants for accurate financial accounting and financial statements, for an efficient financial management and for competitive advice regarding various businesses and tax issues.*

**Key words:** accountant, accounting, future.

**JEL Classification:** M4, M41

In his book called „General accounting”, Bernard Colasse wrote: „A significant number of pedagogical and specialized papers concerning the enterprises accounting are deliberately defined technical as the accountant would operate in a historical, social and organizational void. These papers are in accordance with a legend which presents the accountant as an odd human being locked in a ivory tower who is disconnected from reality and time and deaf to the noise of the external world”. Is it really so? Definitely no, it has never been and, what matters most, will never be ! The arguments ... follow:

In order to understand the accountant as a character in the enterprise’s movie, we must understand more about accounting, his score.

Rudimentary forms of accounting existed from ancient times. The early human need to count can be found in human prehistory and it was proved by the notches on animal bones or cave walls dating from the

primitive age. Although the „patrimony” belonging to prehistorical human did not count many „assets”, the human being felt the need „to keep the record” of these assets for a better „administration” or maybe to compare his wealth to the one of his neighbors. This need has evolved along with the people evolution, increasing and diversifying simultaneously with the „patrimony” development which should have been known and managed, thus moving from the simple notches to memorial accounting, simple booking and booking by double entry.

Antiquity, middle ages, capitalism, contemporary period, all of them had their own accounting and their own accounting standard. By accounting, the accountant reflects a certain economic reality. Can it be correctly reflected by someone who does not know it, by someone who is disconnected from this reality?

The analysis of these steps shows the formation and development of two major different accounting cultures. At present, these cultures are dominant worldwide and are considered rivals by some authors: Anglo-Saxon accounting culture and Continental-European accounting culture. According to these two cultures we also notice two “types” of accountants, as the accounting profession organization is connected and serves the accounting system.

These accountants’ profile will be an resultant of the environment in which they operate.

In USA, as a representative country for the Anglo-Saxon system, the accounting

profession is divided in private accounting and public accounting.

Private accountants work for a single enterprise and the public accountants serve the public interest and work on their own. Some public accountants make a partnership as an accounting company where they operate together. In USA, certified public accountants CPAs have a particular status. There are also certified accounting companies (CPA firms) whose employees are mainly certified public accountants. We can mention some of the largest companies operating worldwide through branches: Arthur Anderson & Co, Coopers & Lybrand, Deloitte & Touche, Ernst & Young, KPMK Pest Marwick and Price Waterhouse.

The services provided by a private accountant are: enterprise costs analysis in order to reduce costs, budgeting for setting short, medium and long term objectives, development of accounting informational and internal audit systems.

USA private accountants provide audit services, fiscal consultancy and management consultancy.

In France, as a representative country for the continental accounting system, there are two types of accountants: chartered accountants and commissioners of accounts. According to French legislation, these categories mentioned above have a general interest mission and must accomplish certain training requirements certified with diplomas in order to give them appropriate competences. Meanwhile the French accounting system professionals must respect the professional Code of Conduct. The specific missions of these two types of accountants are different depending on mission classification. Thus, the chartered accountants can perform the following missions: the accounting system enterprise review, helping an enterprise with accounting management and annual financial statements elaboration and not least, financially and legally recommendations for managers.

If French chartered accountants have contractual missions, the commissioners of accounts have missions of legal nature. Such

kind of missions are: certification of annual financial statements' correctness and fairness, associates' report and management report on any error or fraud discovered, competent authorities' report of the enterprises' illegal activity, triggering an alert procedure in case of serious facts which may compromise the enterprise activity and so on.

According to French legislation, the same person may be a chartered accountant and a commissioner of accounts, but only for different companies. The commissioners of accounts are forbidden to keep accounts or to interfere with a company management as well. In France, there are different professional authorities regarding the chartered accountants and the commissioners of accounts. Thus, the chartered accountants are organized in Order of Chartered Accountants (OEC) and the commissioners of accounts are organized in Commissioners of Accounts National Company (CNCC). Each of these bodies has its own tradition and contribution to accounting work organization.

The role of professional accountants within companies and economies differ depending on every country characteristics. In countries such as USA, United Kingdom, Australia, the private accounting system has power and influence in developing accounting standards, which solve several accounting issues, the degree of independence of the accounting profession being very important. In France, private companies are not allowed to make regulations, while in Germany the regulations of Code of Commerce are complied. In France and Germany, the legislation is very detailed, meanwhile in United Kingdom the legislation issues some prescriptions and the accounting professionals have their own important role in solving accounting problems. In France, there is also a general chart of accounts which imposes the accounts' structure and assessment and registration rules in accounting.

Various studies have proved that the Anglo-Saxon accounting system is manageable, optimistic and transparent. The Latin countries accounting system features conservatism and confidentiality.



The continental Europe accounting authorities' power is not so important, although the Order of Chartered Accountants (OEC) was established in 1945, Commissioners of Accounts National Company (CNCC) was established in 1969 and since then these authorities operate continuously and they adjust to the needs of its members and to the economic environment.

This is not the case of the Romanian professional accounting authorities which had that "hiatus" moment during 50 years in the socialist period. Maybe this is the starting point in understanding the current Romanian accountant behavior!

First of all, we should make a difference between the accountants who operated mainly during the old regime, the ones who have started their career during the shaky years of the 1990 – 2000 decade and the ones who became professionals after 2000. Few of those in first category truly succeeded to adapt to the new realities. They are still waiting for implementation rules and methodologies for each news to the prejudice of professional judgment; they are frightened and confused by any legislative change, they are more than cautious toward fiscality (to the prejudice of tax payer!) and they do not succeed to surpass the mentality of "simple tax subordinated holders of ordinary books".

The professional accountants who started to work in the early 90s are the ones who are currently at full professional maturity. They were compelled early in their career to adapt themselves, constantly and rapidly, to any "legislative whims" and to any national accounting system' changes, more or less coherent.

"The young accountants" which begun since 2000 are the best adapted, considering they had experienced changes starting in school and they know one single reality that is a reality in constant motion. For these accountants the change is a way of life and adaptation is part of their survival techniques.

To analyze the Romanian accountants and to understand their behavior we should make the distinction between the freelance

accountants and the accountants who work as corporate employees.

Obviously, accounting services outsourcing has strengths and weaknesses. The main advantage would be specialization within an accounting office such as: general accounting, bookkeeping, administration, fiscality, wages consultancy, legal related issues and so on. These experts, each in his specialization field, may provide competent consultancy to a company, which an employee accountant could not offer. As for the employee accountant, the great advantage is that he knows thoroughly the enterprise situation and he participates effectively to its activity; consequently he has the capacity to provide knowingly solutions. In case of accounting offices, which may have tens of corporate customers and where the touch with the enterprise reality is not so regulated by the specialist; these disadvantages can lead to misunderstanding and wrong accounting treatment of some aspects regarding the enterprise activity.

Whether it is the freelance accountant or the employee accountant, all of them must have the essential qualities: knowledge, competence and consciousness, independence of mind, disregard material, morality, probity and dignity, because according to accounting profession's ethical code assuming public responsibility is a distinct sign of this profession.

According to the same code, a professional accountant's responsibility must not be limited to meet the customer's or the employer's need. The accounting profession's public is made up of customers, credit suppliers, governors, employers, employees, investors, business community, funders and other persons who rely on objectivity and integrity of professional accountants to maintain an appropriate operation of economy. This trust implies that the accounting profession has a public responsibility for the welfare of community and institutions served by the professional accountant.

This is why the accounting profession standards, no matter of accounting expert's

operating field or level, are strongly influenced by public interest, such as:

- independent financial auditors help maintaining financial statements' integrity and efficiency presented to financial institutions as a partially support for loans and to shareholders for raising capital;
- financial managers have attributions in different financial management fields and contribute to an efficient and effective use of economic and public entity's resources;
- internal auditors provides the insurance of a correct internal control system which increases the trust in external financial information regarding the enterprise;
- tax experts help consolidating the trust and efficiency and also to an appropriate tax system implementation;
- managerial consultants have a responsibility regarding the public interest in sustaining an appropriate managerial decision taking process.

In conclusion, the accounting professionals currently have an important role within the enterprise and society. Investors, creditors, employers and other departments of the financial community, including the government and the public, rely on professional accountants for accurate financial accounting and financial statements, for an efficient financial management and for competitive advice regarding various businesses and tax issues.

This is the current position of the accountant in the enterprise and society, but which is the future of this profession and which will be the next role of accounting professional in the future of the Romanian development society?

Obviously the accounting professionals can keep this favorable position (after all no matter what others may say this is the truth!) only if they continue to provide exclusive services to the public at a level which proves a well-based public trust. It is on Romanian accounting profession's interest to inform the accounting services users that these services are performed at the highest performance level and according to ethical requirements.

Accounting information is a product like any other. If a turner accomplishes a lathe, an accountant provides accounting information. The continuous product improvement and its adjustment to customers' needs must be everybody's concern. Market researches have as aim the identification of customers' needs, of satisfactions and dissatisfactions of the customers regarding a certain product. The accountants must be permanently connected to the informational needs of their customers, the accounting information users.

The new trend and the new perspective in accounting profession is the anticipation of accounting information needs and implicitly the development of accounting techniques tools for meeting these needs. This is possible because the technological advance covers a major part of the accountant's routine through computer software. Therefore, the accountant has more time for creativity and active participation to the company's life. As other authors stated, the accountant tends to become an important pole within the company, being the center of the decision taking process.

Beyond this aspect, it becomes increasingly clear and significant the social role of the accountant because he is the individual who establishes and gives the wages to thousands of employees. The corporation and its employees' welfare depend and will depend on accountants

In the future, it should be clearly made also in Romania the distinction between the various services provided by accounting professionals: bookkeeping, payrolls, annual financial statements, fiscal reports, fiscal consultancy, audit and certification, budgeting and forecasts, calculation and costs control, management consultancy and so on. A special and important function which exists in USA, but in Romania is missing, is the one of information system design. This identifies the organization's information needs, both internal and external. Using flow charts and manuals, designers develop and implement the system to meet those needs.

This concern may have the following positive consequences:

✓the redundances discharge in financial reports and the discharge of useless information, i.e. the effective implementation of the principle of materiality;

✓provides information adapted to categories of users;

✓generates the prerequisites for information and users needs forecast, which we consider the next step in accounting profession development.

The final conclusion is that the professional accountants have and will have an essential role in the company's favorable evolution and automatically in the whole economy. They are able to influence the decisions of enterprises' managers directing the entire business trend. The future accounting professionals are not docile performers, on the contrary, they are performant specialists, dynamic and creative, flexible and efficient in their actions.

Regarding the Romanian professional accountants, although on social plan they benefit from less consideration than the professionals from others countries, they can succeed through effort, vocation, competence, professional probity, having all the opportunities to gain their deserved role in the Romanian corporate environment and society.

## Bibliography

[1] Colasse B., "Contabilitate generală", Editura Moldova, Iași, 1995;

[2] Dobroțeanu, L., - Geneză și viitor în contabilitate, Editura Economică, București, 2005;

[3] Grandguillot B., Grandguillot F., "Comptabilite Generale", Ed. Gualino, Eja, Paris, 2007;

[4] Harrison T. W., Jr, Horngren T. Ch., "Financial Accounting", Prentice Hall, Englewood Cliffs, New Jersey, 1995;

[5] Ionașcu. I., - Dinamica Doctrinelor Contabilității Contemporane, Editura Economică, București, 2005;

[6] Codul Etic Al Profesiei Contabile, Ceccar, 2009.

## Measuring social firm performance by accounting

Ph D Professor Nicolaescu Cristina  
 “Aurel Vlaicu University”, Arad  
 Ph D Lecturer Tăgăduan Diana  
 “Aurel Vlaicu University”, Arad  
 cristina\_nc2@yahoo.com,  
 dianatagaduan@yahoo.com

### Abstract

*If the accounting measurement of economic performance has a lot of techniques and tools we can not say the same for the other two objectives, environmental and social. On the assumption of maximizing benefits, the question arises whether social enterprises reach performance levels similar to those of financial performance are not as interested in social responsibility aspect.*

**Key words:** social responsibility, social performance

**JEL Classification :** M41, M43

To investigate the relationship between the two can start from premises that generally moot when the financial performance of firms take into account both the value of its shares and accounting performance measured based on various indicators: the benefit per share, profit etc..The concept of enterprise social responsibility (Corporate Social Responsibility) occurred in the U.S. in 1980. Concept was first used and defined in 1953 in "Social Responsibilities Of The Businessman 'of Howard Bowen. This social responsibility, defined as "a number of requirements that lead to policy decisions and guidelines of conduct consistent with the objectives and values of society.

The concept has penetrated Europe much later and then experiencing a deepening and ongoing development. So if it includes only the top responsibilities based company fulfill its

essential functions, relative to production, employment and growth in time has come to encompass this concept and consideration of environmental issues, development of society and social relations.

Currently witnessing the transition to a new phase of concept development through the exercise of responsibilities that arise and lead to environmental improvement, which implies the emergence of a new concept: the societal openness (Corporate Social responsivness). The concept is defined by the ability of firms to respond to social pressures by applying a relationship management company that correlate with various stakeholders.

Unlike the American vision of societal responsibility, which amounts to philanthropy foreign economic activities of, the European approach tends to believe that such actions are not carried out within the scope of social responsibility and that they be assessed in the usual terms of business .

This approach is defined European Commission on CSR, which includes in its sphere of voluntary integration of social and environmental concerns in its activities. Undertaking concrete economic prosperity (economic objective) is pursued in conjunction with respect for the environment (ecological objective) and improve social cohesion (social objective).

If the accounting measurement of economic performance has a lot of techniques and tools we can not say the same for the other two objectives, environmental and social. On the assumption of maximizing benefits, the question arises whether social enterprises reach

performance levels similar to those of financial performance are not as interested in social responsibility aspect.

To investigate the relationship between the two can start from premises that generally moot when the financial performance of firms take into account both the value of its shares and accounting performance measured based on various indicators: the benefit per share, profit etc..

A useful tool in measuring the social elements of business performance could be a likely extrafinanciară dashboard. This picture can be developed in several areas such as: trading partners (suppliers and customers), employees, shareholders, etc..

Regarding social performance of a trading company can be assessed in terms of quality and its relationship with suppliers and customers, their ethics and their social and environmental responsibility. Another aspect would be the quality products offered by enterprise customers as ecological (their biodegradability, recyclability, environmental impact, etc..).

Social responsibility of business entails its concern for the welfare of its employees: their rights, creating optimal working conditions, the labor security and hygiene, proper wages, etc..

Shareholder behavior and decisions that they take and they reflect the social involvement of business, since it protects the environment and help to increase social welfare not only its employees but also other categories of people (by operation of patronage, sponsorship Support the work of NGOs, etc..).

What is clear is that all this involvement and the actions they entail costs for business generates. But that would benefit these concerns for the enterprise? There is this benefit, and if so can it be measured?

One way would be to correlate economic performance of enterprises' social responsibility of business activities provided that economic efficiency requires, among other things, best use of resources, both material impact on the environment and human, which determines the social objective of business.

In other words should reveal how the environmental and social externalities influenced the economic performance of the company.

Social costs are the main strategic concern of social accountability plan a business. Practice shows that these costs are lower if they are made to prevent damage than to their compensa. Ca difference between the cost of any compensation due and cost impact studies and social protection and environment may be considered a win.

In the same category of social costs, those relating to falls and investors, creditors, suppliers, customers, government organizations or NGOs in the field. Promoting good relations with them will enable the company to avoid social conflicts and environmental issues. Moreover building an image of "green business" contributes to preferring the company as a partner in the economic activities generating the income.

We can not neglect any fiscal impact. Such technologies will generate polluted tax expenses (eg costs for emissions of carbon dioxide emission taxes), while the use of environmental technologies, are granted various tax incentives to generate tax revenue. Recognition of the same tax benefits and social costs of the enterprise. Lever rule by taxation, encourage enterprises to carry out an activity beneficial to the environment both ecologically and socially. Knowledge and application of these measures by the company can increase its performance by reducing costs of business tax.

Corporate management and other third parties to which it has some social responsibility using accounts to obtain information about the consequences on growth opportunities and environmental costs.

Ideally, all (or even a majority) of business impacts society and environment to highlight the company's accounting system.

The idea of OMFP 3055/2009 refers to the requirement of recognition of provisions for "the cost of removing the negative effects, environmental products, punishable by law, which generates and outputs of resources embodying economic benefits, regardless of the entity's future actions. Similarly, an entity

recognizes a provision for plant closing costs of oil, provided that such entity to remedy the damage already.

Same normative act also provides that "unlike this case, an entity may intend or need, for commercial reasons or due to the pressure requirements of legal, to make expenditures to act in a certain way (eg by fitting smoke filters in a certain type of factory). Since the entity can avoid future costs through various actions, for example, by changing the manufacturing process, it has a future obligation related to that expenditure, and therefore will not recognize any provision." The latter situation will be accounted for expenses in a separate account: 652 'Expenditure on environmental protection' group 65 'Other operating expenses.

With this account is recorded environmental costs, for the period, that environmental taxes paid (5121) allowances of greenhouse gas purchased, environmental costs incurred in advance for the year in progress, etc. . By incorporating these costs as a result of the exercise highlighted the economic impact on the outcome.

Provisions established for costs related to environmental protection, for: air protection, wastewater management, waste management, protecting soil, groundwater and surface water, biodiversity and landscape and other environmental protection activities will be presented the balance sheet under "Other provisions".

Another annual financial reporting document contains information on environmental and social role of the company's "managers report. This, to the extent necessary to understand the development entity, performance or financial position, including financial indicators, and where appropriate, non-financial key performance indicators, relating to environmental matters and company employees .

OMFP 3055/2009 on accounting regulations consistent with European regulations do not specify the obligation to use other accounts to highlight environmental and social impact of business environment, but each company according to information needs and applying the principle of materiality can create their own analytical accounts highlight all the

inputs and outputs related to social responsibility activities. In practice, currently in Romania, only a small proportion of these operations are highlighted either voluntarily or through coercive action of direct or indirect regulation. But without such information relating to business transactions impact on the environment, the system can not support business decision consistent action on environmental and social objectives.

One reason for this situation is the current accounting system is an information system built to measure economic performance as a basis for past and current economic performance, but provides a projection of future performance.

Finally there is a rigorous strategy of highlighting the effects of environmental and social impact of the company, leading to information which allows the best measures to improve enterprise performance at both economic and environmental and social. Short-term recognition of environmental costs resulting directly affect the outcome of the current (economic, social or environmental) by determining the new current costs recognized as expenses in the period, and future obligations are recognized as expenses in reserves. Long-term effect of this expenditure often result future business growth and sustainability of its economic, social and environmental.

Since financial accounts do not offer many techniques to highlight the company's social performance could be a useful tool for environmental management accounting. The structures they can provide identification to be treated as externalities current income by internalization, or binding on future results, by transforming their future obligations through provisions.

Another useful tool would be cost-benefit analysis to determine specific indicators of social and environmental performance, especially since they are increasingly sought as the company's financial partners and civil society.

## References

- [1] Jasch C., Environmental management accounting metrics: procedures and principles in Environmental Management Accounting: Informational and institutional developments, Kluwer Academic Publishers, New York, 2004
- [2] Tabara N., Modernizarea contabilitatii si controlului de gestiune. Actualitati si perspective, Editura Tipo Moldova, Iasi, 2006
- [3] OMFP 3055/2009 privind reglementările contabile conforme cu directivele europene
- [4] Cartea Verde Europeană (2001): “Promovarea unui cadru European pentru responsabilitatea socială a întreprinderilor”
- [5] United Nations Department of Economic and Social Affairs, Division for Sustainable [6] ISO Horizon 2010 – Standarde pentru o Dezvoltare Durabilă
- [7] Pagina web a Comisiei Europene dedicată RSI: [http://europa.eu.int/comm/employment\\_social/social/csr/csr\\_index.htm](http://europa.eu.int/comm/employment_social/social/csr/csr_index.htm)

## Aspects Regarding the Elaborating and Approval of IPSASs Improvements 2009

Nistor Cristina Silvia  
Cirstea Andreea

*Facultatea de Stiinte Economice si Gestiunea Afacerilor, Cluj Napoca*

*crisrina.nistor@econ.ubbcluj.ro*

*andreea.carstea@econ.ubbcluj.ro*

Cozma Ighian Diana

*Universitatea de Nord, Baia Mare*

### Abstract

*The elaboration of international referentials IPSAS (International Public Sector Accounting Standards) by competent bodies (IPSASB – International Public Sector Accounting Standards Board) involves a continuous junction between the specific needs of national accounting systems in the context of the harmonization process and their convergence and the identification of the needs of economic, political, social systems, whose interdependency is evident.*

*This process determines the continuous update of IPSAS, for being able to answer to many current problems. The study aims to highlight through a positivist approach, combining quantitative with qualitative research, how Exposure Draft 42 – Improvements to IPSASs, succeeds to capture the need for changing of content, namely terminology of 12 IPSAS. Following the purpose of this process, through the adoption of changes in January 2010, we can identify how comments of various professional accountancy bodies influenced the final decision of IPSASB.*

*The study is of great importance for both the theoreticians from accounting field, who can make an image on the research trends in this field, and the practitioners who can get the answer to some problems of IPSASs, whose solution will be achieved by international standard approval.*

**Key words:** accounting standards, IPSAS, improvement, approval

**JEL classification:** H83

### 1. Introduction

IFAC recognizes the need for international financial reporting standards for public sector, with

a role in improving accountability and financial management. The International Public Sector Accounting Standards - IPSAS has as objective the improvement of financial reporting of entities from public sector, leading to a common language which is desirable in the international financial community [1].

These referentials converge with IFRSs issued by IASB by adapting them to the public sector context when it is the case. This is the reason why „IASB Framework for preparation and presentation of financial statements” represents a relevant reference for users of IPSASs.

Thus, with the approval and implementation of referential „Improvements to IPSASs” in May 2008 by IASB (International Accounting Standards Board) the problem regarding the update of IPSASs is mentioned, IPSAS that are influenced by modified IFRSs.

This study aims to capture how the amendments of the 12 IPSAS proposed by IPSASB are supported by respondent countries, members of IFAC, being drawn to the following construction:

- Presentation of IPSASs role in the accounting system of public institutions;
- Reflecting the evolution of Exposure Draft (ED)42- Improvements to IPSASs;
- Analysis of content and terminology changes stipulated in the ED 42;
- Analysis and interpretation of answers provided by professional body of accountants from different countries, IFAC members;



- Interpretation on each modification of the degree of its acceptance;
- Comparison with the final version, to determine the degree of influence on the initial version of the comments.

The results will determine how the updating of IPSAS represents an individual problem of specialists from public sector accounting, or is a close interdependence with the fluctuation of changes occurring on IFRSs, outlining the idea that harmonization and convergence of accounting systems is a road without going back [2].

## 2. The role of IPSAS/IPSASB

From the historical point of view IFAC – through the Public Sector Committee (PSC) launched in 1996 a project to develop a set of accounting standards for entities from public sector, known as IPSAS. After July 31, 1998, PSC issued 27 IPSAS Standards inspired from IAS / IFRS, being based on the accrual accounting [3].

The aim of this single set of standards is to include a clear statement of the principles, having to do with almost all types of events, transactions and structures that appear in public institutions practice.

The existence of a set of standards provides important positive implications for organizations and individuals who have adopted them, such as:

- reduce capital costs and facility use of a consistent reporting standard in various countries subsidiaries (for entities);
- provide relevant information that assist in making decisions and that lead to greater investment opportunities (for investors, creditors);
- provide better information for market participants in a disclosure-based system.

Undoubtedly, the standards offer high quality information, with a greater transparency and coherence, so that the financial situations of the entities might be compared both in time and space.

Maintaining the content of these referentials, directly connected to reality, supposes that IPSASB should organize a continuous process of updating the referentials. Such an approach marks the current period of IPSASB's concerns regarding the issuance of two exposure drafts (ED) for the convergence between IPSAS and IFRS.

The first one, „Improvements to IPSASs” (analysed by us) proposes amendments for 12 existing IPSAS in order to comply with equivalent IFRS. This ED was discussed by IFAC on 30th of

June, 2009 with the aim of having some comments until 30th of September 2009. After being modified with the received amendments, it was launched in January 2010, going to be applied after 1st of January, 2011. IPSASB declared its intention of launching a new ED in 2010, with the purpose of bringing changes and updates to IPSAS.

The second one, „The Equal Authority of IPSAS Paragraphs” suggests that the Preface to The Public Sector International Accounting Standards should be revised in order to clarify the fact that all IPSAS paragraphs have equal authority, an approach that was adopted by IFRS.

Another aim of IPSASB is to ensure the convergence of its standards with the statistics basis of reporting that require that governments should present financial information about the general governmental sector. IPSASB issued a project that suggests requirements related to presenting the information about the general governmental sector within financial situations with general purpose, where the entities from the public sector choose to act in this way and offer better means of explaining the differences between the statistical reporting basis and IPSAS. These were prepared in close relation with the departments of statistical reporting. [4]

## 3. Research Design

The objectives of this study may be structured as follows:

- establishing the amendments stipulated; through a theoretical research we briefly present the main points for discussion in the ED 42.
- analysis and interpretation of answers provided; through a content analysis [5] we build a database in which the answers given by respondents (n = 10) will be measured with 1 (YES) and with 0 (NO).
- establishing the degree of acceptance of amendments proposed for discussion by IPSASB; through a descriptive process (SPSS version 16), we determine the degree of acceptance of proposed changes.
- Establishing the influence of comments on the final version of ED 42; by comparing the

results obtained in the previous paragraph and the final form of IPSAS-Improvements to IPSASs, we can express an opinion regarding the power to change the respondent organizations.

Thus, we have formulated two hypotheses by whose validation or invalidation we will test their reality.

H1. More substantive changes and editorial changes proposed to those 12 IPSASs will increase the convergence degree between IPSAS and IFRS.

H2. The formulated comments made at ED 42 influenced in a significant report the final form of improvements to IPSASs.

The scientific research contributes to the efforts to deepen the knowledge required by retrospective nature imposed by the realized normative research, and by the prospective nature, given by the realized empirical research. Among the human socio science methods used in this approach, we can specify: analysis of documents, comparative method and observation method.

#### 4. Results

The IPSASs subject to change and their content are presented schematically in Table 1. Improvements to IPSASs. These are structured in two parts: part I refers to more substantive changes, and part II refers to editorial changes.

Table 1. Improvements to IPSASs

PART I
<p><b>Name:</b> IPSAS 5 „Borrowing costs”</p> <p><b>Changes (ED 42):</b> Components of borrowing costs in definition of borrowing costs; Amortization of discounts or premiums relating to borrowings; Amortization of ancillary costs incurred in connection with the arrangement of borrowings.</p>
<p><b>Name:</b> IPSAS7 „Investments in Associates”</p> <p><b>Changes (ED 42):</b> Required disclosures when investments in associates are accounted for at fair value through surplus or deficit.</p>
<p><b>Name:</b> IPSAS 8 „Interests in Joint Ventures”</p> <p><b>Changes (ED 42):</b> Required disclosures when interests in jointly controlled entities are accounted for at fair value through surplus or deficit.</p>
<p><b>Name:</b> IPSAS 16 „Investment Property”</p> <p><b>Changes (ED 42):</b> Property under construction or development for future use as investment property.</p>
<p><b>Name:</b> IPSAS 17 „Property, Plant and Equipment”</p>

<p><b>Modificari (ED 42):</b> Sale of assets held for rental.</p>
<p><b>Name:</b> IPSAS 25 „Employee Benefits”</p> <p><b>Changes (ED 42):</b> Replacement of term “fall due”; Curtailments and negative past service cost; Plan administration costs; Guidance on contingent liabilities.</p>
<p><b>Name:</b> IPSAS 26 „Impairment of Cash-Generating Assets”</p> <p><b>Changes (ED 42):</b> Disclosure of estimates used to determine recoverable amount.</p>
PART II
<p><b>Name:</b> IPSAS 1 „Presentation of Financial Statements”</p> <p><b>Changes (ED 42):</b> Editorial changes</p>
<p><b>Name:</b> IPSAS 3 „Accounting Policies, Changes in Accounting Estimates and Errors”</p> <p><b>Changes (ED 42):</b> Status of implementation guidance</p>
<p><b>Name:</b> IPSAS 6 „Consolidated and Separate Financial Statements”,</p> <p><b>Changes (ED 42):</b> Editorial changes</p>
<p><b>Name:</b> IPSAS 10 „Financial Reporting in Hyperinflationary Economies”,</p> <p><b>Changes (ED 42):</b> Editorial changes</p>
<p><b>Name:</b> IPSAS 14 „Events After the Reporting Date”</p> <p><b>Changes (ED 42):</b> Dividends declared after the end of the reporting period.</p>
<p><b>Name:</b> IPSAS16 „Investment Property”</p> <p><b>Changes (ED 42):</b> Consistency of terminology with IPSAS 3; Investment property held under lease</p>

Based on these issues for discussion, a total of 10 professional bodies of IFAC member countries answered. Grouping their agreement or disagreement is realized in Table 2 - Positioning of respondents.

**Canada**, namely PSAB does not agree with the amendments brought by IPSASB with the aim of updating the 12 IPSAS because of three reasons: there is no clear relation between the 19 IFRS that were updated in May 2008 and the IPSAS subject to updating through ED 42, in other words, the documents that contain the improvements brought by IFRS, respectively, the suggestions made for improving the IPSAS are separated and their relation cannot be noticed, even if the purpose of ED 42 is to update the 12 IPSAS as a result of updating the IFRS that stand at

the basis of these; ten of the improvements made by IASB will be reflected in the following exposure drafts of IPSASB. At the same time, IPSAS do not contain references about the date of coming into force or the date of the last modification of IAS on the basis of which they are drawn up; four of the improvements brought to IAS are considered not to have equivalent in IPSAS. One of these, regarding the earnings per share does not have equivalent in the accounting of the public sector, but the other three can also be applied to the public sector, respectively the intermediate reporting, the accounting of the governmental subsidies and assets held for selling and discontinuous operations.

**UK, Sweden and Switzerland** expressed their total agreement with the suggestions of updating included in ED 42, without having any objection about them.

**France** stated in the letter sent as an answer to the proposal of improving IPSAS that they did not agree with the process of convergence of IPSAS with IFRS, considering it a waste of energy of IPSASB because some essential aspects of the public sector are not taken into account by IPSAS. The French specialists consider that the exposure draft issued by IPSASB should be an independent document and not one related to the one that contains the improvements made by IFRS. Nevertheless, France expressed its agreement related to 10 of the amendments, but they have objections about 3 of them:

- The French specialists consider as inadequate the fact that IPSAS 7 „Investments in Associates” defines the information for investments in the associated enterprises as being especially excluded from its area of applicability. With this purpose, they suggest elaborating some stipulations for the future international accounting standards that use financial instruments.

- IPSAS 8 „Interests in Joint Ventures”. The necessary information when the interest in joint ventures is analysed by excess or deficit. The disagreement is due to the same considerations as in the previous case.

- IPSAS 1 „Presentation of Financial Statements”. Editorial changes – The Committee of Norms for Public Accounting (CNOCP) consider as inadequate the proposal of this amendment that has at its basis IAS 39 standard, because of the fact that the French specialists oppose to adopting the IAS 39 dispositions for the public sector. Nevertheless, CNOCP appreciates the fact that IPSAS 1

introduced the financial assets owned for transaction in the category of current financial assets.

**Australia**, namely the Department of Finance and Deregulation of the Australian Government, agrees with the amendments proposed by ED 42 with the exception of the 2 amendments brought to IPSAS 16 „Investment Property” referring to the properties owned for building or development that are supposed to be registered with their fair value. The reasons for the disagreement are as follows: Most part of the goods acquired for investments are not available for selling within the period of building and therefore, the fair value, which is mostly based on the selling prices, is irrelevant; The main problem of management during the phase of building a project is the variation between the real costs of building and the costs stipulated in the building budget. Again, the fair value is irrelevant; IASB did not explore adequately the difference between a property owned through partial rehabilitation (which supposes minimal changes to the existing asset) and a property obtained in order to be developed (usually, the changes in the structure of the respective asset are significant).

**Federation of European Accountants (FEE)** supports IPSASB initiative of bringing updates to IPSAS as a result of updating IFRS in May 2008.

**South Africa**, through the two institutions that had the same answer to the proposals for amendments, namely the Accounting Standards Board and the The South African Institute of Chartered Accountants, expressed its disagreement about these amendments, coming with suggestions of improvement as follows: It was suggested the introduction of a basis paragraph for conclusions in many of the IPSAS amended. Through this paragraph IPSASB makes specific reference to taking into account the changes brought to IFRS/IAS. In this way, both institutions suggest that a similar wording should be used to elaborate the new basis for conclusions that will be added to the improved IPSAS. They also suggest that within the basis for conclusions, the paragraphs that refer to the revisions of 2003

should be separated by those which refer to the following revisions.

*Tabel 2. Positioning of respondents*

COUNTRIES	More substantive changes						Editorial changes						
	1	7	8	16	17	25	26	1	3	6	10	4	16
Canada	0	0	0	0	0	0	0	0	0	0	0	0	0
UK/1	1	1	1	1	1	1	1	1	1	1	1	1	1
UK/2	1	1	1	1	1	1	1	1	1	1	1	1	1
Sweden	1	1	1	1	1	1	1	1	1	1	1	1	1
South Africa/1	1	0	0	0	0	0	1	0	0	0	0	1	1
South Africa/2	1	0	0	0	0	0	1	0	0	0	0	1	1
Switzerland	1	1	1	1	1	1	1	1	1	1	1	1	1
FEE	1	1	1	1	1	1	1	1	1	1	1	1	1
Australia	1	1	1	0	1	1	1	1	1	1	1	1	0
France	1	0	0	1	1	1	1	1	1	1	1	1	1

The results confirm the first hypothesis, demonstrating that within their content all the changes refer to the closeness between IPSAS and IFRS, both in form and content. From the point of view of the acceptance or refusal, the countries can be divided in three categories: those which completely reject the amendments (Canada); those which unanimously accept all points of view (UK, Switzerland, Sweden), respectively those which insist on some aspects that, in their opinion, should be approached more clearly and should aim at public institutions characteristics, as the excessive closeness to IFRS is not advisable.

The estimation of the acceptance or refusal of the amendments is done by analysing the data basis (tabel 3 – The rate of acceptance of the amendments) through a descriptive research.

*Tabel 3. The rate of acceptance of the amendments*

Changes	Agreement / Disagreement	
	YES	NO
<b>IPSAS 5</b>	90%	10%
<b>IPSAS 7</b>	60%	40%
<b>IPSAS 8</b>	60%	40%
<b>IPSAS 16</b>	60%	40%
<b>IPSAS 17</b>	70%	30%
<b>IPSAS 25</b>	70%	30%
<b>IPSAS 26</b>	90%	10%
<b>IPSAS 1</b>	60%	40%
<b>IPSAS 3</b>	70%	30%
<b>IPSAS 6</b>	70%	30%
<b>IPSAS 10</b>	70%	30%
<b>IPSAS 14</b>	90%	10%
<b>IPSAS 16</b>	80%	20%

In this context the second hypothesis is true, all the amendments having a rate of acceptance of over 50%.

In order to achieve all the stipulated aims, we made a comparison on two levels: the first one, between the final form of ED 42 (IPSAS Improvements) that appeared in January 2010 and the initial form proposed in June 2009; the second one refers to the report between the suggestions and the opinions stipulated by the different organisations and the final form of IPSAS Amendments.

As a conclusion, we can say that IPSASB assumed part of the objections brought by those who gave a response, even if in a percentage their acceptance wouldn't have been compulsory. These refer to:

- the amendment to IPSAS 5, Borrowing Costs should be excluded from this project and addressed in the separate Borrowing Costs project.
- the proposed amendment to IPSAS 6, Consolidated and Separate Financial Statements should not be adopted.
- to remove the distinction between Part I (more substantive changes) and Part II (editorial changes).

## 5. Conclusions

Elaborating and updating the international IPSAS referentials is a complex process that supposes more steps: identifying the needs of the accounting systems, elaborating the standards content, testing their degree of acceptance, changing them and only afterwards applying them effectively.

Romania, IFAC member through CECCAR should get more involved in this scientific and practical step.

From the perspective of the research we intend to realize an empirical study (questionnaire) having as theme to determine the way in which CECCAR members know the international referentials and can identify aspects that are characteristic to the Romanian public accounting system; in the future these aspects can be solved through IPSAS amendments, starting from the stated intention of IFAC of issuing them annually.

## 6. Bibliography

- [1] C.S. Nistor, "Trecut, prezent si perspectiva in contabilitatea publica romaneasca", Editura Casa Cartii de Stiinta, Cluj Napoca, 2009.
- [2] \*\*\* <http://www.charity-commission.gov.uk/Library/ap5040309.pdf>
- [3] \*\*\* [ipsas.org](http://www.ipsas.org)
- [4] \*\*\* Programul Avansat al Băncii Mondiale privind Reglementarea Contabilității și Auditului Modulul 15, 20 decembrie 2005
- [5] Lye J., Perera H., Rahman A., „The evolution of accruals-based Crown (government) financial statements in New Zealand”, *Accounting, Auditing & Accountability Journal*, Volume 18, No. 6, 2005, pp. 784-815.

## Accounting Models Regarding the Transactions of Inward Processing of Goods

Paliu-Popa Lucia, Ecobici Nicolae, Dina Ionela-Claudia  
 “Constantin Brâncuși” University of Târgu Jiu  
 univers\_cont@yahoo.com, nycu2004ro@yahoo.com, dina\_claudia@yahoo.com

### Abstract

*With an increasing international trade, a more and more significant expansion was experienced by combined commercial operations, also including goods processing transactions. The expansion of these international economic affairs had as motivation the multiple direct and indirect positive effects they produce both at micro and macro level, such as: obtaining a significant commercial profit and on this basis, increasing the currency contribution, increasing the general indicator of the international trade volume, relieving the balance of external payments of certain payments in currency, making optimum use of production capacity and labour force etc.*

*Given the complexity of the combined commercial operations of foreign trade, in this article we shall address the commercial transactions of inward processing of foreign goods in terms of accounting models specific for conducting these transactions.*

*In this regard, after the theoretical delimitation of these operations we shall emphasize the benefits of inward processing of foreign goods but also without forgetting the limitations of these international commercial operations.*

*To develop accounting models we shall first clarify the tax matters that affect the entry in the accounts of inward processing of foreign goods, then we shall proceed to their reflection in accounting starting from a case study, if the recipient of such operations is based in the extra-community or community area. Thus we will be able to identify the conditions that the entities must meet in order to use as little cash money, the affecting fiscal conditions and the reflection in accounting of inward processing of foreign goods.*

**Key words:** Accounting models, processing of goods, processing transactions

**JEL Classification:** M4, M41

### 1. Introduction

Due to the increasing international trade a significant expansion is experienced by the combined operations which include inter alia, the counterpart, re-export, goods processing transactions, brokerage transactions of international sale and purchase, operations that combine elements of operations of export, import, provision of services, manufacturing, in a single transactional mechanism, designed and implemented by specialized commercial firms. Compared to imports and exports of goods and services, the combined operations are customized with issues such as the following: [3]

- more complex character and higher value of the transactional assembly;
- the legal basis of operations is usually established by two or more contracts, which have a certain connection;
- the transaction has a higher degree of risk;
- the achievement of transactions requires a specific financial assembly.

The motivation for the expansion of these international economic affairs is the production of *multiple positive effects*, direct and indirect, both at micro and macro level, such as: obtaining a significant commercial profit and on this basis, increasing the currency contribution, increasing the general indicator of the international trade volume, relieving the balance of external payments of certain payments in currency, making optimum use of production capacity and labour force etc. Given the complexity of foreign trade operations, we shall deal next with commercial transactions of goods processing.

To reflect such operations in the accounts, we must first emphasize the defining elements, specific for conducting these transactions, the contracting parties' advantages and disadvantages and the related tax treatment.

### **Theoretical considerations on goods processing transactions**

**Processing of goods** is an international economic affair conducted on a contractual basis between two companies from different countries, in which one performs custom-made works (processing raw materials, semi-finished goods) based on models, drawings and under the other company's brand, which takes over the finished product in order to place it on the market. This operation, also called custom-made production, developed especially on West-East and North-South relations, through outsourcing by Western firms of intensive industrial productions in labour, in countries of Central and Eastern Europe or from developing regions. [3]

Processing of goods differs from the traditional import-export operations by the transaction object that is the *processing* of raw materials or semi-finished materials, which usually belong to one party (the importer), by the other party (the exporter) and not the sale of goods or finished goods which is the basic characteristic of traditional export-import operations.

*The partners of processing transactions* are named according to their position in transactions, as follows:

*provider*, processor, operator or performer (is the one who receives the goods for processing or intermediates the processing);

*recipient*, or sequencer (is the one who delivers or sells the goods for processing and receives the resulting products referred to in the Law on Customs Code as *compensating products*). [8]

*Providers* or performers of processing operations are companies with factors of production but no branded products and in economic affairs in general and in the international affairs, in particular, have weaknesses in the management and marketing activity.

*The recipients* of these operations are companies that most often have prestigious brands and that tend to expand their businesses capitalizing the advantages arising from the strong position they hold in this market.

Processing transactions of goods may have different motivations, which generally mean *benefits* for the business partners.

The main benefit followed by the recipient of goods processing operations is to make capital out of the difference between the higher cost of labour in his country and its low cost in the provider's country.

The higher the difference between costs and the greater the labour productivity in his country, the higher is the motivation for relocation of production. In turn the provider is primarily motivated by the possibility to improve his production capacity and to obtain income in foreign currency even if he lacks a marketing system and destination channels that would allow direct and immediate access to foreign markets.

However, inward processing transactions favour imports of technology and improvement of productive capacities of the performer, who is an exporter of labour, leading to higher labour force skills, thereby allowing him access to materials and raw materials of better quality that meet and are better for the needs of a competitive production.

Processing transactions have a number of limitations, some common for any international economic affairs, other specific to this commercial operation.

*The limitations* of such operations relate primarily to: [3]

the potential risk for labour exporter that, in the case of adverse circumstances which can appear on the market of such products, the importer would call off the goods processing transaction;

the risks related to delays that may occur in the transportation of raw materials and which may adversely affect the production schedules;

the price risk, which manifests for the exporter of labour when there is an unfavourable trend in the price of the finished product made, compared to the price of production factors used to produce it;

the provision of an income in foreign exchange lower than for the normal export of finished products originating entirely from domestic production;

the labour exporter's passive position in foreign markets, regarding the actions to promote and market the products, with direct consequences for his position on the international market.

Considering the position of Romanian companies in processing transactions, we can find the following *types of operations*: inward processing transactions, where the units in our country are service providers; outward processing transactions, where the Romanian companies are benefiting from processing services.

### **Accounting Models Regarding the Transactions of Inward Processing of Goods**

The transactions of inward processing of goods consist of processing, transforming or repairing in the national territory of goods owned or imported from a foreign partner.

Therefore, depending on the economic situation of goods sent for processing, there are *two types of inward processing*: [5] inward processing of foreign goods; inward processing of imported goods.

Due to the complexity of these operations, in this article we shall deal with the *reflection in accounting of inward processing operations of foreign goods*, which are not introduced in the economic circuit of the provider's country. The transactions in this class were known, until the Customs Code appeared, as transactions of processing through "ennoblement" (variant of application of the active Lohn).

Because, once Romania joined the European Union, the recipients of inward processing services may be companies from the extra-community or community area for which different problems are raised in terms of taxation, separate treatment of the two situations is required.

Regardless whether the recipient belongs to the extra-community area or not, in inward processing of foreign goods, such goods remain the property of the company which delivers them to processing, carrying out in the export with compensating products only a transfer of labour, namely an *export of services*, whose payment is usually made in foreign currency.

#### **a) Accounting of transactions of inward processing of foreign goods, when the recipient is a company in the extra-community area**

Where the recipient of inward processing of foreign goods is an entity of the extra-community area, before recording these

operations in the accounts, we should first clarify some *tax matters*, which are:

on receipt of goods by the provider, because such goods remain the property of the company which delivers them to processing, the suspensive regime is applied to import duties, involving the suspension of payment of import duties until the export of resulted compensating products, meaning that customs duties, the value added tax and other amounts due to the state in a normal import of goods, are no longer paid;

the suspension of import duties is conditioned, under the Law on Customs Code, by the provision of a guarantee to cover the collection of import duties that may be due if the conditions of inward processing are not exactly met; the guarantee of import duties may be provided by a cash deposit or a letter of bank guarantee issued by a bank approved by the customs authority;

because the transactions of inward processing of goods are made on the own account of the holder of inward processing, then all costs related to goods transportation in the country, the export of compensating products, the insurance costs and fees payable when the goods re-enter the recipient's country are the responsibility of the recipient, the labor importer.

In order to understand the model of reflection in accounting of inward processing operations of foreign goods, which are not introduced in the economic circuit of the provider's country, we considered it necessary to start from an *application*.

To this end we assume that a foreign trade company, Romanian entity, receives raw materials for processing from a foreign partner worth EUR 50.000 at a rate of 4,10 RON/EUR. The guarantee of import duties is performed with a letter of bank guarantee for which the bank fees is RON 2.000.

It is known that processing of raw materials is carried out by another company that charges the foreign trade company with labour services worth RON 20.000, with 19% VAT, in turn this company charges the foreign supplier with services provided worth EUR 10.000 at the rate of 4,20 RON/EUR (on the date of external invoice, the rate is 4,15 RON/EUR).

This case generates in the accounts of the foreign trade company the following *entries*: The receipt of raw materials from a foreign partner for processing, worth EUR 50.000



(EUR 50.000 x 4.10 RON/EUR = RON 205.000)

**Debit 8032** "Assets held for processing or repair" 205.000

Guarantee of import duties with a letter of bank guarantee, whose value is determined as follows:

The amount of raw materials received for processing: RON 205.000

Customs duty for the goods received (RON 205.000 x 10%): RON 20.500

Value-added tax (RON 205.000 + RON 20.500) x 19%: RON 42,845

Total guarantees: RON 63.345

**Debit 8011** "Guarantees and warranties" 63.345

Payment of the bank fee related to the guarantee provided, in the amount of RON 2,000

**627** "Expense: with banking services and similar charge" = **5121** "Cash at bank in lei" 2.000

Reflection of the labour invoiced by the entity providing services worth RON 20,000, with 19% VAT:

% = **401** 23.800  
**628** "Other third party services expenses" "Suppliers" 20.000

**4426** "Input VAT" 3.800

Payment of services delivered:

**401** "Suppliers" = **5121** "Cash at bank in lei" 23.800

Invoicing by the foreign trade company of raw material processing services amounting to EUR 10.000 at the rate of 4,20 RON/EUR (EUR 10.000 x 4,20 RON/EUR = RON 42.000):

**4111** "Customers" = **704** "Revenues from services" 42.000

Concurrently, the values in the accounts outside the balance are cancelled:

**Credit 8032** "Assets held for processing or repair" 205.000

and:

**Credit 8011** "Guarantees and warranties" 63.345

warranties"

Collection of the foreign invoice of EUR 10.000:

Amount in RON on invoicing: EUR 10.000 x 4,20 RON/EUR = RON 42.000;

Amount in RON on receipt: EUR 10.000 x 4,15 RON/EUR = RON 41.500;

Unfavourable exchange rate difference: = RON 500.

% = **4111** 42.000

**5124** "Cash at bank in foreign currencies" "Customers" 41.500

**665** "Foreign exchange losses" 500

Comparing the data from the income accounts with those of expense accounts, related to the hypothetical example considered, it appears that the income from the inward processing transaction exceeds the costs registered, resulting a taxable profit of RON 12,000 (RON 42.000 - RON 500 - RON 20.000 - RON 500), profit which is found, after closing the accounts, in the final balance in hand of the account 121 "Profit and loss." If the foreign trade company is also the provider of operations of raw materials processing and change into finished products ordered, then such activities involve the conduct of consumptions of electricity, water, direct and indirect labour, maintenance and operating expense of the equipment, depreciation of property and other expenses, which are highlighted in the provider's accounts with the specific expense accounts in the 6th class, "Expense accounts".

To determine the cost of such goods processing, the management accounting uses different methods and techniques, which are the result of aggregation of direct and indirect costs incurred in processing.

*The finished products resulting from inward processing operations must leave the country in which processing was performed, being re-exported outside the community.*

#### **b) Accounting of transactions of inward processing of foreign goods, when the recipient is an entity in the community area**

If the recipient of transactions of goods inward processing is an entity of the Community area, then the operations of receipt, processing of goods and invoicing of services delivered are similar to those recorded in case a); the only one which differs is the *tax treatment* which lies in:

The guarantee of import duties on foreign goods receipt is limited only to the value added tax if the recipient of the Community country does not communicate the provider his valid registration code for value added tax. If the recipient is registered for VAT purposes in his country and communicates the Romanian provider his registration code for VAT, then the customs authority may not require the guarantee of import duties, given the fact that in the case of failure to deliver the goods resulted to the beneficiary, the provider highlights the value added tax payable for the goods received through the reverse charge procedure and not through the actual payment of the tax.

The processing services are invoiced by the recipient *with* Romanian VAT, if the recipient failed to communicate to the provider his registration code for VAT purposes, or *without* VAT, if the Romanian provider was informed of the recipient's registration code for value added tax.

To understand the reflection in accounting of inward processing transactions of goods, with the recipient in the Community area, we will start from the same application previously considered, with *two alternatives*:

the guarantee of import duties is carried out because the recipient does not communicate the provider his registration code for value added tax;

the guarantee of import duties is not carried out because the recipient communicates the provider his registration code for value added tax.

As mentioned above, the difference from case a) is shown in the first alternative when the provider must invoice the services to the Community recipient with value added tax, case which involves the following entry:

<b>4111</b>	=	%	<u>49.980</u>
“Customers”		<b>704</b>	42.000
		“Revenues from services	
		<b>4427</b>	7.980
		“Output VAT”	

In compliance with the law in force, the Romanian provider must keep records of materials received for processing using the document “Register of tangible goods received for expertise or works to be carried out”. [6]

Starting with 01 January 2010, in order to implement the simplification measures in the

field of value added tax on transactions of inward processing of foreign goods, the following *conditions* must be fulfilled: [7]

*Regarding the main contractor:*

shall be a taxable person registered for VAT purposes in the Member State of establishment;

shall not have a registration code for VAT purposes in the Member State where the works on movable tangible assets are actually carried out;

shall submit his registration code for VAT purposes to the contracting party/parties.

*Regarding the other economic operators involved:*

they must be taxable persons in terms of value added tax.

*Regarding the products processed:*

they must return to the Member State in which the main contractor is established and that assigned the registration code for VAT purposes submitted by the main contractor.

## 2. Conclusions

In order to obtain positive direct and indirect effects, both at micro and macro level, a significant expansion was experienced by combined commercial operations which also include goods processing transactions, effects that are reflected in achieving significant commercial profit and on this basis, increasing the currency contribution, increasing the general indicator of the international trade volume, relieving the balance of external payments of certain payments in currency, making optimum use of production capacity and labour force etc.

For making models for reflecting the transactions of inward processing of foreign goods in the provider's accounts, it is important to determine correctly the tax treatment depending on which the entity in Romania allocates funds to guarantee the import duties when they are suspended and in relation to which the provider issues the invoice with or without VAT.

In order to go through specific situations, highlighting of these transactions is made in relation to the area in which the recipient is established and if he belongs to the Community area, in accordance with the conditions required by the laws in force.

Although these transactions of inward processing of foreign goods have some advantages, we should not forget the

limitations of such operations, the most important ones relating to the potential risk of the labour exporter that, in the event of adverse circumstances which can occur on the market of those products, the importer may call off such transactions or delay greatly in the transportation of raw materials and materials, which may adversely affect the production schedules.

### 3. References

- [1] Caraiani, G., Tranzacții internaționale: E-business & tipuri de contracte [International Transactions: E-Business & Types of Contracts], C.H. Beck Publishing House, Bucharest, 2008
- [2] Paraschivescu, M. D., Radu, F., Concepte și modele contabile în activitatea de comerț exterior [Accounting Concepts and Models in Foreign Trade Activity], Tehnopress Publishing House, Iași, 2005
- [3] Popa, I., Tranzacții de comerț exterior [Foreign Trade Transactions], Economic Publishing House, Bucharest, 2002
- [4] Popa, I., Tehnica operațiunilor de comerț exterior [Technique of Foreign Trade Transactions], Economic Publishing House, Bucharest, 2008
- [5] Vișan, D., Contabilitatea tranzacțiilor de comerț internațional [Accounting of International Trade Transactions], Tribuna Economică Publishing House, Bucharest, 2009
- [6] \*\*\* Order of the Minister of Economy and Finance no. 1372/2008 on the organization of records for VAT purposes
- [7] \*\*\* Ministry of Public Finance Order no. 3417/2009 approving the instructions for implementing the simplification measures in the field of value added tax regarding the multi-stakeholder operations in the Community related to works on movable tangible assets and the instructions for implementing simplification measures in the field of value added tax regarding the returns of goods in the Community area and the tax treatment of repairs made during the warranty and post warranty.

## Financial Modeling in the Investments Companies

Pepi Mitica

*Ovidius University of Constanta*

*pepi.mitica@gmail.com*

*pepim@hotelolimpic.ro*

### Abstract

This paper is meant to deal with a generous theme, the auditing of S.S.I.F. and implicitly with the capital market, lent for such an accomplishment it is necessary to identify the audit in accordance with its standards, with its well defined subject matter named entity of audit. The optimum entity of audit on the capital market cannot be anything else but the intermediary of the capital market or the S.S.I.F.. The tranzactioning system of the Exchange Stock grants a reasonable assurance from the point of view of the audit enclosing it self in inherent limits that affect the ability of the audit to detect the errors.

**Key words:** financial modeling, audit, capital market, stock exchange.

**JEL Classification:** M 42

### 1. Modeling the entity of audit

The Service and Financial Investment Companies (S.S.I.F.) are juridical persons, constituted in the form of firms on shares, issuing nominative shares, which have exclusively as an activity object the carrying out of services, of financial investments and which functions only on the base of C.N.V.M. authorisation.

This paper is meant to deal with a very generous theme, namely, the auditing of S.S.I.F. and implicitly with the capital market, lent for such an accomplishment it is necessary to identify the audit in accordance with its standards, with its well defined subject matter named entity of audit.

The optimum entity of audit on the capital market cannot be anything else but the intermediary of the capital market or the Service and Financial Investment Companies.

### 1.1 Identify of relevant professional organism and the reasonable assurance

The Values Stock Exchange – Bucharest as a relevant professional organism of the capital market is an element on the base of which one may determine the audit proceedings.

In our opinion and according to the standards of audit, an audit is projected to offer a reasonable assurance so that the financial situations taken as a whole are not wrong significantly.

The reasonable assurance is a concept related to connected to accumulation of the proofs of audit necessary so that the auditory to come to the conclusion that there are no significant errors in the financial situations considered as a whole.

The insurance degree refers to the whole process of audit.

The tranzactioning system of the Exchange Stock grants a reasonable assurance from the point of view of the audit enclosing it self in inherent limits that affect the ability of the audit to detect the errors.

These limits are caused by factors as:

- The use of the tests – the negotiation and the tranzactioning in the continuous and intermittent market;
- The inherent limitations of any accounts system – the period relatively uncertain of the accounts situation concerning the transactions of accomplished movable values, but undiscounted and unrecorded in registers;
- The fact that, the majority of proofs of audit are persuasive and less conclusive – the market of capital and the tranzactioning of the movable values by means of B.V.B. and of S.S.I.F. grant persuasive proofs of audit having in view the dynamic of the

transactions and implicitly of the patrimonial modifications that must be accounted.

The audit that we suggest to be achieved has a high degree of specificity having in view the capital market that represents the system in which S.S.I.F.-s moves and which has a series of peculiarities, but also a specific normative frame. That is why, we have considered as being interesting to compatibilize the two microsystems, respectively that of the audit and that of the market of capital with its main actor S.S.I.F....

From this point of view, we started the research of the market of capital with the instruments of the audit, trying to identify in the S.S.I.F. compartment the elements of the audit:

- the covering area of the audit;
- standards of audit;
- proofs of audit;
- the threshold of materiality;
- risk in the audit;
- fraud and error in the audit.

We will consider the utility of the account – financial information as being a factor of quality of the analytical procedures of audit that influences their efficiency in the accomplishment of a degree of certainty.

## **1.2 Modeling financial audit with computerized system of information (C.I.S. MEDIUM)**

At the same time, we have researched the possible identification in a medium with Computerized System of Information (the CIS medium) with the market of capital, having in view the fact that the market of capital, in general, can be considered as CIS medium. And in particular, the institutions of the market of capital, respectively the ones that represent the secondary market, are these CIS mediums:

- RASDAQ is a CIS medium, respectively an on-line operation system;
- BVB is a CIS medium, respectively a network operation system.

Other problems researched are the identification of the approaching of audit to S.S.I.F. having a choice between two ways of approaching the audit:

1. The approaching based on system (ABS);
2. The direct approach of matter (ADF).

Having in view that S.S.I.F. as an entity of audit cannot be approached in an isolated way but

only as a systematic approach within the market of capital, we have considered that the approach of the audit on ABS system is the most suitable one.

To support this point of view we bring the following arguments based on the fact that the audit within the approach based on systems uses the so called tests of control for conformity, these:

a) The identification and evaluation in profoundness of the relevant key controls and the evaluation of the size in which the audit can base on the controls presuming that they were organized and function properly.

In the case of S.S.I.F. - this testing is accomplished on the base of the information if the Accounts Department of the internal and external audit of S.S.I.F. using the information from:

- the register centralizing the movable values that reflect the situation of movable values and the analysis of all accounts for which there is a position in a certain movable value;
- register for the evidence of daily activity that enumerates the positions of all movable values being in the possession or under the control of the Society of Movable Values;

b) The testing for conformity of the key controls if they have operated efficiently during the period subject to the audit;

In the case of S.S.I.F., it is achieved by means of Independent Register and of the Societies of Positioning (SNCCDD) which have the information in counterparty in comparison with the existing evidence from the S.S.I.F.-s registers;

c) The testing by mean of fund procedures of a certain number of transactions, accounts situations in order to determine if the financial declarations of this are made up completely and accurately.

In the case of S.S.I.F.-s, one will use the information extracted from the Great Book and the checking Balance on the base of which the reports are made up for C.N.V.M. and the financial declarations.

## **2. Modeling the performance to S.S.I.F.**

We have considered as being interesting to approach in our research the audit of performance or of the management to

S.S.I.F. having in view the fact that S.S.I.F. is a society of financial services and is correlated with the market of capital by means of the quality (the performances) of the services (the transactions) achieved for the clients or for itself.

In the audit of performance of S.S.I.F. we have used analytical procedures of the audit which is based on two elements:

- The financial – accounts information;
- The decision of investments on the market of capital.

On the market of capital in general and within the S.S.I.F. in particular the performance is connected to the quality of the financial accounts information, to its accuracy, by the way it reflects the general economic phenomenon and its tendencies. The analytical procedures of audit of the accounts financial information being able to develop in two directions:

- The utility of the accounts financial information in the decision of investments on the market of capital;
- The effect of the accounts financial information in the decision of investment on the market of capital.

The performance on the market of capital is also connected directly to the quality of the investment decisions taken based on the accounts financial information.

For the investment decision we have considered as being the best approach of audit, respectively the best analytical procedure of audit is represented by the financial analysis, an analysis that developed in two directions.

- The analysis of the capital market and,
- The financial analysis of the annual accounts this being developed in its turn in three directions:
  - Univarious analysis;
  - Multivarious analysis;
  - The indicators of the Stock Exchange of Values.

In such a way we have created a quadrilateral of research by audit to S.S.I.F. which, for a better understanding, we have represented it by means of the following logical scheme.

### **3. Model of indentify the fraud and error in the audit of S.S.I.F.-S**

A document of the European Council from 1995 specifies the notion of fraud, this:

a) from the point of view of the expenses any intended act or intended omission that refers to:

- the use of declarations or false documents incorrect or incomplete that generate the restrain of funds from the communitary general budget in a wrong way or un properly;
- the use of the funds with other purposes than the ones they were initially meant for;

b) from the point of view of the incomes, any intended act or omission referring to:

- the use of declarations or false documents, incorrect or incomplete having as a consequence the diminishing of the resources of the general, communitary budget, or of the funds administrated by him or on his behalf;
- the unrevealing of information disobeying specific obligations with the same effect;
- the use with other purposes of a benefit legally obtained having the same effect.

The error can be defined as any unintended mistake concerning:

- mathematical or accounts mistakes in the recording of the accounts data;
- the wrong application of the accounts policies (principles, rules, methods, etc).

During his mission, the auditory also takes into consideration the risk to discover in the activity of the entity he audits some significant infractions caused by frauds and errors.

Within the market of capital, having in view the specificity of the activity, the fraud and error can be found in the same way but in a different form, with specific names.

To understand this phenomenon within the market of capital and strictly relational in the activity of the S.S.I.F.-s, we have to interpret some notions which as a whole create the payment abuse.

These notions are:

- the privileged information by which one understands an information of a precise nature that was not made public, which refers directly or indirectly to one or more issuers or to one or more financial instruments, and which, if conveyed publicly could have a significant impact on the price of those financial instruments or on the price of the derived financial instruments with which they are connected.

When it refers to financial instruments derived on goods, “the privileged information” it means the information of a precise nature that was not made public and which refers directly or indirectly to the derived financial instruments and which the participants on the markets, on which the respective derived financial instruments are transacted, expect to receive in accordance with the accepted market practices;

- the accepted market practices refer to the practices in one or more markets and which are accepted by C.N.V.M. according to the community procedures.

For the persons responsible with the execution of the orders concerning the transacting of the financial instruments “the privileged information” means, at the same time, the information of a precise nature, conveyed by a client, in relation with its orders that have not been executed yet, referring directly or indirectly to one or more financial instruments, information which, if made public, could have significant effects on the price of the respective financial instruments or on the price of the derived financial instruments with which they are connected.

Audit procedures applicable to financial investments:

1. Initial procedures: The applying of the initial procedures to the balances and records in the financial investment accounts that will be afterwards tested:

- The reconciliation of the initial balance with the audited sums in the previous year;  
 - The Revising of all the activities referring to financial investments with an impact on the balancing elements and on the account of profit and loss and the investigation of the records that seem unusual from the point of view of the source;

- The obtaining of the financial investment programmes of the company and the checking of the degree in which this presents with fidelity the accounts recording that are at the base of their making up.

2. Analytical procedures: The applying of the analytical procedures by analysing the output of the respective investments (interests, dividends) comparatively with the provisions of the company.

3. Detailed tests concerning the transactions: The checking of the accounts recordings in the accounts of financial investments, incomes and expenses, respectively their own capitals.

4. Detailed tests concerning the balances: The inspection and the determination of the number of titles held in the portfolio that are kept with the company.

- The confirmation of the existence and the number of titles deposited in other places.

- The recalculation of the incomes accomplished from investments.

- The revising of the documents that permits the determination of the market value.

5. Presentation and publication: The comparing of the financial situations with the presentation requirements provided by the accounts standards and in the account frame in force.

- The appreciation of the size in which the financial investments are identified and classified according to the financial situations.

- The appreciation of the quality and quantity of the supplementary information published in notes concerning the base of evaluation, the profits and the accomplished and unaccomplished losses, the minor interests, titles deposited as guaranty.

#### 4. References

- [1]. Allen L. (1997) “Capital Markets and Institution A Global View”, John Wiley & Sons INC.;
- [2.] Anghelache Gabriela (2000) Bursa si piata extrabursiera, Editura Economica, Bucuresti,;
- [3.] Copeland T.R., Weston I. (1998) Financial Theory and Corporate Policy, Addison-Westley, New York;
- [4.] Dutescu Adriana (2000) Informatia contabila si pietele de capital- Editura Economica
- [5.] Fisher D, Jordan R. (1990) Security Analysis And Portofolio Management, McGraw-Hill, New York;
- [6.] Herbert Leo (1996) Auditing the Performance of Management. Prentice Hall, New York;
- [7.] Hopkins Leon (1998) The Audit Report. Prentice Hall, New York;
- [8.] Stancu I. (1996) Finante, teoria pietelor financiare, finantele intreprinderilor, analiza si gestiunea intreprinderii, Editura Economica, Bucuresti;

## Audit in the Services and Financial Investments Companies

Pepi Mitica

*Ovidius University of Constanta*

*pepi.mitica@gmail.com*

*pepim@hotelolimpic.ro*

### Abstract

The audit that we suggest to be achieved has a high degree of specificity having in view the capital market that represents the system in which S.S.I.F.-s moves and which has a series of peculiarities, but also a specific normative frame. That is why, we have considered as being interesting to compatibilize the two microsystems, respectively that of the audit and that of the market of capital. We started the research of the market of capital with the instruments of the audit.

**Key words:** audit, annual accounts, financial accounts information.

**JEL Classification:** M 43

### 1. The audit of performance to S.S.I.F'

We have considered as being interesting to approach in our research the audit of performance or of the management to S.S.I.F. having in view the fact that S.S.I.F. is a society of financial services and is correlated with the market of capital by means of the quality (the performances) of the services (the transactions) achieved for the clients or for itself.

In the audit of performance of S.S.I.F. we have used analytical procedures of the audit which is based on two elements:

- The financial – accounts information;
- The decision of investments on the market of capital.

On the market of capital in general and within the S.S.I.F. in particular the performance is connected to the quality of the financial accounts information, to its accuracy, by the way it reflects the general

economic phenomenon and its tendencies. The analytical procedures of audit of the accounts financial information being able to develop in two directions:

- The utility of the accounts financial information in the decision of investments on the market of capital;
- The effect of the accounts financial information in the decision of investment on the market of capital.

The performance on the market of capital is also connected directly to the quality of the investment decisions taken based on the accounts financial information.

For the investment decision we have considered as being the best approach of audit, respectively the best analytical procedure of audit is represented by the financial analysis, an analysis that developed in two directions.

- The analysis of the capital market and,
- The financial analysis of the annual accounts this being developed in its turn in three directions:

- Univarious analysis;
- Multivarious analysis;
- The indicators of the Stock Exchange of Values.

In such a way we have created a quadrilateral of research by audit to S.S.I.F. which, for a better understanding, we have represented it by means of the following logical scheme.

### 2. Audit by analyse of the annual accounts

Without trying to exacerbate the role of the personal interests in elaborating a realist analysis, we wished in the above presented information to show the importance of an assembly thinking which may permit a good “reading in between the lines” of the annual accounts.



However, the most important part of the financial analysis is based on inflexible and impersonal models of calculation of the financial indicators: “the indicator (financial o.n.) represents a procedure of reporting a figure to another figure being an accepted and easy to understand conventional manner (...). An isolated number does not represent useful information; the comparison is the key”.

This procedure, as we can see, is a procedure of analysis to the risk of audit.

The audit has to apply the analytical procedures at the end of the audit, when it can formulate a general conclusion concerning the conformity of the financial situations as a whole, what the auditors know referring to S.S.I.F... The conclusions which we draw from the result of such a procedure will be formulated with the intention to corroborate with the conclusions drawn during the auditing of the components or of the individual elements of the financial elements, respectively, the annual accounts .

The Auditing by financial analysis of the annual accounts must help the formulating of some general conclusions concerning the credibility of the financial situations.

These conclusions can identify by univariuous analysis the liquidity and the profitability, by means of multivariuous analysis and the stock exchange indexes, the solvency of the society of movable values.

The application of the analytical procedures of audit by financial analysis is based on the hypothesis that the relations between the data exist and are maintained in the absence of some conditions known as, being contrary.

The presentation of these relations assures proofs of audit as to the exhaustivity, the precision and validity of the proposed data by the accounts system.

However, the trust in the results of the analytical procedures will depend on the evaluation of the risk by the auditors, the analytical procedures to identify similar relations to the expected ones when, there exist in fact, significant errors of declaration.

## **2.1. Audit by the analyse of the financial accounts information**

In the contemporary economy being in a continuous transformation, the spectacular modifications are accomplished in a short time on the base of same financial decisions taken by

utilizing the accounts information and based on the accuracy on its relevance.

But, if this information is proved to be incorrect, having in view the economic events based on which these were generated or are wrongly understood, the results of the decisions will be far from being at the anticipated level.

The solving of the paradigm represents a problem of audit and it is the essential preoccupation of the accounts profession.

The auditing can be accomplished on the base of a thoroughly research of the financial-accounts information.

In our opinion, the accuracy and the relevance of the financial-accounts information consists in the capacity to answer the following questions.

- Is the nature of the financial-accounts information understood by the institutional investors and by the intermediaries from the Romanian market of capital?
- Is the financial-accounts utilised by the financial analysts and by investors that act on the market of capital?
- Is it necessary to improve the informational quality of the accounts balance in the actual form.

We also propose to establish the measure in which the financial-accounts information comprised in the annual accounts and other sources of documentation is understood and utilized by the investors from the market of capital from Romania and if this market is an efficient market.

The safety degree which the auditors grant to the results of the analytical procedures depends of a series of factors which we will presents as a conclusion of the utilization of the instruments of the financial analysis as analytical procedures of audit.

A first factor of which the safety degree of the results of the analytical procedures of audit depends on is represented by the threshold of significance.

The threshold of significance of the implied elements, for example when the balance of the stocks are significant, the auditors not based only on the analytical procedures in order to formulate the conclusions.

For certain element of incomes and expenses, when these are not significant as individual elements, the auditors can base only on the analytical procedures.

A second factor of which the safety degree of the results of analytical procedures of audit depends on is represented by the directing of other procedures of audit to the same objectives of audit, for example, in our case procedures performed by the auditors for revising of the subsequent cashing of debts, such as, the revising of the subsequent cashing that cannot confirm or refute questions that appear as a consequence of the application of the analytical procedures of the accounts of debts.

A third factor of which the safety degree which the auditors grants to the results of the analytical procedures depends on is represented by the precision with which the foreseen results of the analytical procedures can be forecast.

In our case, the auditors normally expects a greater consistency, in the case of the comparison of the margin of the gross proceeds from a period to another than in the case of the comparison of operational expenses.

The fourth factor of which, the safety degree which the auditors grants to the result of the analytical procedures, depends on is the evaluation of the inherent risk and of the risk of control. In the internal control case of the process of selling orders is weak and, as a consequence, the risk of control is raised, then for drawing the conclusions referring to the debts a greater trust in the detailed tests of the transactions of the balance is necessary than in the analytical periods.

The purpose of this Standard of Audit is to establish the standards and to assure instructions for an auditor whose client utilized a Society of Services and Financial Investments further on named S.S.I.F. This standard also describes the reports of audit of the companies of services that can be obtained by the auditors of the clients.

The auditor has to take into consideration the way in which S.S.I.F. affects the accounts systems and the systems of internal control so that the audit can be planned and accomplished into an efficient model of audit.

### **3. Model of identify the fraud and error in the audit of S.S.I.F.-S**

A document of the European Council from 1995 specifies the notion of fraud, this:

- a) from the point of view of the expenses any intended act or intended omission that refers to:
- the use of declarations or false documents incorrect or incomplete that generate the restrain

of funds from the community general budget in a wrong way or un properly;

- the use of the funds with other purposes than the ones they were initially meant for;

b) from the point of view of the incomes, any intended act or omission referring to:

- the use of declarations or false documents, incorrect or incomplete having as a consequence the diminishing of the resources of the general, community budget, or of the funds administrated by him or on his behalf;

- the unrevealing of information disobeying specific obligations with the same effect;

- the use with other purposes of a benefit legally obtained having the same effect.

The error can be defined as any unintended mistake concerning:

- mathematical or accounts mistakes in the recording of the accounts data;
- the wrong application of the accounts policies (principles, rules, methods, etc).

During his mission, the auditor also takes into consideration the risk to discover in the activity of the entity he audits some significant infractions caused by frauds and errors.

Within the market of capital, having in view the specificity of the activity, the fraud and error can be found in the same way but in a different form, with specific names.

To understand this phenomenon within the market of capital and strictly relational in the activity of the S.S.I.F.-s, we have to interpret some notions which as a whole create the payment abuse.

These notions are:

- the privileged information by which one understands an information of a precise nature that was not made public, which refers directly or indirectly to one or more issuers or to one or more financial instruments, and which, if conveyed publicly could have a significant impact on the price of those financial instruments or on the price of the derived financial instruments with which they are connected.

When it refers to financial instruments derived on goods, "the privileged information" it means the information of a precise nature that was not made public and which refers directly or indirectly to the

derived financial instruments and which the participants on the markets, on which the respective derived financial instruments are transacted, expect to receive in accordance with the accepted market practices;

- the accepted market practices refer to the practices in one or more markets and which are accepted by C.N.V.M. according to the community procedures.

For the persons responsible with the execution of the orders concerning the transacting of the financial instruments "the privileged information" means, at the same time, the information of a precise nature, conveyed by a client, in relation with its orders that have not been executed yet, referring directly or indirectly to one or more financial instruments, information which, if made public, could have significant effects on the price of the respective financial instruments or on the price of the derived financial instruments with which they are connected.

Audit procedures applicable to financial investments:

1. Initial procedures: The applying of the initial procedures to the balances and records in the financial investment accounts that will be afterwards tested:

- The reconciliation of the initial balance with the audited sums in the previous year;

- The Revising of all the activities referring to financial investments with an impact on the balancing elements and on the account of profit and loss and the investigation of the records that seem unusual from the point of view of the sum or of the source;

- The obtaining of the financial investment programmes of the company and the checking of the degree in which this presents with fidelity the accounts recording that are at the base of their making up.

2. Analytical procedures: The applying of the analytical procedures by analysing the output of the respective investments (interests, dividends) comparatively with the provisions of the company.

3. Detailed tests concerning the transactions: The checking of the accounts recordings in the accounts of financial investments, incomes and expenses, respectively their own capitals.

4. Detailed tests concerning the balances: The inspection and the determination of the number of titles held in the portfolio that are kept with the company.

- The confirmation of the existence and the number of titles deposited in other places.

- The recalculation of the incomes accomplished from investments.

- The revising of the documents that permits the determination of the market value.

5. Presentation and publication: The comparing of the financial situations with the presentation requirements provided by the accounts standards and in the account frame in force.

- The appreciation of the size in which the financial investments are identified and classified according to the financial situations.

- The appreciation of the quality and quantity of the supplementary information published in notes concerning the base of evaluation, the profits and the accomplished and unaccomplished losses, the minor interests, titles deposited as guaranty.

#### 4. References

- [1] Allen L. (1997) "Capital Markets and Institutions: A Global View", John Wiley & Sons INC.;
- [2.] Anghelache Gabriela (2000) "Bursa si piata extrabursiera", Editura Economica, Bucuresti,;
- [3.] Copeland T.R., Weston I. (1998) "Financial Theory and Corporate Policy", Addison-Westley, New York;
- [4.] Dutescu Adriana (2000) "Informatia contabila si pietele de capital"- Editura Economica ;
- [5.] Fisher D, Jordan R. (1990) "Security Analysis And Portofolio Management," McGraw-Hill, New York;
- [6.] Herbert Leo (1996) "Auditing the Performance of Management." Pretince Hall, New York;
- [7.] Hopkins Leon (1998) "The Audit Report" Pretince Hall, New York;
- [8.] Stancu I (1996) "Finante, teoria pietelor financiare, finantele intreprinderilor, analiza si gestiunea intreprinderii", Editura Economica, Bucuresti;

## The fraude with the credit cards

Lector univ. dr. Daniela Petraşcu  
*Universitatea „Lucian Blaga” Sibiu*  
*Facultatea de Stiinte Economice*  
*daniela.petrascu@yahoo.com*

### Abstract

The swindle with cards at the bank automates became a major preoccupation in the bank area.

In some countries, the swindle at the bank automates become an important problem and they adopted measurements and proceedings with the purpose to prevent and limit the consequences. It is very probable that this type of swindle will migrate from the countries where the fighting methods have been implemented, in the countries that did nothing yet in this area. (Office for non-commercial deductions– Swindle with cards at the bank automates, 1998).

**Key words:** credit card, fraud, bank

**JEL Classification:** E51, K42

The main swindle-methods with credit cards at the automates, are: (Petraşcu D, Rev. Finanţe, bănci, asigurări, nr.5/2007, Frauda cu carduri la automatele bancare, pag.56-57).

#### a) Finding out the PIN.

The criminal obtains the PIN by supervision of the titular of the card in the moment he introduces the PIN in the automate, or by using a video closed circuit. The card's data are obtained afterwards by copying the magnetic band (skimming) or from the information printed on the receipts issued on an ATM.

#### b) Swindle between acquaintances /family members.

A person acquaintance of the card titular, enters, with or without the titular agreement, in possession of the card and of the PIN and uses the card for transactions of cash-release. The card titular disputes afterwards the transactions, when he receives the account excerpt.

#### c) Card theft.

A card is stolen from a titular that has written the PIN on the back of the card or who keeps the PIN in the wallet. Until the moment the card is reported as stolen/lost by the titular and blocked in

the authorization system of the bank, the criminal has access to the card account.

#### d) Card withdrawn from ATM.

The criminals often operate in groups or by two or three and have as target vulnerable card titular, for example old persons who use the bank automates.

The card titular is being approached, eventually in a foreign language; by criminals that pretend that they do not know to use the ATM or who try to distract attention (requesting information, etc.).

While the card titular attention is distracted by one of the criminals, the other one presses the button “cancel” and redraws, not seen by the titular, the card from the automate. Once the transaction cancelled, the criminals allow the titular, who is convinced that he has the card in the ATM, to continue the transaction.

In the moment he observes that nothing happens, the titular becomes confuse. The criminals mention that they had similar problems too and suggest to the titular to introduce once again the PIN.

The titular is being persuaded to continue the transaction supervised by the criminals. Again nothing happens and the titular believes that the automates has redrawn the card and leaves, leaving the criminals in the possession of the card and of the PIN.

#### e) Blocking the mechanism for cash-issuing.

The criminals initiate at the ATM a transaction of issuing cash in a small value. In the moment in which the money-dispenser had open, the criminal leaves a banknote or a piece of cartoon in the dispenser. The ATM extracts the requested sum from the box and sends it to the dispenser. The ATM observes an object in the dispenser, and shuts itself sending an error code to the central computer that cancels the transaction. The criminal de-blocks the dispenser, picks up the cash and continues to do such transactions, which thanks to the error code sent from the ATM, are not put out from his card account.

As preventing modality, the error code generated by the ATM must be identified and the excluding of this code for cancelling the transactions.

**f) Redrawing of cash by blocking the dispenser sensor.**

The criminal requests at the ATM the maximum sum for a transaction. The transaction is approved and the cash is being redrawn from the boxes and transported to the dispenser. The blind opens and the criminal introduces an object which blocks the passing of the cash at the sensor. The dispenser sends an error code to the central computer which initiates the cancelling of the transaction in the card account. The criminal picks up the cash and continues the swindle. (Zolya S., Dissertation, Univ. Lucian Blaga, Sibiu, 2006).

As preventing modality, the error code must be identified that is being generated by this type of swindle and the setting of the system for not processing the transaction cancelling in the clients account.

**g) Redrawing banknotes from the package issued by the ATM.**

The criminal initiates a transaction for the maximum sum released by the automate. When the cash is released by the ATM, the criminal extracts the banknotes from the centre of the package, leaving the first and the last banknote. The ATM detects the two banknotes and transmits an error code to the central computer which cancels the entire sum from the clients account, although the criminal picked up the most part of the sum.

The preventing modality is the same with the one described at the letter f) of the present.

**h) The Trojan.** (Petraşcu D., *Creditul bancar un risc asumat*, Ed. Alma Mater, Sibiu, 2008, pag.213).

The criminal creates a false ATM, where the titular introduce the card and the PIN. The information on the magnetic band and the PIN are electronically captured and used afterwards for the production of false cards.

**i) Libanese loop**

The criminal introduces a piece of transparent film in the card reader of the ATM and waits for a client to introduce the card for a transaction. The film blocks the card in the ATM and the criminal supervises the card titular while he introduces the PIN. After the client leaves, the criminal redraws the film that has blocked the card in the ATM and gets the card. Having the card and the PIN he does transactions at the ATM.

**j) Closed TV circuit of high resolution.**

The criminals install a hidden TV closed circuit that registers the embossed date from card and the PIN. These data are afterwards used to produce false cards.

**k) Blocking the cash release.**

The criminals stick on the dispensers opening or introduce an object that blocks the banknotes release. After the titular leaves, the criminal removes the obstacle and takes the money.

**l) Applying on the ATM's keyboard a special foil**

This foil is used for finding out the PIN, on the foil remains printed the number which the titular has formed for the card. For this modality, is necessary that the criminals supervise closely the ATM and to interfere after each transaction.

**m) Organizing swindling auctions.**

The clients take part in auctions, strongly advertised, with goods with reasonable prices. At the entrance, the clients are being requested the card to be passed over through a terminal with magnetic band reader, that seems to be a POS and to introduce the PIN. The explanation is that in case the client decides to buy something, the length of the transaction will be reduces this way. Afterwards, the data registers in the terminal are used to produce false cards.

The counterfeit and the falsification of the credit cards is in beginning phase in our country, but worldwide has gain alarming size, the loses being of billions dollars annually. (Buzatu N., Popa G., *Expertizarea bancnotelor și a altor instrumente de plată*, Ed. Little Star, București, 2003, pag.79).

**1. Instead of conclusions**

Money is the blood of economy. This is an aphorism validated by the historic experience, a truth which transcends all historic centuries and all economic and political systems. (Buzatu N. , Popa G., op.cit., pag. 5).

Finances, banks and the capital market built an empire which extends its borders beyond our imagination. This empire subjugates our life and makes us all (people, institutions, governments and nations) to depend from the power and the „dirt of the money”.

In this context, from one day to the other one, the number of criminalities of economic nature that develop in the bank system is growing. Not long ago, when a bank discovered it was the victim of a swindle, it tried to keep confidentiality, not making public information about the suffered loss and tried to recover the losses from its own reserves. Obviously, under the impact of the legislative, economic, social and also technical transforming, the banks were forced to collaborate with the organizations involved in the fight against swindle.

Worldwide the market of card development and the more obvious development of the Internet facilitates among with the benefiting effects that

can not be disputed, a large palette of criminal activities stimulated also by the anonymity offered by the electronic environment and the reduced possibility to discover and punish the perpetrators.

To counteract these acts and to avoid the producing of the losses or their recover, special measures for preventing and recovering must be taken, in which are involved together with the institutions for law-applying the financial-banking organizations, the merchants and the clients.

## 2. Bibliography

[1] Buzatu N., Popa G., *Expertizarea bancnotelor și a altor instrumente de plată*, București, Ed. Little Star, 2003;.

[2] BCR – Direcția de Marketing; *Cardul monedă electronică a sfârșitului de secol 20*, 1998;

[3] Direcția de decontări necomerciale; *Frauda cu carduri la automatele bancare*, 1998

[4] Petrașcu Daniela, *Creditul bancar un risc asumat*, Sibiu, Ed. Alma Mater, 2008.

[5] Petrașcu Daniela, *Rev. Finanțe, bănci, asigurări*, nr.5/2007, *Frauda cu carduri la automatele bancare*.

[6] Gheorghiu D., sa., *Combaterea fraudelor cu carduri: aspecte teoretice și practice*, București, Imprimeria Națională, 2006;

[7] Zolya S., *Lucrare de Disertație*, Univ. Lucian Blaga, Sibiu, 2006

# International Development Concerning Classification and Evaluation of Financial Instruments

Professor's assistant, dr. Mihaela – Cosmina Petre

Lecturer dr. Cristina Bunea Bontaş

„Constantin Brâncoveanu” University of Piteşti, Faculty of Management Marketing in  
Economic Business Brăila

nita\_mihaela\_c@yahoo.com; bontasc@yahoo.com

## Abstract

*Under the current circumstances wherein the economic environment is hallmarked by increasingly faster and more complex changes, for a required and expected development of Romanian market, the local firms will increasingly use financial instruments. Consequently, their accounting, presentation and description of information related to individual or consolidated accounts and the analysis of impact as regards their use over the entities' performances and financial standing become hot topics for professional accountants, for which the aspects approached in the paper are increasingly useful.*

*The article aims to present the main amendments to the international standard concerning classification and evaluation of financial instruments.*

**Key words:** International development, evaluation, financial instruments

**JEL Classification:** M41, O16

## 1. Introduction

Within the latest G20 meetings, organized as a result of the financial crisis started worldwide, a series of actions that should be taken urgently in the accounting field have been presented. They mainly focus on the fair value evaluation of financial instruments, reduction of complexity as regards accounting standards concerning financial instruments, reduction of procyclicity and using those provision practices that result in counteracting the cyclic effects.

Thus, as regards regulation of financial instruments from the accounting point of view,

the International Accounting Standards Board (IASB) has launched an IAS 39 revision called „Financial instruments: acknowledgement and evaluation” in three stages.

## 2. IAS 39 revision

The first stage is focused on the classification and evaluation of financial instruments, the second stage will approach their depreciation, and the third stage will review the analysis of cover accounting against risks. The final purpose of this revision consists of replacing the IAS 39 standard, a change generated by the need of simplification and clarity in the approach of financial instruments.

First of all, it is required to classify financial instruments in two major categories: those evaluated at the depreciated cost and those to be evaluated at fair value.

Therefore, a financial asset or a financial debt will be evaluated at the redeemed cost, if two requirements are met:

- a) The tool is a straight loan;
- b) The tool is managed based on contract.

Financial assets or financial debts that do not meet cumulatively the two requirements will be evaluated at fair value.

At the derecognition of a financial asset or a financial debt evaluated at the redeemed cost, however the entity has to present separately in the profit and loss account, the gains or losses generated on this occasion. For a more detailed analysis of the two categories considered for the classification of financial instruments is firstly necessary, a conceptual delimitation of the following terms: redeemed cost, fair value, straight loan and instrument managed based on contract.

The redeemed cost is the sum to which a financial asset or a financial debt is evaluated at the primary acknowledgement minus

reimbursements of the main, plus or minus accumulated depreciation using the effective interest method for each difference between the primary value and the overdue value, and minus any discount (direct or by using a reserve account for credit risk) for depreciation or impossibility of recovery.

Fair value is the sum for which an asset can be traded or a debt can be settled willingly, between the interested and aware parties, within a transaction wherein the price is determined objectively.

According to the IASB sense, the straight loan can be defined as a contract that gives rise to, specific data, to a cash flow representing payments of the main and the main related interest. The contract that changes the overdue dates or amounts to be paid of the main or the interest do not represent the straight loan unless it protects the creditor or debtor.

An entity should find out if a contract is a straight loan wherein the financial asset or financial debt is denominated.

Some examples of straight loans are shown as follows:

- a) Profitability for holders, that is as :
- A fixed amount (e.g. zero coupon bond);
  - Fixed profitability in the instrument lifetime ;
  - Variable profitability, that during the entire instrument lifetime is related to a single reference of quotation or noticeable interest (e.g. LIBOR) and/or for which interest rate adjustment is carried out according to the approach described below;
  - A combination between a variable profitability and a fixed profitability. For fixed and variable interest rates, the interest is calculated by multiplying the interest related to the period of time with the sum of the main during the period of time.

b) a type of contract that is a combination between a fixed interest and a variable interest. Such a contract can reduce cash flow variability by setting a limit for the variable interest rate or increase its variability as a fixed interest rate becomes variable.

For instance, *the cap, floor and collar* contracts reduce the cash flow variability, enable the efficient management of interest rate risk and, compared to the swap contracts, has the advantage of providing the investor the opportunity of receiving the favourable variations of interest rate, at the same time restricting potential losses.

A *Cap* contract is a series of caplet contracts (call options on interest rate), that are due at

dates corresponding to payments of future interests related to an existing credit. A *cap* is a group of call operations on the interest rate for which a primary incentive is paid. This incentive is equal with the sum of incentives related to individual caplet contracts. If at certain fixed times the reference rate is lower than the cap rate, payment is made void. A cap buyer is thus covered against the risk of rising the interest rate over a certain level. As a rule, a bank chooses to buy a cap in order to cover the interest rate risk when it has assets at a fixed rate and sensitive assets or when it has a long on bonds.

The *Floor* is a put option (floret) or a sequence of options on the interest rate, that provides the buyer the opportunity of covering against the interest rate risk by means of a floor rate related to a given sum and period of time. If at fixed moments the reference interest rate is lower than the Floor rate, the Floor seller pays the buyer the difference between the two rates, and if the reference rate is higher than the Floor rate, the Floor option will not exert.

For instance, in case when a bank grants a credit of Eur 300 million for 5 years, with a fixed interest rate of 5 % or LIBOR variable, if an interest rate rise is expected, the bank will choose to grant the credit at a variable interest rate. The Floor buying at an exercise price ( floor rate) of 3 % will enable the bank to cover its position. If the LIBOR interest rate is higher than 3 %, then the Floor option will not exert, and the bank earning will be equal with the difference between LIBOR and incentive. If LIBOR declines below 5 %, the Floor option exerts, and the bank will encash the difference between the Floor rate and LIBOR.

If the bank has a high risk aversion and the interest rate volatility is high, the cover of interest rate risk can be accomplished by buying a Cap and a Floor at the same time. In fact, this option represents a Collar contract.

When the interest rate rises over the Cap interest rate level, the Cap option exerts and the bank will encash the difference between the market interest and the Cap rate, and in the opposite situation, when the interest rate will have a downward trend, lower than the Floor rate, the Floor option exerts and the bank will encash the difference between the Floor rate and market interest.

c) contract provisions that enable the debtor to pay a debt instrument in advance



(e.g. loan or bonds) or allow the creditor to send the debtor the debt instrument before the due and that are not contingent to some future events. In such case, the sum paid in advance should substantially represent the paid amounts of the main and interest.

Any other types of contracts from where result cash flows that are not generated by payments of the main or related interest are not straight loans. An interest rate swap (IRS-Interest Rate Swap) or a forward contract, for instance, do not represent a straight loan because the generated cash flows do not meet the above mentioned requirements.

Financial instruments are managed based on contract only if their performance is evaluated by the entity's management, according to the IAS 24 „Presentation of information concerning affiliated parts”, based on some contract cash flows generated when they are held or issued.

If financial instruments are managed based on contract, they do not depend on the management intentions for a certain financial instrument. This requirement does not assume an „instrument-by-instrument” classification approach. Nevertheless, an entity can have several units that are managed in different ways. For instance, a bank that carries out several activities can have an investment unit managed on a certain basis and another trading unit managed on a different basis. Therefore, it is most likely that financial instruments held in the investment unit will be managed differently than those held in the trading unit.

When classifying the financial instruments in line with the entity's business model, at the redemmed cost for those kept in the long term respectively, and at fair value for those kept for trading, limitation to the two categories is required. It means an effective estimation from the beginning will be framed in a category or a different category, especially as the business model is changed by entities very seldom.

However, an entity cannot reclassify a financial asset or a financial debt between the two categories, regardless the circumstances.

The expected date of enforcing the new regulations is 2012, with the permission of previous application.

### **3. IFRIC 9 amendments**

Amendments have been also provided to the IFRIC 9 „Revaluation of incorporated derived instruments” interpretation. Thus, an entity should evaluate if necessary or not that an

incorporated derived instrument should be separated by the host contract and recorded as a derived instrument when the entity becomes part to the contract for the first time.

Further revaluation is forbidden, except situations where there is an :

- Either a modification of contract terms that significantly change the cash flows that the contract required if its terms would not have been changed;
- Either a reclassification of a financial asset within the category of instruments evaluated at fair value by profit or loss, cases when revaluation is required.

An entity sets if a modification of cash flows is significant, analysing the extent in which future predicted cash flows, associated with the incorporated derived instrument, the host contract or both experienced changes and if modification is major in relation to previously predicted cash flows, related to the contract.

Evaluation of extent to which an incorporated derived instrument should be separated by the host contract and recorded as a derived instrument at reclassification of a financial asset, apart the category of instruments evaluated at fair value by profit or loss, should be carried out based on the existing conditions at the most recent dates:

- a) Date when the entity became part to the contract for the first time; and
- b) Date when a modification of the contract term took place and significantly changed the cash flows the contract would have required, if its terms would not have been changed.

In line with this evaluation, it should not apply: more precisely, the mixed contract should be approached as it have not been evaluated at fair value with fair value modifications recognized in the profit or loss. If an entity cannot accomplish this evaluation, the mixed contract should remain entirely classified at fair value by profit or loss.

Amendments to IFRIC 9 also generated amendments to IAS 39. Therefore, in case when, according to IAS 39, an entity should separate a derived instrument incorporated by its host contract, but cannot evaluate separately the incorporated derived instrument, either at the time of acquisition, or at the end of a subsequent period of financial reporting, this should assign the entire mixed contract at fair value by profit or loss. Similarly, if an entity cannot evaluate

separately the incorporated derived instrument that should be separated at reclassification of a mixed contract apart the category of instruments evaluated at fair value by profit or loss, the reclassification concerned is forbidden. In such cases, the mixed contract remains entirely classified at fair value by profit or loss.

#### 4. Conclusions

Accounting of financial instruments according to the rules contained in international standards or in national norms is completed by means of presentation and description of related information in summarized documents. Based on this information, auditor certificates, interested users appreciate the impact of using financial instruments on the entity's financial standing and performances and take economic decisions.

IAS 39 is not clear as regards the extent in which the risks and benefits of a transferred asset should be taken into consideration in order to find out if derecognition is suitable and how should risks and benefits be approached. In some cases (for instance, transfers with total swap of efficiency or put options sold unconditionally). The standard chiefly shows the derecognition opportunity, while in other cases (for example, credit guarantees) this is unclear. Others also questioned if evaluation should focus on risks and benefits or only on risks, and how different should aggregated and evaluated risks and benefits be.

We suggest an approach of de derecognition, according to which the entity transferring a financial asset to continue recognizing that asset as far as the transferring entity has a continuous involvement in it. Continuance of involvement could be set in two ways :

- a) A reacquisition provision, such as a call option, a put option or a repurchase commitment; and
- b) A provision to pay or encash a compensation based on modifications of transferred asset value, such as a credit guarantee or an option settled net in cash.

We consider that transfer of risks and benefits should be evaluated by comparing the previous exposure before and after the transfer to variability of sums and moments of net cash flows of the transferred asset. If the entity exposure, based on updated value, has not changed significantly, the entity should conclude that it significantly held all risks and benefits. In

this case, the asset should continue to be recognized.

We express our disagreement that when the fair value option is applied on financial debts, an entity should recognize the income as a result of lowering credit quality and an expense with loan as a result of improving credit quality. It is not useful to report reduced debts when an entity is in financial difficulty because the level of its debts is too high and it would be difficult to explain the users of financial standings, the reasons for which income is recognized when debt reliability deteriorates. The fair value should exclude the effects of modifications concerning the credit risk specific to the instrument.

We recommend to include the credit risk concerning financial debt in the fair value evaluation of that debt for the following reasons:

- a) The entities carry out modifications of the fair value attributable to the credit own risk, for example, by means of renegotiation or repurchase of debts or by using derived instruments;
- b) Credit risk modifications affect the market price of a financial debt and, as a result, of its fair value;
- c) Practically, it is difficult, to exclude the credit risk modifications from the market price; and
- d) The fair value of a financial debt, that means the price of that debt within an exchange between a buyer and a seller that are interested and aware, at the initial recognition reflects the credit risk.

It is questionable if the fair value share in the financial debt attributable to credit quality modifications should be particularly presented separately in the profit and loss account or separately in equity capitals.

While description or separate presentation of such modifications would be often impossible in practice, presentation of such information would be useful for users of financial standings and would help diminish the expressed concerns.

We consider it is necessary to include a presentation that helps identification of fair value modifications of financial debts resulting from the debt credit risk modifications. This fact is a reasonable representation of the fair value modification that is assigned to modifications in the debt

credit risk, particularly when such modifications are major, and will provide the users relevant information to understand the effect of profit or loss as regards such a credit risk modification.

## 5. References

- [1] International Financial Reporting Standards-IFRS 2009, Editura CECCAR, Bucharest, 2009;
- [2] <http://www.fasb.org>;
- [3] <http://europa.eu.int>;
- [4] <http://www.pwc.com/ifrs>;
- [5] <http://www.iasplus.com>.

# The Accounting Activity – a Basic Element in the Strategic Management of an Organization

Preparer Petroianu Grazia - Oana  
Assistant lecturer - Candidate for a doctor's degree

Petre Mihaela - Cosmina

*Constantin Brancoveanu University Pitesti, Faculty of Management Marketing in  
Economic Business, Braila  
oana\_petroianu@yahoo.com  
nita\_mihaela\_c@yahoo.com*

## Abstract

*Accountancy deals with the measurement, registration and control of the most important parts of business. Accounting is a central activity in a business' economical life. The role of accountancy becomes even more important in modern economy, which relies on information. Due to the fact that resources are insufficient, choosing between several alternatives is necessary, and information provided by accountancy is needed to identify the best alternatives. Considering the importance of the financial – accounting information in making decisions, the quality of that information is vital.*

*In contemporary economy, which is in a perpetual transformation, spectacular transformations are carried out in a short period of time based on financial decisions taken by using accounting information and based on its relevance and accuracy. If this information is proved to be untrue for the economic events based on which they have been generated, or are not correctly understood, the result of the decisions will be far from the expected one.*

**Key words:** Accounting activity, Strategic management, organization.

**JEL Classification:** M21, M41

## 1. Introduction

The unprecedented development of the human society nowadays has impelled information as an indispensable necessity for the decision making process.

The information in general represents a piece of news, a communication, a new element about

an object, a phenomenon, a process, an activity according to which the decision makers establish the measures to be taken in future so that the activity they run to be efficient.

Information represents new knowledge, as compared with the situation in the past it represents a greater interest for users.

## 2. The role and importance of accountancy in any organization

An organization, no matter its management, its branch of activity, its way of using capital, the nature of capital, develops its activity in connection with the norms which are to be observed, it develops its activity within some flows of financial and monetary nature.

The reason of an organization stands in the creation of some material, spiritual and intellectual assets, in order to satisfy the market consumers.

The totality of internal and external flows of an organization have to be known for various reasons.

The qualitative and quantitative knowledge of the flows is possible only through accountancy, it taking over all the financial information.

The actors are different and special, each having his own score which interferes with the others.

A lead actor, remarkable within an organization is the accountancy with a well – defined mission, with well – established duties and responsibilities.

Accountancy offers the picture, the range of information regarding the activity of an

organization, and the activity of an organization means flows which are to be expressed, known, analyzed, controlled and influenced.

The channeling of flows is not possible without having financial information necessary for management, worked out in an accessible way by accountancy.

A way of getting information is the narrative way of important events, but this is not enough for an exhaustive coverage.

That is why they resort to a logical language of business which is accountancy.

Having a knowledge of finance, of effects and their causes is not possible without resorting to accountancy.

Accountancy should not be understood only as a mirror which reflects, but it would rather be understood as an aggregate at the manager's disposal, operating as a support of current, tactical and strategic decisions regarding management in general and financial in particular.

Accounting, through the information it generates becomes the authoritative support of decisions regarding the regulation of organization activity.

The organization interacts with its environment. Between it and its environment there triggers a lot of real, monetary, financial and international flows. Most of these are known by means of accountancy.

Accounting, by its nature, is a real records of an organization, an information generator regarding the position, standing and the tendency of the organization.

The general financial position is established by historical and forecasting accountancy. This financial position is expressed by reports possible to be determined by accounting information regarding: profitability, liquidity as ability of the organization to fulfil current obligations, solvency being the organization capacity to settle long term obligations.

By the variety of reports calculated on information given by accountancy, the temporal comparison can be achieved, the accounting allows a temporal and spatial comparison regarding the organization position and evolution.

The financial accounting, coupled with the managerial or administrative one, enlarges the sphere of control, penetrating the cost area too.

The knowledge, analysis and cost influence are possible through information offered by

internal management accounting. The efforts and consumer factors are known, controlled and influenced to obtain the goods, the services demanded on the market.

Both financial accounting and internal managerial one offer information regarding organization and management control.

Being a business language, accountancy offers basic information necessary for management, by means of which it assures that the resources were and have been got and used effectively, really and efficiently, in accordance with the organization objectives and with the laws which govern their behavior.

### **3. Demand and supply of accounting information**

Information has become a negotiated product which presents a series of features, that is:

- a very low cost of sending, as a result of using information technology which allows free access to all those interested;

- the results of the information production are not always the desired ones (or more precisely the rightly receivers are not the only users), in this field not existing laws to really protect it;

- the information can often be with a high level of perisability, which lately has led to the rise of its distribution and use;

- the information supply needs a series of special qualities and information technologies, the speciality degree in this field being extremely high;

- the development of information technology is reflected by the progress of information programs and of computer networks.

At present we receive information from a variety of sources, from the „indirect” ones such as television, radio, books, newspapers and printed matters, to the „direct” ones, conversation respectively.

At organizational level, information is of different types:

*Accounting information*, generated by the accounting system, lies at the basic of numerous financing reports.

*Financial information with operational character* is to be found in financial reports which serve to making operational decisions

by the internal actors of the organization. This category of information has in view the budgets, investments, treasury, the state of accounts, the credits and debts.

*The financial information with a strategic character* is included in the reports to the organization leaders/groups, reports which serve to support and follow the organization strategic objectives, having an important synthesis level.

*Financial information asked by external actors.* The environment in which the organization develops, represents an important factor in the organization operation, that is why a quantity of information, especially financial must be produced to satisfy different external actors. Although this information is already at the disposal of an organization, because it answers the internal need, the format in which it is supplied to the external environment can be significantly different.

The information offered by accounting lies at the basis of decisional process both within and outside the organization. The accounting information represents an instrument and like most of it cannot serve but only to those who are not able to use it or use it wrongly. However, its way of being used can be learned, and accountancy must finally offer information which can be used by all those who want to use it correctly, be they professionals or not.

The user of information and the purpose of its use represent a specially important factor in this field.

From an accounting point of view, an item of information has value if it is useful to its users in making decisions to lead to the expected results.

The decisions which imply the making of information refers to:

- the necessity and utility of its production;
- the selection of one of the alternatives of its production.

The information processed in accounting, also called accounting information, is sent by means of different reports to the decision – makers, also called information users.

Therefore, the users of accounting information can be classified under three categories:

- those who administrate an organization;
- those outside, but having a direct financial interest in the organization;
- persons, organizations and institutions having an indirect financial interest in the organization.

The enterprises, as entities of business environment, publish a set of information regarding the results of activities developed in a certain period.

These reports are possible as a result of quantification by means of which they are placed at the users disposal, information of general use about the activity developed, allowing the calculation of a set of indicators to estimate the future flow of events.

The accounting synthetic documents represent for users of financial information a data base necessary for making economic decisions.

This type of information are used by persons who have a direct financial interest within the organization, the present and prospective shareholders, the debtors as well as the persons who have an indirect financial interest within the organization such as banks, stock exchange, clients, suppliers, trade – unions, the state and its bodies, justice, the public, national accountancy.

These suppliers are numerous and they form a various population, but the most important category of beneficiaries is made up by investors.

The idea of trying to satisfy directly all the real and prospective users with accounting financial information is a difficult attempt, even quite impossible.

#### **4. The role of accountancy in the decision – making process**

Accountancy can be regarded as an instrument which allows the communication of economic information in other words, as a universal economic language. Accountancy, in a continuous dynamics has imposed as the most important subsystem of information and decision – assistance within an organization. Accounting as a subsystem of information, has been constantly adapted to the enterprise informational needs and of their environment, the information system representing the assemble of elements which allow the collection, stocking, processing and communication of information.

Although accounting is, in many ways, considered as a measuring instrument of financial results or as a means of evaluating the patrimony, constituting an important element of the organization administration, in

reality the role of accountancy is more diversified, resulting from the partners expectancy during their transactions.

Accounting, by the operations it generates, has in view the reliability among partners participating in the economic life, a reliability to convince on the financial position of a company, of its solvency as well as on its exploiting performances, in the same time assuring enough elements to lead to conclusions about the way in which the organization is administrated.

For today's world, accountancy is a practical activity developed by professionals who have the role of furnishing useful information in decision making at the level of economic entities.

The making of an accounting information starts from the observation of an entity and of its specific activity.

The data processing in order to obtain information is made by using the language and the means specific to the accounting system, so that they can answer the users need.

The information activities peculiar to the accounting system are those regarding the making and use of accounting information. They stand in actions which refer to data creation, collection, stocking and processing and also in sending information.

The role and importance of accounting within the informational system for decision making is immense as it makes the connection between economic activities and decisional factors.

In order to make a correct and efficient decision, the manager has to establish the purpose, to identify the means and variants to attain it, to choose the optimum variant, to put it in practice and to follow the way in which it is used, to analyse the results.

The accountancy information has an essential importance throughout this decision – making process.

Therefore, when a decision has in view economic problems, the accountancy offers information for three managerial functions: planning, controlling and evaluation.

The economic information represents a special interest for accountancy. To this accountancy category also belongs the accounting information. This is obtained by own methods, approaches and instruments for processing economic data.

It is the most real, precise, complete and operational information representing the support of managerial process.

Most of the decisions made in the managerial process are based on information got from accountancy, so the accounting information takes an important place within the system of economic evidence in general and within the economic informational system in particular.

In order to be useful within the managerial system an accounting information, must have four main qualitative features: to be intelligible, relevant, reliable and comparable.

The making and publication of some accounting information to present in a balanced manner all the qualities mentioned above, must lead to getting some financial positions to reflect a real image of the patrimony and the financial standing of the organization.

The main responsibility to make and to present the organization financial position belongs to its management. The managers of the organization are also interested in the financial information and additional data management to contribute to the planning, decision – making and control processes.

Management has the ability to determine the form and content of such additional information to satisfy their own needs.

The general framework of making and presenting the financial positions makes the statement that the published financial standings are based on useful managerial information about the financial position of an organization, about its results and modifications.

In the process of participating in the economic life, the entity cannot any longer be satisfied with a simple accountancy to keep books of former data. We witness the appearance and the development of some new activities, which supplement accountancy: management control, financial control, financial analysis and accounting audit.

Book – keeping represents an important component in the informational system of an organization. By its way of data processing, accountancy offers exact information regarding the existence and movement of patrimonial elements, presenting in a

synthetic way, the results of the developed activity.

Accountancy represents an important support of an organization management, furnishing information meant to sustain the decision – made.

Accountancy is the information source of any negotiation, being a reference instrument to determine costs and prices economically motivated, it serves as a means of communication, using a common language, accepted by all participants to the economic and social life and helps to settle a possible conflict or dispute.

Accountancy does not represent a goal in itself, it is an informational subsystem which quantifies, processes and sends financial data about an identified economic entity.

Accounting is that which makes the connection between economic activities and decisional factors.

It can be said that the rough data regarding economic activities represent an input in the accounting system and the processed information needed for decision making, represents the output.

The information has been necessary along the history of mankind as any human decision is based on knowledge.

The information in real time must be included in economic studies, the accounting included. Accountancy in real time has to allow the knowledge of reality in an optimum time so that the adequate decision should be made.

## 5. Conclusions

The interpretation of accounting information is vital for an accountant, it is an integral part of the communication process.

It must be mentioned the fact that the definition of accounting does not extend over that of decision – making.

Of course, many accountants are implied in the decision – making, but in such circumstances they play more a managerial role rather than that of an accountant.

Therefore, it is important the distinction of accounting in decision – making. It is important that the information offered by the accountant be as objective as possible, but if the accountants have not a distinct difference in their mind between accounting and decision making, there is a great risk that they unconsciously

manipulate the given information so that the decision made to be the one desired by them.

In the decision – making process, the role of the accountant is to furnish correct, timely, exact and useful information.

In order to achieve this, an accountant has to collect the corresponding information and report it in a relevant way to management.

## 6. Bibliography

- [1] Boby C., „Accountancy, the main supplier of financial information”, Accountancy, expert’s report and business audit, CECCAR Publishing House, Bucharest, 2009, pp. 20-26.
- [2] Ciobanu I., „The strategic Management”, Polirom Publishing House, Iași, 2001.
- [3] Epuran M., Băiță V. and Imbrescu C., „Accountancy Theory”, Economy Publishing House, Bucharest, 2004.
- [4] Feleagă N., „Comparing Accounting System. International accountancy standards. Vol II, Economy Publishing House, Bucharest, 2004.
- [5] Oprea D., „Premises and consequences of accountancy information”, Graphix Publishing House, Iași, 2000.
- [6] Popa I.E., Briciu S., Oprean I., Bunget O., Pereș C. and Pete Ș., „Accountancy data base. Practical Application”, Economy Publishing House, Bucharest, 2009.



## Risks Related to Public Debt Management

Postole Mirela Anca PhD. university lecturer

*Titu Maiorescu University of Bucharest*

*anca\_postole@yahoo.com*

Gherghina Rodica PhD. university lecturer

*Academy of Economic Studies of Bucharest*

*rodicagherghina@yahoo.com*

Ciobanasu Marilena PhD. university lecturer

*Titu Maiorescu University of Bucharest*

*marinaciobanasu@gmail.com*

### Abstract

*Within the achieved survey, the authors started from the reality according to which risks management must be prudently achieved, such way not to lead to severe consequences at the sovereign liability's level. The major risks encountered in sovereign liability's management are herein analyzed. The authors analyze the approach known under the name of assets and liabilities management (ALM) also presenting an advanced system for risk's valuation (CAR-cost at risk). The result of the survey highlights the fact that the public debt management may create a series of traps, if we refer to the fact that after the years 1990 it has been considered as a separate public policy, with separate objectives with regard to the cost and risk generated by the public debt. This implies the analysis of the financial characteristics of the treasury flows of assets and selection, up to the possible level of the characteristic liabilities in order to contribute to the decrease of the budgetary impact over the liability service costs.*

**Key words:** Risk, Public Debt Management, Assets and liability management

**JEL Classification:** G32, H63

### 1. Introduction

The major objective of the public debt management is to ensure that the government's need for financing and its payment obligations are fulfilled at the lowest possible cost on medium and long term, in accordance with a prudent risk degree.

As a matter of fact, the said costs include the insolvencies of the Companies and Banks, and the long term credibility and the low ability of the government to mobilize the internal and external savings.

A prudent management of risks is essential in order to avoid the debt's dangerous structures and strategies (including the monetary financing of the government's debt), by taking into consideration the macro-economic consequences of the sovereign liability.

Debt management should contain the main financial obligations over which the central government exercises its control. Generally, the obligations include both tradable and untradeable market debts, such as the preferential financing obtained from bilateral agreements and multilateral official sources [4]. The purpose of the debt management has extended in a number of countries in recent years. Nevertheless, the debt from the public sector, that is included or excluded from the central government mandate with regard to debts' management, differs from one country to another, depending on the nature of the political and institutional frame [1].

### 2. Risks met within the sovereign debts management

Mainly, the developed countries that have stable and liquid markets for the government's papers, concentrate for many times on the market risk, and can use valuation tests and sophisticated portfolio patterns to measure it.

Instead, the markets from the emergent countries which have access to the limited

foreign capital markets (have relatively undeveloped capital internal markets), should give a greater priority to the refinancing risk [7].

Equally, within the policies for debts' management should be included, as major objectives of the government, the promoting of developing a market of the internal debt.

The said objective is quite relevant for the countries where the market constraints are of such nature, insomuch that the short term debt, the rate of the oscillatory debts and the debt in foreign currency, at least on short term, represent the only viable alternative for monetary financing.

That is why, the decisional factors should try to reduce to the minimum the costs regarding the debt service and the cost for holding liquid assets, under the reserve of an acceptable risk level, by conceiving a reference plan on medium and long term [3].

Furthermore, the transactions that seem to reduce the costs with the debt service, for many times, include significant risks for the government, so that limit its ability of refunding the amounts to the creditors. The main risks occurring in the sovereign debt management can be also seen in table 1.

Table1. Main risk categories

Risk types	Signification
Market risk	It refers to the risks associated with changes of the market prices, such as: interests' rate, exchange rates, prices of raw materials, and the cost with the debt service. For the two types of debts, internal or external, the changes of the interests' rates influence the costs regarding the debt service when, the fixed rate debt is refinanced. The debt with floating rate also changes the moment the rates frequency change. Consequently, the debt on short term with fixed or floating rate is considered to be more risky than the fixed rate debt on long term. The excessive concentration on the fixed rate debt on long-run term may be more risky as the future financing requirements are doubtful.
Refinancing risk	The risk the debt is refinanced at a higher price, and under extreme cases, not be refinanced at all. According as the refinancing risk is limited to the risk for which the debt could have been refinanced, at a higher interest rate, this can be considered a market risk type. Thus, real economic losses can be generated in addition to the purely financial effects of the higher rates of interests, but for many times, this item is separately covered. The management of the said risk is very important for the countries with emergent markets.
Liquidity risk	There are two types of liquidity risk. One refers to the cost the investors confront with in their attempt

	to go out from a position, in case the buyers' number significantly decreased, or because of the lack of activity on a certain market. This kind of risk is quite relevant in case the debts management includes the liquid assets management or the use of the derived contracts. Another form of risk liquidity, for the debtor, refers to a situation under which the volume of the liquid assets may rapidly diminish in front of the unforeseen obligations flow and a possible difficulty in cash increase might occur through loans, within a short period of time.
Credit risk	The failure risk of the debtors over the loans, or over other financial assets. This risk is very important, in case the debts management also includes the management of liquid assets.
Payment risk	Refers to the possible loss the government, as partner, may record following the failure in paying the debt, no matter the reason is, another one except payment failure, by another Party.
Operational risk	This contains a varied range of risk types, including transactional errors at different stages of execution and recording of unguardedly operations or interruptions in the internal control activity or in systems and services, juridical risks, security violation or natural disasters that influence the economic activity.

Source: International Monetary Fund/ World Bank-Guidelines for Public Debt Management, March 21, 2001, pp. 11.

Consequently, in assessing and implementing a strategy for the internal governmental debt management, in order to obtain the objectives in

connection with the risk and cost, and any other objective connected with the sovereign governmental debt, the government should monitor and reexamine the possible exposures that might occur at the public central administrations' level and at the enterprises with state capital, and, where possible, be aware of the general financial position of the debtors from the public and private sector.

Concurrently, the exchanges between costs and the refinancing risk [2] occur when a debt instrument is chosen and an exchange between the cost reduction and the financing risk reducing usually exist. In this context, an advanced valuation risk system, used by the Danish authorities, is the so-called "Cost-at-Risk" (CAR-cost at risk), which is similar to the "Value-at-Risk" (VAR Value-at-Risk). The CAR measure is concentrated on the risk regarding the increase of the interests' rates by calculating the debt service cost within a certain probability interval.

But, the respective distribution probability, is to be calculated starting from patterns and hypothesis referring to the future development of the interests' rates.

However, in order to decrease the costs, the debt managers have achieved a few innovations regarding the use of the sale instruments and techniques. Generally, such innovations are achieved in order to increase the demand – in many cases from the foreign investors' part — and to increase the liquidity.

## 2. Assets and liability management - ALM

In our opinion, within the developed countries, the decisional factors try to learn from the Companies that successfully managed their business and the financial risks.

For example, the financial agents try to manage the business and the financial risks by adapting the financial characteristics of their debts to the assets, taking into consideration the basic objectives of the business. This approach is known under the name of assets and liability management (ALM). For example, a Life Insurance Company is in the field of life insurance policies sale that have a relatively stable payment structure on long term, determined based on the actuarial tables, according to the death rate. But, in order to minimize the financial risk, a Life Insurance Company will invest the profit from the policies'

sale in long term assets in order to fit with the foreseen payment from its policies.

That is why, from certain points of view, a government is like a Company: cashes capital from the taxpayers part and from other sources and uses it in order to pay the functioning expenses, makes transfer payments, buys foreign currency, invests in the public infrastructure and in the Companies with state capital and pays the debt service.

Therewith, this may contract loans and provides guarantees. The multiple governmental operations can be used to fulfill a varied range of macro-economic, regulatory, national defense objectives, and of social policy.

Nevertheless, within the said process, the government draws up financial and credit risks that can be managed by taking into consideration the different types of risk associated with the assets and liabilities.

But, there are important differences between the role of the government and the role of the private companies. While, some governments have tried to quantify the value of their assets and liabilities, more and more governments try to do the same in the future, this not being essential for the ALM[6] approach. Instead, the objective of the ALM approach is to take into consideration the different types of assets and obligations the government manages, and to analyze if the financial characteristics associated with the active ones can provide information referring to the management of costs and risks of the governmental liabilities. This implies the analysis of the financial characteristics of the treasury flows of assets and the selection up to the possible level, of the characteristic debts in order to contribute to the decrease of the budgetary impact over the debts service costs.

The use of an ALM conceptual frame for the problems connected to the debt management may be a useful approach for many reasons:

- motivates the cost/risk analysis of the government's debts portfolio through an analysis of the government's fiscal revenues that are to be used for the debt's service;
- allows the managers of the government's debt take into consideration the other types of assets and liabilities portfolios the government manages, except the fiscal revenues. For example, this may imply the government's decision referring to the need of keeping a property right in producing certain goods and services, and the best

managerial structure in order to manage the assets it wants to keep.

But, the public debt management may create a series of "traps"[5], if we refer to the fact that after the years 1990 it has been considered as a separate public policy, with separate objectives, regarding the cost and risk the public debt generates. These new elements refer to:

A) Increase of the government's financial position vulnerability by the risk increase, this might leading to a lower cost and a lower deficit on short term [5]. This is the reason why the debt managers should avoid their portfolios exposure to great risks. This element stands:

- Maturity's structure. A government confronts with problems between the long-term and short-term problems that should be prudently managed. For example, the excessive use of the short-term debts or with a variable interest rate that could let the government uncovered at a possible increase of costs with the debt service, in case the interest's rate increases and payment failure may occur. This problem could also affect the achievement of the Central Bank monetary objectives.

- Excessive exposures of the exchange rates. These may have many forms, but the prevalent ones are the excessive emission of denominated debt in foreign currency and currency indexed debt. The said practice could let the governments become vulnerable to possible increases of the debt service cost if the exchange rate depreciates, and the non-payment risk occurs if they are not able to refinance the debt.

- Debt with options. Unless adequately managed, this increasing incertitude of the issuer effectively decreases the portfolio's duration, creating a greater exposure to the market or refinancing risk.

- The conditioned, implicit liabilities, such as implicit guarantees granted to the financial institutions, which must be adequately managed.

B) Debt management practices that provide stability between the private and governmental decisions that underestimate the real cost of the interest, meaning [5]:

- Debt guaranteed by shares of the state capital enterprises or other assets. By this practice the interests' cost is underestimated and wrong decisions may be taken with regard to assets management;

- The debt guaranteed from specific sources of the revenues obtained from future taxes. If a next revenue flow is intended for the payment of the debt service, a government could be less willing to undertake the said changes that influence the revenues, even if the said changes should improve the tax fiscal system.

- The debt with exempt or reduced taxation. This practice is used in order to encourage the governmental debt placement. The impact over the deficit is ambiguous as it depends on the taxation of the current assets and on the profit rate equalization after the public titles taxation (taxable or non-taxable).

C) Wrong reporting of the conditioned guarantees and liabilities. These could underestimate the actual level of the government debts through [5]:

- Inadequate coordination or procedures with regard to the loans at the ministers' level, loans that could be guaranteed by the central government, or by companies with state capital;

- Repeated annulment of debts for the government inferior levels or for the companies with state capital;

- Guarantee of the loans with a high probability of execution (without constituting adequate budgetary provisions).

D) Use of the non-financial markets' channels[5]. Under some situations, the practices might be distorted by:

- Special arrangements with the Central Bank for concessional credit, including account overdrafts with zero interest or low interest or special treasury bonds;

- Forced loans from the suppliers' part through due expenses or by issuing some promissory notes. These practices tend to increase the governmental expenses cost;

- Creating a captive market for the governmental securities. For example, in some countries, the government's retirement plan is conditioned by the governmental titles purchasing. In other cases, Banks are obliged to take over governmental debts against a certain percentage from their deposits.

### 3. Conclusions

Conclusively, in assessing and implementing a strategy for the internal governmental debt management, in order to obtain the objectives connected to the risk and cost, and any other objective connected to the sovereign governmental debt, the government should monitor and reexamine the possible exposures that might occur at the Central Public Administrations' level and at the level of the enterprises with state capital, and, where possible, be aware of the general financial position of the debtors from the public and private sector.

In the authors' opinion, within the policies of debts management should be included, as government's important objectives, the promoting of the development of an internal debt market. On the other side, the decisional factors should try to minimum reduce the costs regarding the debt service and the cost for holding liquid assets, subject to an acceptable risk level, by conceiving a medium and long-term reference plan.

### 4. Bibliography

[1] E. Currie, „The Potential Role of Government Debt Management Offices in Monitoring and Managing Contingent Liabilities”, paper presented at a CEPAL conference in Santiago, Chile, mimeographed, 2002.

[2] T. Macklem, „Some macroeconomic implications of rising levels of Government debt”, Bank of Canada Review, Winter, 1995, pp. 41-60.

[3] T. Mosteanu (coordinator), „Buget and public treasure”, 3rd edition, Universitara, Bucharest, 2008, pp.259-261.

[4] P. Mylonas, S. Schich, T. Thorgeirsson and G. Wehinger -“New issues in public debt management”, OECD, Economic Department WP no. 239, pp. 14.

[5] International Monetary Fund/ World Bank, “Guidelines for Public Debt Management”, March 21, 2002, pp. 11, 20,21.

[6] World Bank/International Monetary Fund “Guidelines for Public Debt Management”, March 21, 2001.

[7] Unitar, Institutional Frameworks for Public Sector Borrowing, Document no. 17, Geneva, October, 2002.

# INVESTMENT FUNDS IN RELATION WITH SPONSORS, INVESTORS AND PORTFOLIO COMPANIES

Ioana RADU, Phd. student  
*Babes Bolyai University, Cluj Napoca*  
*Faculty of Economic Sciences and Business Administration*  
*E-mail: ioana19radu@yahoo.com*

## Abstract

*The paper presents a briefly description of the main relations that can be encountered in the functionality of the investment fund with its participants – fund & sponsors, fund & investors, fund & portfolio companies. These three perspectives allow identifying the key role of the investment funds due to their activity objective. Maintaining a permanent concern to the market they operate on and to the preferences of investors, the investment company can obtain a solid competitive advantage and a strong image on the market, and nevertheless making the activity more effective.*

**Keywords:** investment fund, sponsors, investors, portfolio companies

**JEL classification:** G24

## 1. Introduction

The development of the capital market over the past decade has intensified the attraction of the investors towards the offers of gain opportunities. Participating or “playing” on the capital market has become a trend among investors, regardless of their financial power. This “game” created in time a varied and sophisticated capital market, also leading to the “specialization” or “hybridization” of the financial instruments being exchanged, which eventually determined the globalization of the financial system, which allowed investors to gain access to different markets.

The globalization of the financial system was accompanied by less intermediation from the banks. The base support of the access on the capital market, the bank intermediation is now gradually being replaced by associations or consulting and/or investment groups, identified as private equity investment funds.

Investments through investment funds have spread rapidly because they allow the easy access of small investors to the capital market, especially since small investors do not possess the necessary knowledge, information or experience, time and capital-wise, to invest smart. These conditions have also created the premise for the foundation and development of a new specialized financial investment form – private equity investment funds.

The institutions founded as investment funds become intermediaries between capital holders and those in need of capital. In this respect, two aspects regarding the promotion of funds and of the services they provide can be analyzed: regarding their way of getting investors to invest in the fund, but also the way in which they can invest by involving different target companies.

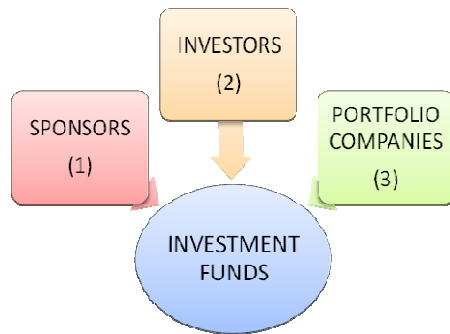
The institutions founded as investment funds become intermediaries between capital holders and those in need of capital. In this respect, two aspects regarding the promotion of funds and of the services they provide can be analyzed: regarding their way of getting investors to invest in the fund, but also the way in which they can invest by involving different target companies.

Within this interdependence it is also necessary to identify the importance of sponsorships in the emergence of investment funds, as follows.

The working substantiation of any investment fund depends on the relationships between the investment society and the other actors, but also on the promotion of the fund to them. Therefore, the analysis of the interaction between these participants can be considered from 3 perspectives:

- ***Investment funds and sponsors***
- ***Investment funds and investors***

• **Investment funds and portfolio companies**



**Figure 1. Investment fund in relation with its participants**

**A. INVESTMENT FUNDS and SPONSORS**

Within the investment fund – sponsors relationship there must be identified the importance of this relationship in the foundation and development of the fund. Basically an investment fund cannot be founded based on the fund managers sources and on the sums raised from the investors, but but on the sums raised from sponsors. Moreover, these sponsors offer consultancy services and promotion of the investment fund to capital owners. They become themselves promoters of the fund, often being confused with investment advisers.

Usually among sponsors there are individual investors or investment banks that are very familiar with market opportunities as far as investments are concerned. These sponsors make decisions such as:

- Establishing investment objectives and strategy;
- Choosing the type of target companies to be included in the fund portfolio;
- Making a list of the participants in view
- Having in view the investment fund foundation and functioning legal provisions

The sponsor has a business plan that they are willing to apply in the activity of the investment fund. If the plan is accepted and agreed upon by the investment company management, the sponsors can decide to participate with capital, therefore becoming shareholders.

As far as sponsors are concerned, they are hard to find. They are usually the ones who make the first step because they have the „know how” in investments. They bring forward the plan and the business strategy, which then they

get the fund on the market. The interest of these sponsors resides in the fact that they can create a profitable connected activity besides the other activities they develop. For instance, investment banks that wish to participate in different investment funds, do it based on the confidence they have in their management, as well as based on the existent investment strategies. On the other hand sponsors will suggest new strategies, and depending on their influence on the market they may attract important investors. (for instance Morgan Stanley, Goldman Sachs, UBS AG, JP Morgan Chase Bank, Barclays, etc)

**B. INVESTMENT FUNDS and INVESTORS**

This relationship between investors and the investment fund can be easily observed depending on the activity object of the funds, namely – collecting and gathering capital from various people (individual investors) and/or institutions (institutional investors), having in view its investment in accordance with the official investment policy of the fund in capital market instruments, municipal and/or corporate bonds, shares exchanged on the share market, as well as other goods allowed by the regulatory authority, all in view of obtaining additional profit from the gains resulted from the investment.

As far as the relationship between the two actors is concerned the correspondence investment fund-investors or investors-investment fund needs to be identified.

In order to identify the relationship and direction of the informational flow between the two participants, the demand and offer of the market defined by the two shall be identified. Therefore, on the investment funds or capital exchange market, investors can be regarded from two perspectives: as demanders, clients of the investment fund, when the fund provides investment services in their account and on their reserves on the basis of the contract – when one refers to the goods and services market; as providers (of money) when one refers to the financial market, as without their placements the fund could not gather the necessary resources to develop its activity.

Regardless of the position from which one takes into consideration the investors, one can observe that they have the most active

role in the functioning of the fund, which is why the promotion should be performed by the investment fund, as “the money fight” always begins from the one in need of reserves and in need of clients.

Once the relationship investment fund – investors is identified, the problem is how these investment funds can attract the investors and which are the particular promotion methods.

Generally, within the investment fund – investors relationship, the fund has to play a very active role as far as the fund promotion, strategies and performances are concerned, because the fund can only function based on the money provided by the investors.

In the particular case of private equity funds, the attraction and promotion activities are developed regarding the following aspects:

**1. the attractiveness of the investment strategy** of the fund in accordance with the emission prospect<sup>1</sup>

- The choice of the investment geographical area
- The size of the business opening investment
- The orientation towards a specific activity domain – the choice of the investment area
- The involvement within the company (the participants’ form)
- The period of investment (that guides the type of investment)
- The way of investment – the actual strategy

For instance: Globinvest – FAPT is a fast growing private equity fund, that places a considerable weight of the resources gathered in shares listed in Romania, with a smaller liquidity, but with a strong growth potential.

A specific trait of private equity funds, is their strategy of investing in high risk placements, namely they invest over 70% in shares, the rest in bank deposits, treasury notes, municipal and corporate bonds, derived instruments and even cash.

For instance, Globinvest - FAPT declared a fund structure comprising: over 90% shares, 3,63% deposits and 4,53% cash reserves.

**2. the fund performance** or the report profit – risk, is a very important aspect regarding

investments, but it depends on what kind of risk every investor prefers. If we refer strictly to the case of private equity funds that correspond to investments in high risk capital funds, then investors will take a high risk in the hope to gain high profit. Still, one needs to consider the fact that the value of the share titles will be affected by the evolution of the capital market and the installment rates as an answer to economical, political or financial factors. The influence of these factors on the fund shall be determined by the type and due date of the placements, by the evolution of the portfolio goods issuing, by the exposure level of the fund in relation to each issuing, as well as the manager’s ability to invest. The fund is at risk and there is no assurance that the investment policy of the manager shall result effectively in the increase of the share titles value.

Although the fund performance and profit indicators are important because they show the increase or decrease percentage of the fund units values held by investors, it shall be considered the fact that these indicators reflect a past performance, which, although relevant, does not represent a guarantee for future evolutions.

**3. the reputation of the trustees** attract investors’ attention by the safety they can ensure to the invested sums and the titles owned by the fund based on the portfolio placements.

**4. the reputation of the shareholders** and of the fund managerial team become important elements in choosing upon an investment society to manage the capital of investors, they have to look trustworthy and able to hold confidentiality. Moreover, they have to present transparent investment strategies, as well as the results obtained by using the investors’ money funds.

Usually, within the managerial team there has to be at least one professional risk manager (PRM), as well as chartered financial analysts and other financial professionals.

**5. the guarantee of the invested sums** at the level of the capitals held in fund units. As well as in the case of any deposits, the invested sums have a certain degree of coverage that ensures a guaranteed compensation threshold.

In Romania the guarantee is ensured by the Investors’ Compensation Fund Inc. The compensation is ensured by the Fund in the

---

<sup>1</sup> The emission prospect of the fund comprises information regarding the administration of the fund, the investment policy, the rights and obligations of the investors, further contractual provisions regarding the relationship between the investor and the investment company.



case of the impossibility of returning by the an intermediary of the monetary funds and/or financial instruments of an investor, entrusted only on the basis of an intermediation contract of carrying out financial investment services. Until 12.31.2012, the investor compensation ceiling limit is established gradually to reach 20.000 Euro, as follows:

- a) at the time of the Fund authorization the equivalent in lei of 1.000 euro/ individual investor;
- b) from the 1 of January 2006 the equivalent in lei of 2.000 euro/ individual investor;
- c) from the 1 of January 2007 the equivalent in lei of 4.500 euro/ individual investor;
- d) from the 1 of January 2008 the equivalent in lei of 7.000 euro/ individual investor;
- e) from the 1 of January 2009 the equivalent in lei of 9.000 euro/ individual investor;
- f) from the 1 of January 2010 the equivalent in lei of 11.000 euro/ individual investor;
- g) from the 1 of January 2011 the equivalent in lei of 15.000 euro/ individual investor;
- h) from the 1 of January 2012 the equivalent in lei of 20.000 euro/ individual investor.

The equivalent in lei of the compensation ceiling is calculated based on the reference prices communicated by B.N.R. at the date of the finding of the situations mentioned under art. 47 Law no. 297/2004 regarding the capital market and under the conditions established by the C.N.V.M. Regulation no. 3/2006.

### **C. INVESTMENT FUNDS and PORTFOLIO COMPANIES**

Whereas the promotion of investment funds to target clients is concerned, there is a particular situation, due to the fact that the investment fund will be promoted by using the target company, especially because of the effects resulted from being involved in the activity of the company.

Still, it is known that the fund does not invest in any kind of company, choosing only those companies that would ensure benefits, respectively the recovery of the initial investment and a multiplied gain over the invested sums.

It is common knowledge that any company needs financing in order to develop. In order to achieve that, it is necessary for it to make business plans so as to attract investors as soon and as easy as possible.

Therefore, within the investment funds – target companies relationship, the companies in

need of financing shall initiate the partnership by creating and presenting the business plan to those who can finance them (the investment fund).

In order to finance a company, investment funds shall evaluate all business plans of the companies in view to be financed, out of which they shall choose only that or those the correspond to their investment vision.

## **2. Conclusions**

Within any financial society maintaining the portfolio of clients becomes a crucial part of the marketing strategy applied by the investment company or the investment fund. In the financial services field, like in other domains, the process of carrying out of the services involves a multitude of relations between the provider and the consumer. The concept of care towards the consumer is strongly related to that of the consumer satisfaction.

Therefore, it is important to observe the main connections that can be set between the participants in relation with the funds functionality.

## **3. References**

- [1] Gilligan J., Wright M. – „*Private equity demystified. An explanatory guide*” – ICAEW Corporate Finance Faculty, Rotterdam University, 2008
- [2] Shell James – *Private Equity Funds. Business Structure and Operations*; Ed. Law Journal Press, New York, 2006
- [3] „*Private equity: Post exit performance analysis*” – Manisha Rochiramani, Akhil Doiphode, Ankush Chhabra – Applied reserch project, SP Jain Center of Management, Singapore, 2008, available online at: <http://ssrn.com/abstract=1448200>
- [4] [www.aaf.ro](http://www.aaf.ro)
- [5] [www.cnvm.ro](http://www.cnvm.ro)

## The management of the financial balance

Răscolean Ilie

*University of Petroșani, Faculty of Sciences*  
*ilierascolean@yahoo.com*

Szabo Robert

*University of Petroșani, Faculty of Sciences*  
*robert.szabo@yahoo.com*

### Abstract

*Financial balance sheet approach allows emphasizing the relationship between sources of funds held by the enterprise and allocating these funds. It is the accounting records that describe the synthesis of assets and liabilities of the company at year end and the other cases provided by law, all balance is highlighted by the double representation of heritage, providing a separate description of assets and liabilities. The main indicators of financial stability analysis, after studying the balance sheet, are: working capital, working capital requirements, respectively the net Treasury. For example, a case study, was made on the company Beta S.A.*

**Key words:** financial balance, financial stability analysis, balance sheet

**JEL Classification:** M21, G31

Etymologically, the word balance, which defines the concept of scale with two plates that are in balance, derived from the words "bi" and "Laux. The first definition given of was "balance of wealth", in relation to sources (resources) of its acquisition, the balance formed the subject of constant concern both for those who prepared it and those who use it as a management tool heritage. There are several theories which have emerged on the balance model, modeling side of the property and balance functions. Balance can be defined as an array of wealth in monetary units having size and economic value of property claims in relation to their funding sources and the result obtained.

Balance in the general sense is defined as a situation which is prepared annually summary, based on the books and records of which reflect the work and its results. Balance is the official document management company. Actual elements of balance are: - balance sheet itself - the profit and loss - Annex - annual report. Balance sheet accounting is a synthesis document which shows assets and liabilities of the company at year, and other situations stipulated by the legislation. Thus, the dual representation of heritage is done with balance sheet asset that reflects the state of the company providing a separate description of assets and liabilities. Pooled assets and real property assets of the debt and equity and debt liabilities. Financial balance sheet approach allows emphasizing the relationship between sources of funds held by the enterprise and allocating these funds.

According to regulations, consolidated balance sheet is a document which presents assets, liabilities and equity of the entity's financial year, and in other cases provided by law. For the purposes of these rules sheet items are defined as an asset is a resource controlled by the entity as a result of past events from which it expects to generate future economic benefits to the entity and whose cost can be reliably measured, a current debt is an obligation of the entity arising from past events and the settlement that is expected to result in an outflow of resources embodying economic benefits, equity represents the residual interest of shareholders in the assets of an entity after deducting all liabilities. Theories of balance intend "to look for balance, and according to its base content and the assessment of the content, so it becomes the main information system and data analysis and management

work of socio-economic entity. Financial balance sheet approach allows emphasizing the relationship between sources of funds held by the enterprise and allocating these funds. Legal approach allows emphasizing the balance between rights and obligations that the opposition between active and passive.

Thus, if the legal optical passive approach to balance the economic commitments are outlined in the eyes of financial liability coverage appears to balance the contributions of funds or funding sources held by the company. For example, a loan from a credit institution, is an operation which has financial implications for the balance, a consideration of resources (funds) further, and legal implications is the formation of new debt the company and its obligation to repay this due to some maturity.

The balance sheet reflects the financial terms of use (allocation) of funds legally and from the economic rights of property and debt held by the company. For example, possession of materials are available for business, in financial terms, use of funds for setting up such stocks, and in legal terms, an asset ownership over them. Also supply goods to third parties, following the payment to be made under contract terms at a later date, is a financial transaction which has the following meanings: a new source of funding until the debt falls due, and while a use this funding. This operation is interpreted in terms of the legal significance: a new commitment and ownership while the property asset.

Internal structure can be presented on the balance sheet assets and liabilities duration criterion. Thus, items are arranged according to asset liquidity and liability positions according to charging. Assets can be sorted according to their degree of liquidity, which indicates their possibility to be converted into monetary form, in the longer term more or less close, and in normal use. Some activities are intended to be consumed in a period of time, more than one year, as property or assets, with a low liquidity. This includes tangible, intangible property and financial assets in a category called *inmediară* course. Assets are characterized by low liquidity, differentiated according to their nature, amortizable or depreciable and amortizable according to the normal life span. Degree of liquidity may be affected by certain transactions, such as for example the disposal of assets. They are also called permanent or stable

allocations due to slower rotation of capital invested in them. Part of assets consumed in a cycle of exploitation, the liquidity is less than a year.

These assets, including money held are in the form of money, have a high degree of liquidity. This includes assets and current assets, consisting of various categories of inventories: raw materials, production in progress, finished goods, receivables and cash availability. Current assets are called cyclical or temporary allocations as recovery of capital invested in them are made at the conclusion of an operating cycle (supply - production - sales).

Liabilities can be structured by the degree of charging ie their ownership to become due on a certain period. Thus, each element corresponds to a passive commitment but payment obligations are distinguished by very different maturities. Moreover, some elements of passive restraint does not include any repayment at maturity, equity falling into this category.

Equity is the residual interest in assets after deducting all business debt, including aggregate result, net of all transactions and events past.

The equity category fall: equity, equity-related premiums, reserves, revaluation reserves, retained earnings and other equity. Equity have a high chargeability and low and are called permanent sources *stabile*. Unele liabilities, the nature of debt repayment involves a binding obligation and the degree of charging is different depending on payment deadlines. Thus the nature of the medium and long term debt also comes in permanent and stable sources, the degree of charging is more than a year. Medium and long term debts include loans to finance investments and other debt. Short-term debt and current liabilities comprise operating liabilities and short-term loans.

Are characterized by high chargeability, is called cyclical or temporary sources and are generally contracted for necessary operating cycle. Operating debt obligations include operating results of the deployment cycle: debts to suppliers, employees debts, obligations to the public budget, debt to shareholders, other debts. Short-term loans are loans from credit institutions operating cycle needs.

The main indicators of financial stability analysis, after studying the balance sheet are: working capital, working capital requirements, net Treasury respectively.

For definition and calculation of working capital (WC) assets and liabilities are grouped based on the criterion duration of assets and liabilities. Thus, assets are grouped into assets with higher liquidity and assets of one year with a high degree of liquidity, less than a year. Liabilities are grouped into permanent capital including equity and other debt with charging more than one year and short-term debt charging less than a year. Permanent appropriations in assets, are usually covered by permanent sources. If sources are higher than permanent ongoing need for allocating the funds, the surplus of unrestricted funding cycle can run for renewal investments in stocks and debt, and this resulted in the potential use his name, that of 'fund bearing. "The revolving fund is an expression to achieve long-term financial stability and its contribution to the achievement of short-term financial balance." [2]

The revolving fund is determined by the relationship: = capital revolving fund permanent - permanent allocation = (equity + debt on medium and long term) - (fixed assets). This determination by the revolving fund account is the most relevant in terms of its significance. Revolving fund and can be determined as follows: revolving fund = assets - liabilities revolving fund balance determined by patrimony (financial) is called net working capital overall. If working capital is positive means that are permanent sources of funding allocations for permanent cover.

Where working capital is negative, permanent sources do not provide full funding of fixed assets, with a revolving fund insuficientă. Thus, a positive working capital reveals an equilibrium because financial assets are financed in a sustainable manner, using stable sources, mainly equity and medium and long term loans. Negative working capital indicates a state of permanent financial imbalance as sources are insufficient to finance the permanent appropriations, and in this situation there is need to turn to sources in the short term needs at the expense of operating cycle. In phase tanzitie to a market economy, many enterprises especially those owned or privatized state recorded a negative working

capital because of losses in consecutive financial years, which led to reduction in equity. Under these conditions had to resort to cyclical sources for permanent allocation needs and often these sources were the outstanding debt due by the suppliers and in particular to the state budget, local budgets, social security funds special.

The revolving fund can also be analyzed according to the permanent capital structure, equity and debt respectively medium and long term. This analysis allows us to highlight the extent to which financial balance is achieved through equity, that the degree of financial autonomy of the company. The indicator shows the degree of autonomy to appoint its own working capital and surplus highlights equity to net assets. Own revolving fund (ORF) is determined Thus: FRP = equity - assets can also cause working capital loan (WCL) as the difference between working capital and fund its working capital:  $WCL = WC - ORF$ . Revolving fund loan (foreign) expresses the size of resources lent long term to finance short-term assets.

Working capital - functional significance: a functional balance is based on an economic classification that takes into consideration the following criteria: The Active separation between allocations intended to serve the continuous activity and not the first general consumption (assets) and those not destined to remain sustainable in the enterprise (active circulating) Liabilities: separation between financing resources serving the needs of structural (stable resources) and those who disappear at the first general (except for financial debt).

Financing needs of the operating cycle are generally covered by temporary sources called debt service. Financing needs of the operating cycle, which are called cyclical or temporary use, short-term allocation is that the firm must make to stock up raw materials, production process of manufacture, finished goods, such as and to provide various customer redemption. Thus, the company must supply the goods to resell them if engaged in trade and raw materials to achieve the finished product and aids in the operation, and the characteristics of the manufacturing cycle, follows a period the realization of the products for sale, and duration of their

storage. Also in trading links with customers should give them some time payment, accumulating debt generating financing needs. Meanwhile, the work, the company recorded debt providers that received some payment terms of the consideration of goods and services supplied or work performed or provided by them. In the short term debt liabilities of the company is found to employees, shareholders, state, etc.. Debt maturity mentioned, they are sources of financing current assets.

The difference between financing needs and debt service cycle are called exploitable needed (need) for working capital (NWC).  $NWC = \text{allocation cyclical} - \text{Cyclical sources} = (\text{stocks} + \text{debt}) - \text{debt service}$ . Interpretation of positive or negative values of working capital requirements should take into consideration the causes that led to these situations.

Thus, if the difference between allocations and cyclic cyclical sources is positive, it means an extra cycle operating needs in relation to their sources of training. This can be regarded as normal if the increase is due to financing needs, due to development work, otherwise the result may be a negative gap between stock liquidity and liability for debts and liabilities. If the difference between allocations and cyclic cyclical sources is negative, it signifies a temporary source surplus to the needs of current assets. This can be regarded as normal if the acceleration due to rotation of the engagement of current assets and liabilities with maturity more relaxed, otherwise the result can only be temporary disruptions in supply and reânoinerea stock or increase their debt service due to nonpayment at maturity. Components are elements of treasury cash assets and liabilities, including availability plays a vital money. Mention of financial assets: investment securities, commercial paper receivable, certificates of deposit. Treasury liabilities are short term loans, such as: cash loans, credit balance on current account, credit mobilization of claims. Relationship of net cash calculation is: Treasury (T) = active cash - cash processing. Treasury may determine and subject to financial balance equation:  $WC = NWC + NT$ , where  $NT = WC - NWC$ .

A positive cash result of employment is effective and reflects a financial equilibrium înreprinterii providing short-term financial autonomy. Depending on the size of the surplus cash is placing question efficient and safe

financial market - its money. Treasury shows a negative net financial imbalance and signifies a potential cash shortfall to be covered in short term loans which have a high purchase cost, while charging a high degree. Between profitability and liquidity of inter-relationships exist. Thus, an activity creating profitable treasury premises obtaining positive and a positive cash directly influence the possibility of obtaining a desired profitability level. A profitable business but not necessarily a positive cash it changes depending on financing needs and favorable or unfavorable gap between the maturity proceeds and maturity payments.

To exemplify the above information was made following case study, the SC company Beta S.A. S.c. Beta S.A. is a publicly owned company.

The main products manufactured and marketed by the company are: HP and UHP graffiti steel electrodes, calcined petroleum coke, concrete blocks and cathode, calcined anthracite, electro, silicon carbide, Soderberg paste. Products produced by s.c. Beta S.A. are used primarily metallurgical year.

The balance sheet is made available on 3 consecutive years 2007, 2008 and 2009 and made a financial analysis based on balance, that the first phase of financial management, one based on balance sheet.

Balance sheet

- thousands Ron -

ASSETS	2007	2008	2009
Active service life > 1 year	23.213.513	30.411.481	55.608.627
Total Assets	23.213.513	30.411.481	55.608.627
Active service life < 1 year	77.482.839	64.482.929	60.564.872
Cash assets	503.976	824.677	93.807
House and bank accounts	503.976	824.677	93.807
Total	77.986.	65.307.	60.658.

Active assets	815	606	679
<b>LIABILITIES</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Liabilities with maturity > 1 year	47.754.474	48.539.826	73.527.458
Equity	43.769.387	45.050.972	71.011.949
Debts that must be paid >1 year	3.228.301	2.733.555	1.926.671
Revenue in advance	756.786	755.299	588.838
Liabilities with maturity <1 year	53.445.854	47.179.261	42.739.848
Debts that must be paid <1 an	53.445.854	47.179.261	42.739.848
Total Liabilities	101.200.328	95.719.087	116.267.306

Tabel nr. 1

Further three indicators are calculated financial balance (in Table. 2)

Indicators of financial balance

Indicatorii	2007	2008	2009
NGWC	24.540.961	18.128.345	17.918.831
NWC	24.036.985	17.303.668	17.825.024
NT (Cash Flow)	503.976	824.677	93.807

Tabel nr.2

After calculations we can draw the following conclusions made: thus we see that, Global Net Working Capital Fund, determined by the balance sheet by subtracting permanent source of net fixed assets, positive values were registered during the 2007-2009 period analyzed. This means that the company can finance the whole stable means of sustainable resources, sustainable resource surplus funds

being used to fund cycle. On the other hand, positive working capital surplus revealed a potential short-term liquidity (current assets) to potential liability for short-term (current liabilities).

WCR (working capital requirements), calculated by subtracting the total current assets, non-cash assets but debt with maturity less than one year) înregistrează also positive throughout the period analyzed.

This means that temporary needs exceed temporary resources, with a temporary resource shortage. Given the scope of the company, but this situation is not favorable because it is financed from surplus to the needs of sustainable resources.

NT (Net Treasury) is the most meaningful expression of employment to show positive net eficiente. The treasury is not only sufficient to fund operating activities, but also to achieve a positive treasury to allow the holding of cash or cash make investments.

A positive cash means that now constitute financial investments from financial partners for an amount that exceeds the resources obtained from short-term financial partners. If the company "SC Beta SA, shows that positive net treasury from work done is emits a surplus of funding, but nevertheless fluctuate dramatically from one year to another.

## References

- [1]. Brezeanu, P. - Financial Management, The publishing house of the Romanian – British University, Bucharest 2008;
- [2]. Stancu, I. - Finance - The Theory of Financial Markets, Finance Analysis and Financial Managemt, The publishing house of economics, Bucharest , 1996;

[3]. Vasile, I. - Financial Management Company,  
The didactic and pedagogical publishing house,  
Bucharest, 1997;

[4]. Vintilă, G. - Financial Management  
Company, The didactic and pedagogical  
publishing house, Bucharest,, 2000;

[5]. Răscolean, I. – Gestiunea financiară a  
întreprinderii, The publishing house of the,  
Petrosani University, 2004.

# **Evolutions and Implications of the Convergence Indicators in Romania's Crisis Damaged Economy**

Mihai Rebiga

*“A.I.Cuza” University Iași, Faculty of Economy and Business Administration*

*Email: rebigamihai@yahoo.com*

## **Abstract**

*The article aims to analyze the leading factors' in terms of monetary convergence within the European Union level evolution. Thus, it explores a number of specific indicators of which we could mention inflation, long-term interest rates, public debt and budget deficit, but the analysis also takes into consideration other indexes as well. Under these conditions it follows the impact produced by these changes in the Romanian economy in the past as well as their future influence in the economy in case they are marked in the limits required by the EU for new countries that wish to adopt euro as local currency.*

**Key words:** Monetary policy, inflation rate, long-term interest rate, exchange rate, public debt, budget deficit

**JEL Classification:** M41, G01

## **1. Introduction**

After the integration in the European Union, the next target for Romania is to achieve the Euro Area, and to adopt euro as currency replacing the Romanian leu. The problem is that in order to be included in this area, Romania needs to accomplish the convergence criteria. These are a little too restrictive, especially when thinking of the present economic crisis. During this article, the indicators concerning these criteria are analyzed by evolution and

implications.

The paper is structured as follows: Section 2 presents the evolution of inflation in Romania in 2005-2009 and the implications the captured changes had, along with some expectations for the period ahead. Section 3 examines the long-term interest rate, focused on its past developments and implications on the economy on the one hand and its current changes and future implications on the other hand. Section 4 studies the indicators included in the Public Finance criterion, from past to present, analyzing the expectations of public authorities and actual results recorded by the economy. Section 5, which concludes the analysis, brings to light a disturbing issue for some, but very present and real at the same time. It is better not to focus on achieving limiting objectives during economic crisis, reached by practicing restrictive policies, but it is advisable to practice other policies to encourage economic expansion. It is indicated to take into consideration restrictive measures to get closer to achieving the objectives set by the convergence criteria only after the crisis is past.

## **2. Price stability criterion – crisis source**

Mugur Isarescu, governor of the Romanian National Bank outlined in his article “Nouă lecții din actuala criză financiară” as a prime crisis developing factor the low level of inflation, mentioning that the measures taken by Fed, in order to obtain price stability through increasing interest rates has had a high number of credits move to the subprime category. The fact that the low level of inflation coexisted with a high level



of liquidity in earlier periods seems to be the main source of this phenomenon, whereas a non-involvement of central banks' monetary policies would have led to high inflation, leading to crisis, while the measures taken, brought the economies on the brink of financial instability. A very important element in issue is the lack of solid regulations which have led to a risk accumulation performed by economic agents[2].

Under these conditions, the price stability criterion contained in the Maastricht Treaty, cannot be seen as a strong field in what regards convergence on a European scale, any more. It implies that a member state must have durable price stability and a medium inflation rate, calculated for the year before the examination, not higher than 1.5% of the arithmetic average of inflation rate in the three most advanced states in regards to price stability. From this perspective I've chosen to analyze inflation in Romania from 2005 until present. I will also analyze the prognosis made by the main authorities in this domain. The table below presents the inflation rate evolution in Romania compared to that of the top three states in this domain from the European Union.

Table no. 1 The inflation rate criterion in 2005-2009

EU State	Inflation rate(%)
2009	
Luxembourg	0.0
Belgium	0.0
France	0.1
Romania	5.6
2008	
Netherlands	2.2
Portugal	2.7
Germany	2.8
Romania	7.9
2007	
Malta	0.7
Finland	1.6
NL, FR	1.6
Romania	4.9
2006	
Finland	1.3
Poland	1.3
Sweden	1.5
Romania	6.6
2005	
Finland	0.8
Sweden	0.8
Netherlands	1.5
Romania	9.1

(Source: Eurostat)[7]

As it can be seen in the previous table, Romania has always been far from reaching this criterion. Even if in the years 2005 and 2006 this wasn't an objective, the measures taken by BNR were meant to attract part of the money supply in the banking system so as to limit inflation levels. In these two years, as a result of high interest rates, as we shall see in the next section, some controlling exchange rates, influenced mainly by foreign capital from Romanians working abroad and speculative capital coming from foreign banks which were trying to get a higher profit from using their capital.

In what regards the year 2007, on the same pathway, even the most optimistic specialists were taken by surprise by the registered price

massive capital injections have been performed, mainly with speculative purposes. Actually, in the anti-inflation policy applied in Romania, from the beginning there could be seen two directions: on one side there was price control through controlling the total amount of currency in relation to the totally quantity of goods, and on the other was price control through level indicator, the inflation level reaching the lowest value since the beginning of the post-December economy. Even under these conditions, the inflation level of 4.9% was bigger with far more than 1.5% than the average for the top three EU countries, which registered only 1.3%.

At the end of 2008, the financial crisis affected all the states in Europe, thus the average for this indicator reaching 2.6%. Even so Romania was more affected than other European states, and registering an inflation rate of 7.9%. This was mainly because of the end of the massive foreign capital injection. More so, the foreign banks, which used to pump money in the Romanian economy, in order to gain higher profits, saw themselves in difficulty due to the lack of liquidity which struck the economies of the countries they had their central headquarters in. As a result the main solution was to retreat the sums invested until that moment in other economies. As Romania had those sums as the main instrument for controlling the exchange rate and financing the economy, it saw itself in the situation where the liquidity crisis had worsened, and the exchange rate could not be controlled anymore. Under these conditions, even if the liquidities were limited, the inflation worsened. The lack of liquidity phenomena could be overcome by increasing the money circulation speed, based on the principle set by Irvin Fisher, which states that  $M \cdot V = P \cdot Q$ , where M stands for Money Supply, V stand for money circulations speed, P stand for Price levels, and Q stands for the quantity of good in the economy. Even so, the general tendency was to limit consumption, especially as the economy was confronting a high unemployment rate, caused by bankruptcy and dismissals. As a result, panic had led to a decrease in money circulation speed.

More so, the credit contracted by the Romanian state from FMI had led to new restrictions in public spending. Even if the capital injection had led, in some extent, to a drop in exchange rates for foreign currencies on the Romanian market, the restrictions in public spending had aggravated the economical situation. Instead of a coordinated expansionist policy coordinated on both monetary and fiscal pathways, the good parts brought in by BNR's policy were canceled because of an inappropriate fiscal policy partially imposed by the loan contracted from FMI. As a result, even if the year 2009 brought a lower level of inflation, and the policies practices by BNR were meant to encourage consumption, the state of imbalance at

a national level persisted. More so under the conditions in which the inflation rate in Romania reaches 5.6%, most of the EU countries register extremely low levels for this indicator, as it can be seen in the above table. Some EU states even register negative values for that indicator which could lead to some perturbations.

Regarding the entrance of capital, the Reinhart couple, show in their study "*Capital Flow Bonanzas: An Encompassing View of the Past and Present*", the fact that in times with high levels of capital entry, real PIB constantly has high levels, following that when the capital entry stops, PIB would register a sudden drop and then start to rise again making it possible to reach the previous top values in 3 – 4 years (Reinhart, C. M., Reinhart, V., 2008). Also, the real exchange rate drops in times with high capital entries, and rises suddenly in the year after the entries have been stopped, the national currency registering a depreciation and then ascending again 3 – 4 years after foreign capitals begin entering again. Taking this further, the low inflation rate registered before the shock, would register a quite sudden increase and will get back to normal values in the following years.

Taking this model, Mugur Isarescu, makes some forecasts in his article „Finantare si ajustare in economia Romaniei” which demonstrates that the reasoning is good, and the anticipative analysis fit in the charts. As a result, it is expected that the inflation rate will drop in the following periods[1], but I personally the anticipations a bit too optimistic. The inflation rate is dropping but maintain this trend depends on the policies deployed by authorities.

A very interesting analysis on this matter can be found in the Romanian Government's convergence program for the 2009 – 2012 interval, in which it is estimated, following this model, a decrease in inflation rate of 3.7% in 2010, 3.2% in 2011 and 2.8% in 2012[4]. These estimations are made mainly in anticipation to our joining the Exchange Rate Mechanism, event which is desired to happen in 2012. In what regards this mechanism, some specialists consider that joining it would offer both serious advantages and disadvantages. Of the advantages we could name a higher confidence in Romanian economy generated by a lower

currency risk[3]. Another mention worthy factor is inflation limiting. Taking part of a such mechanism imposes making use of inflation limiting measures, which generate trust in regards to the economy, both from the inside and the outside. At the same time, from the challenges we cannot ignore the fact the theexchange rate equilibrium level cannot be determined when prices are not yet totally adjusted, a fact which could generate negative effects on the economy in the future.

### 3. The interest rate convergence criterion – impact on the Romanian economy

According to the Maastricht Treaty, this criterion implies that the long-term nominal interest rate (10 years) should not exceed, the average interest rate registered in EU member countries (more than three) which shows the best results in terms of price stability by more than 2% in the year before the evaluation.

Even with Romania having joined the EU in 2007, I believe it is necessary to analyze the indicators' evolution starting with 2005. This was a year that we can consider the threshold, because starting this year, the Romanian National Bank changed its monetary policy, setting the main objective on targeting the inflation. It is interesting to examine how the central bank used the interest rate instrument as leverage in influencing the inflation and exchange rate. As mentioned in the previous section, with capital account liberalization and increasing interest rates, huge amounts of money began entering our country. Increasing interest rates came as an extreme measure for reducing the money in circulation. Some authors have heavily criticized the central bank at that time for its monetary policy, considering it the main culprit for the long-term crisis Romania faced. Among the main arguments mentioned were encouragement and stimulation of high interest rates, which, together with the taken measures regarding the obligations of commercial banks, had led to credit's choking[5].

I personally believe in the central bank's policy, although a good period of time the credit was discouraged due to high interest rates. The demonstration comes when analyzing credit's

evolution after the reference interest rate began dropping. We could see that most of them did not reach the economic agents in order to aid their investments and increase production, but the consumers in the form of consumer credit. In fact, the consumer credit was granted much too easy and with a very small check, becoming the main reason for the financial crisis spreading in our country.

Towards a better understanding of this phenomenon, it is necessary to follow the time evolution of interest rates and to make some mentions about the credit change in this range. The table below presents the registered data for the 2005-2009 period:

Table no. 2 The interest rate evolution in the 2005-2009 range

EU State	Interest rate
2009	
Luxembourg	4,23
Belgium	3,90
France	3,65
Romania	9,69
2008	
Netherlands	4,23
Portugal	4,52
Germany	3,98
Romania	9,69
2007	
Malta	4,72
Finland	4,29
Netherlands	4,29
Romania	7,13
2006	
Finland	3,78
Poland	5,23
Sweden	3,70
Romania	7,23
2005	
Finland	3,35
Sweden	3,38
Netherlands	3,37
Romania	6,99

(Source: ECB)[8]

As can be seen from the table above, the interest rates reach high levels in Romania during the analyzed period, values that are well above the average required in the interest rate convergence criterion. It is very important to take into consideration the high inflation as an explanation, indicator that gives us a lead to the lower limit of the positive real interest rates.

It is very important to end this section concluding that, although the interest rate is high, which creates a disadvantage in terms of our future accession to the Euro Area, it has important implications regarding the balance of payments deficit limit, especially as where most of the loans in Romania go to consumption, not domestic consumption but one that is satisfied by imported goods.

#### 4. The public finance situation convergence criterion

This criterion is divided into two main objectives, both related to public administration. The first requirement is to limit the public debt to no more than 60% of GDP, or the ratio of public debt in the GDP to decline enough to be considered approaching the reference value at a satisfactory level.

In this sense, the public debt evolution in Romania between 2005 and 2009 is captured in the following table:

Table no. 3 The public debt evolution in the 2005-2009 range

Year	Public debt/GDP
2005	20.4%
2006	18.4%
2007	19.9%
2008	21.8%
2009	29.3%

(Source: The Romanian Ministry of Public Finance)[9]

As can be seen in the table above, this criterion is the only one that can be considered achieved so far. Thus, we can observe that the public debt is limited within the whole range of just below 30%. However, we should not

conclude that Romania recorded outstanding performance in this area, but rather that this criterion is not restricting enough, the maximum margin being very permitting.

The second direction the public finance stability criterion is set on is budgetary discipline and it states that the budget deficit is not to exceed 3% of GDP. From this perspective Romania was quite far from achieving its objective lately. A bad governance, based on data that is far from the reality in the budget drafting period, trying to forget everything about the crisis we are currently facing and betting on economic growth when it was not possible, made the budget deficit in recent years much bigger than targeted. Moreover, the Romanian Ministry of Public Finance's expectations presented in the convergence programs have been and still are very optimistic, as if trying to detach from the current economic reality. Thus, in May 2009 in the convergence program they were hoping for a 2009 budget deficit of 5.1%, 4.1% for 2010 and was expected to achieve the targets set by the criterion in 2011, reaching a level of only 2.9% in GDP. The Convergence Programme published in 2010 brings some changes, consisting of enlarged percents as follows: 2009 budget deficit of 8.0%, 2010 - 6.3%, while expectations for 2011 fell to 4.4%[4].

A key aspect in terms of public finance stability consists in choosing the normal way of intervention when facing an economic crisis. Thus, recession periods require tax measures designed to stimulate the economy. Under these conditions a lower level of taxation is indicated, leaving a higher disposable income to the population for consumption and, most important, investment. A proper intervention should also take into consideration the increase of the public expense rate, the aim being to influence the government consumption as a component of total consumption on the one hand, and encouraging the investments directly by public investment or indirectly through subsidizing the private sector on the other hand.

However, the main issue in Romania is reaching the limits imposed by the IMF in this blurred present. Thus, in times of crisis, measures such as mass layoffs, wage reduction

or limitation of consumption and public investment appear inadequate. But being constrained by the limitations of the convergence criteria on the one hand and the ones coming from the international institutions that accepted to loan the Romanian state on the other hand, the authorities can be understood more easily. However, when facing recession, the state should probably be more protective to its population. The budget deficit seems to be tolerable during economic crisis in order to help rebuild the private sector of the economy.

## 5. Conclusions

The conclusions are obvious at this point. Although Romania wishes to be included in the Euro Area, the benefits of the single European currency bring much less to the Romanian economy than the sacrifices needed to be made in order to achieve the objective. Our authorities should forget about the convergence criteria for the moment, focusing on how to help the economy regain its strengths and go back to the normal trend that we were on before the present crisis started ravishing the country. Never the less, the loan from the international institutions and the conditions imposed by them are not to be forgotten but I think the authorities could find other ways of reaching their targets without getting so many people fired. After all the welfare keeps a high public expense level without any productivity coming from the personal that got dismissed.

Farther more, a possible implementation of the single monetary policy could have negative effects on the Romanian economy at present, especially because the National Bank will not have the authority to intervene on the market to defend the national currency, inflation targeting and indirectly boost economy practiced by the credit policy. The most pessimistic version of the story is that of a national collapse following the shutdown of the NBR beneficial interventions.

## 6. References

[1] Isărescu, M. (2009), Finanțare și ajustare în

economia României, speech held at the Honoris Causa Award Ceremony „Alexandru Ioan Cuza” University, Iasi, 13th mai 2009

[2] Isărescu, M. (2009), Nouă lecții din actuala criză financiară, speech held during the „Ce putem învăța din actuala criză economică” organized by the Economic, Legal and Sociology Sciences Section of the Romanian Academy together with The “Cosmin Kiritescu” National Institute of Economic Research and „Grupul de reflecție E.S.E.N.” National Committee in Romania, Bucuresti

[3] Marcu, N. (2008), Romania’s exchange rate policy towards its European Monetary Union membership – proepects and challenges, *Romanian Journal of Economic Forecasting*, No. 1/2008, Romanian Academy, Institute of Economic Forecasting, Bucharest, pages: 175-181

[4] Programul de Convergență 2009-2012, Romanian Government, February 2010

[5] Radulescu, M. (2007), The impact of the National Bank of Romania Monetary Policy on the balance of payments, *Romanian Journal of Economic Forecasting*, No. 2/2007, Romanian Academy, Institute of Economic Forecasting, Bucharest, pages: 26-43

[6] Eurostat

[7] <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsieb060>

[8] <http://www.ecb.int/home/html/index.en.html>

[9] <http://www.mfinante.ro>

## Implications of the Current Financial Crisis on SME Sector in Romania

Roman Angela,  
Ignătescu Valentina Diana  
„Al. I. Cuza” University of Iași  
aboariu@uaic.ro  
valentinadiana.ig@gmail.com

### Abstract

*SME sector has an important role in national economies through its significant contribution to the creation of GDP and to increasing labour employment. The current crisis has seriously affected a substantial part of the SME sector in Romania, as in other world countries. Such an assessment can be explained by the fact that unlike large firms, SMEs are generally more vulnerable in times of crisis for several reasons, among which we mention: they can not reduce their size because they are already small, individually they are less diversified in terms of economic activities, have a weaker financial structure, they depend significantly on credit, have a lower credit rating, have fewer financing options due to limited access to financial markets.*

*This paper aims to highlight the main effects of the current crisis on SMEs sector in Romania, the main problems it faces, and some anti-crisis measures taken by national authorities and some international institutions.*

**Key words:** crisis, SME sector, financial market, current crisis

**JEL Classification:** G01, M21

### 1. Introduction

According to economic literature and practice in different countries doesn't exist a universally accepted definition of the concept of small and medium sized enterprises. The definition of SMEs varies according to the international organization that aims through its mission to support SMEs in the Member States of the European Union, also varies according to the country and even the sector of activity. For example, according to the World Bank, a

firm is micro, small and medium if it meets at least two of the three following criteria: the number of employees; the asset value or the annual value of turnover, see Table 1 [5]. Global Financial Markets Department of the International Finance Corporation used as the criterion for size classification of SMEs the credit amount because some banks are unable to make reports taking into account the size of the enterprise.

„Table 1. World Bank definitions of MSMEs”

Firm size	Empl oyees	Assets (in USD)	Annual sales (in USD)
Micro	< 10	< 100,000	< 100,000
Small	< 50	< 3000,000	< 3000,000
Medium	< 300	< 15,000,000	< 15,000,000
Loan size proxies			
Micro	< 10,000 USD		
Small	< 100,000 USD		
Medium	< 1,000,000 USD (< 2,000,000 USD*)		

\*for some advanced countries.

In the OECD publications and, in particular, in those of the Centre for Entrepreneurship, SMEs and Local Development there are used two definitions of SMEs, namely: national and regional definitions, and Eurostat definitions to ensure a degree of international comparability.

In the European Union the single market without internal frontiers and the interaction between national measures and those imposed by the European Union to support SMEs, required to establish a common definition for these companies. Thus, on April 3, 1996, the European Commission adopted a Recommendation (Commission Recommendation 96/280/EC of 3 April 1996), which established the first definition of SMEs; applied throughout the European Union. On May 6, 2003, the European Commission adopted a new definition of SMEs, taking into account the economic development of EU

countries since 1996. This definition came into force on January 1, 2005 (see Table 2) and is applied to all policies, programs and measures for SMEs launched by the European Commission [3].

„Table 2. European definition of SMEs”

Type of SME	Number of employees	Turnover (in EUR)	or	Balance sheet total (in EUR)
Medium	< 250	≤ 50 million		≤ 43 million (27 million in 1996)
Small	< 50	≤ 10 million		≤ 10 million
Micro	< 10	≤ 2 million		≤ 2 million

In Romania, from January 2006, the legislation on SMEs (Law 346/2004 on stimulating the creation and development of small and medium enterprises amended and supplemented by Government Ordinance no. 27 of 26.01.2006) is entirely harmonized with the Recommendation of European Commission nr.2003/361/EC.

The SME sector has an important role in a national economy by contributing significantly to its economic and social development. Such an assessment results from the following arguments [8]: SMEs generate most of the GDP of each country, usually between 55% - 95%; provide jobs for most occupied population; present the largest dynamism, aspect demonstrated by the evolution of their number, the volume of turnover and the size of employment, high sensitive than the large companies; they have a high degree of adaptability to market requirements due to their smaller size and the direct involvement of the entrepreneur in the current activities; offer professional and social fulfillment of a significant proportion of the population.

In the European Union, SMEs have a share of 99.8% in total business, generating 58% of the added value of the EU-27 economy and provide more than two thirds of total employment [7]. The significant importance of SMEs sector for the sustainable development of European economies has been recognized repeatedly by the European Union institutions, in particular by placing this sector in the center of Lisbon Strategy, especially since 2005, but also by adopting various measures to support and stimulate the development of SMEs. An extremely important moment in European

policy for SMEs is the adoption on June 25, 2008 the initiative called the Small Business Act (SBA), aimed at enhancing sustainable growth and competitiveness of European SMEs. Also, the Small Business Act propose, for the first time, the establishment of a comprehensive policy framework for EU Member States and aims at establishing irrevocably the principle “Think Small First” in policy development - from legislation to public services - and promoting the growth of SMEs by assisting them in solving problems which hamper their development [1].

The significant contribution of the SME sector to economic and social development of countries permits the assessment according to which the functionality and the performance of an economy are conditioned by its companies, mainly by SMEs.

This paper is structured as follows: the second section highlights the main consequences of the current crisis on SMEs sector in Romania, but also from other countries. Section three highlights the main synthetic steps taken to support small and medium sized enterprises. Our study ends with conclusions.

## 2. Analysis of the effects of the current crisis on the SME sector

The global economic crisis has dramatically changed the market conditions in which firms operate. The redemption of debts by the financial institutions increased capital costs and reduced credit availability, while the exchange rate adjustments have raised the price of imported inputs and exports become more competitive.

Even in "normal" economic conditions the governments have recognized that in order to survive and grow, SMEs need specific policies and programs, hence the full range of measures for SMEs in force in most countries of the world. However, now SMEs were particularly hard hit by the global crisis. These companies are now vulnerable for several reasons: in addition to traditional challenges regarding access to finance, which continues to apply, appear new capital supply difficulties.

It is important to note that SMEs are generally more vulnerable in times of crisis for several reasons, among which we mention: it is harder for them to reduce their activities since



they are already small; they are less diversified individual within their business; they have a weaker financial structure (eg. lower capitalization); they have a lower credit rating; they are strongly dependent on credit and have fewer financing options.

To examine the effects of financial crisis on SMEs in Romania, we consider the results of the investigation conducted by the World Bank Group entitled "The Financial Crisis Survey", which aims to measure the effects of financial crisis on firms. The first wave of survey covers six countries in Eastern Europe and Central Asia - Bulgaria, Hungary, Latvia, Lithuania, Romania and Turkey. The interviews for the survey on the financial crisis were conducted in June and July 2009 and took into account 1.686 companies. We consider this study by the World Bank as being relevant to our research because, as we observe in the table 3, over 60% of firms in the sample selected from those six countries are SMEs [11]. While only one third of the firms analyzed are large enterprises. Moreover, the data obtained in the study showed significant differences between the effects of the financial crisis on small and medium enterprises, on the one hand, and on large enterprises, on the other hand.

„Table 3. The composition of the sample analyzed in the study conducted by World Bank”

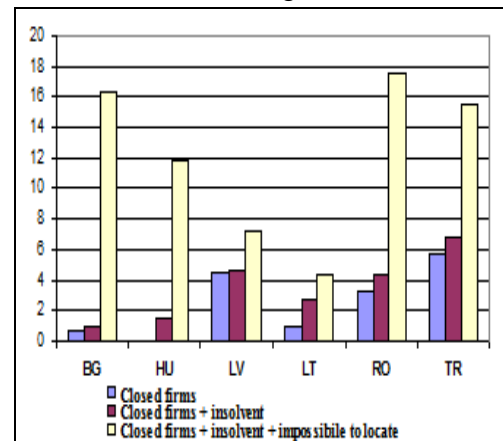
Country	No.	The composition of the sample depending on the firms size (in %)			
		Small	Medium	Large	Total SME
Bulgaria	150	47	35	18	82
Hungary	187	34	30	36	64
Latvia	226	36	31	33	67
Lithuania	239	39	34	27	73
Romania	370	30	36	34	66
Turkey	514	25	42	33	77

In addition to the questionnaires about the financial crisis, all baseline survey respondents were contacted to determine if the company was still active or have become inactive. Based on the responses were determined exit rates of the firms from the market in 2009 compared to 2008. These exit rates can be analyzed in figure 1 [2].

As we can see, the percentage of firms closed in 2008-2009 was highest in Turkey (5.79%), followed by Latvia (4.54%) and Romania (3.28%). Hungary is the country that

has not closed any firm in the analyzed period. If we consider the closed companies, insolvent and the ones impossible to locate, we see that the situation changes a little, Romania is on the first place with a rate of 17.59%, followed by Bulgaria (16.39%) and Turkey (15.57%). On last place is Lithuania with 4.35%.

„Figure 1. Exit rates of the firms in analyzed countries during 2008-2009”

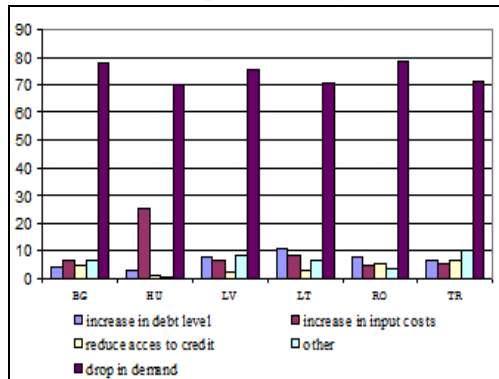


The intensity of the effects of the financial crisis on the firms in the six countries examined has varied by country and sector. The drop in demand was the main effect of the financial crisis in all countries (as can be seen in Figure 2) [11]. The survey showed that about 75% of firms considered that drop in demand was the most important effect of the crisis. In Hungary and Turkey the drop in demand was slightly lower (70.3% and 71.3%), while in Bulgaria and Romania had higher values (78.12% and 78.47%).

Regarding the second effect of the financial crisis on firms the situation has not been the same in all countries. For example in Lithuania and Romania the second most important effect of the financial crisis on firms was considered the increase in debt level while in Hungary has been considered the increase in input costs. In addition, it was surprising to note that access to credit was considered the effect of the crisis with the greatest impact only by a small number of firms in all countries.



„Figure 2. The main effects of the financial crisis experienced by firms”



The effects of the crisis on firms were different not only across countries but also on other characteristics of firms. For example, in Romania and Lithuania a large proportion of companies with domestic capital say that debt increase was the second most important effect of the crisis than those with foreign capital. Moreover it seems that foreign capital firms were immune to this effect.

As a result of the financial crisis, the average decrease of sales in the analyzed period was significant in all countries, but higher values were recorded in Latvia and Lithuania (48.4% and 48). In Romania, sales dropped as a result of the crisis with 35.90%. In the six countries, financial crisis effect measured by the percentage change in sales was presented as an inverse relationship with firm size: large firms have reduced sales less than medium-sized firms and medium firms have reduced sales less than small firms. Thus firms with few than 5 employees experienced an average reduction of 36.7% of sales while larger firms have experienced a contraction in sales of 33.1%

Current liquidity constraint due to the manifestation of the financial crisis determined firms to increase the utilization of internal funds to finance their working capital. Another frequent response to current liquidity constraint was delaying tax payments to authorities and suppliers. Also, in response to financial crisis firms seek to restructure their debt.

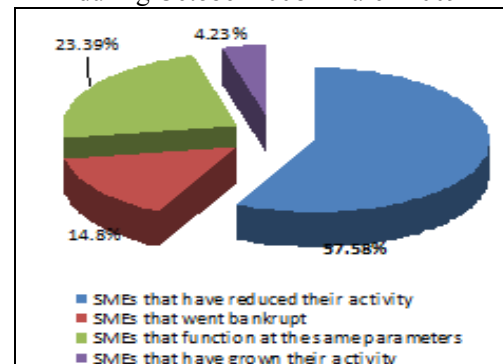
Regarding loans granted to SMEs, as a result of financial crisis, has been a clear slowdown for various reasons. Because the credit crisis, banks have no access to long-term

funds from international capital markets, the parent banks or international financial institutions as were before the crisis. Funds are more expensive and riskier loans are due to higher chance of default. The slowdown of exports to the occidental markets and increasing unemployment is a sign that there is less demand for products of SMEs. Meanwhile, another important factor with major impact on SMEs is the situation of the real estate market which was also affected by the decrease in mortgage lending.

Focusing the research on Romania, we observe that the analysis realized by the National Council of Private SMEs in Romania on a sample of 1.099 SMEs in all industries, from all age groups and developing regions show that between October 2008 - March 2009, over half of SMEs (57.58%) reduced their activity and about 15% of firms went bankrupt (see Figure 3).

As shown in Figure 3 a significant part of the SME sector in Romania is strongly affected by the current crisis, also as are other countries around the world [8].

“Figure 3. The impact of the global economic crisis on the activity of SMEs from Romania during October 2008 - march 2009”



According to the National Trade Register Office, the number of firms which have suspended their activity in January-February 2010 increased more than four times over the same period of 2009. Thus, compared with January-February 2009 when have been registered 2.710 suspension of the activity across the country, from January to February 2010 there were 12,886 firms that have suspended their activity, so we observe an increase of 375.50% [9]. Therefore, in the context of the current crisis, the economic environment in Romania has deteriorated

significantly. As regards the SME sector, the main problems facing by firms in the context of the current crisis are mainly low domestic and external demand of goods and services, late payments from customers, increased cost of bank loans, tighter bank lending standards.

### **3. Measures adopted in the context of the current crisis to support the SME sector**

In the context of the current crisis, worsening macroeconomic imbalances led national and international authorities to take meaningful steps to restore macroeconomic stability and ensure economic revival. In this regard, the biggest investors and multilateral lenders in Eastern Europe, the European Bank for Reconstruction and Development (EBRD), EIB Group and World Bank Group, had to pay up to 24.5 billion euro to support banking sector in the region and to finance lending the firms affected by global economic crisis. This initiative completes national anti-crisis responses and support the real economy through lending by private banking groups and it's particularly addressed to small and medium enterprises.

Deteriorating the business environment in Romania has imposed, as well as in other states, the adopting of a set of anti-crisis measures from the Government [4], including: non-taxation of reinvested profits, the possibility of compensation of recoverable VAT with payable VAT, outstanding deferred payment obligations to the state budget, state aid, support for export production by guarantee and indemnity (in particular, by Eximbank), CEC Bank and Exim Bank capitalization to support SMEs, the establishment of the Contragarantations Loan Fund for SMEs, improving the investment law, including by reducing the amount of investment eligible for facilities from 50 million to 10 million Euro, etc.

In order to relaunch the Romanian economy and, directly, the resumption of bank lending, the central bank reduced interest rate monetary policy and bank reserve requirement rates. However, deteriorating ability to pay the bank customers, especially SMEs, still causes negative economic outlook for banks to be reluctant to grant credit.

Shortly after the outbreak of the crisis, the EBRD granted a loan of 100 million to Transilvania Bank. The loan, which was paid in full in December 2008, aimed at helping the client to continue to provide loans for small businesses. With a total of over 125,000 SME customers, BT is perceived as "the SME Bank" in Romania, with an estimated 18% market share in terms of SME financing. In March 2009 the EBRD granted the same amount of money and credit to another Romanian bank, Romanian Commercial Bank, which represents another form of credit lines for SMEs.

### **4. Conclusions**

SME sector is one of the main pillars of national economies through the significant contribution on creation of GDP and significant contribution to increasing employment. The significant contribution of the SME sector to economic and social development of countries permits assessment that the functionality and the performance of economies are largely conditioned by the development of this sector.

In the context of the current crisis, a significant part of the SME sector in Romania is strongly affected, as also in other world countries. The effects of the current crisis on SMEs business is are primarily a significant decrease of the revenue, the reduced opportunities to enter on new markets, reduced access to finance and thus reduce opportunities to develop and even to survive.

The deterioration of international and domestic economic environment has resulted in new barriers to the way that SMEs conduct their activity, including, primarily, the decreased domestic and external demand of goods and services, late payments from customers, significantly reducing access to credit, due to increase their costs and tighter bank lending standards.

Given the central role of the SME sector in the national economy, national authorities, European Commission and some international organizations have adopted a range of anti-crisis measures, to support the SME sector. However, restoring the normal functioning of the sector, including the national economy depends significantly on how are implemented the measures, but also on the cooperation

between authorities and institutions involved in coordinating and supporting SME business.

## 5. References

- [1]. Commission of the European Communities, "Think Small First- A "Small Business Act" for Europe, 2008, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:EN:PDF>
- [2]. Correa Paulo, Iooty Mariana, "The Impact of the Global Economic Crisis on the Corporate Sector in Europe and Central Asia: Evidence from Firm-Level Survey", World Bank, Enterprise Note no. 9, 2009.
- [3]. European Commission, "SME Definition", 2004 ([http://www.europa.eu.int/comm/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://www.europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm))
- [4]. Government of Romania, "Government Program 2009 – 2012", 2008, ([http://www.gov.ro/programul-de-guvernare-2009-2012\\_c1211p1.html](http://www.gov.ro/programul-de-guvernare-2009-2012_c1211p1.html))
- [5]. International Finance Corporation, "The SME Banking Knowledge Guide", 2009(a), ([http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/SMEBankingGuidebook/\\$FILE/SMEBankingGuide2009.pdf](http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/SMEBankingGuidebook/$FILE/SMEBankingGuide2009.pdf))
- [6]. International Finance Corporation, "Enterprise Survey-Romania-country profile", 2009(b), (<http://www.enterprisesurveys.org>)
- [7]. Münz Rainer, "Financing SME growth – A view from the private sector", 2009, (<http://www.oecd.org/dataoecd/19/42/44183219.pdf>)
- [8]. Nicolescu Ovidiu (coordinator, "White Paper on SMEs in Romania"), 2009, p. 20.
- [9]. The National Trade Register Office, "Press Release: The statistical summary of the suspension, dissolution or voluntary removals at February 28, 2010", ([http://www.onrc.ro/documente/presa/comunicat\\_15\\_03\\_2010/susp\\_ian\\_feb2010.pdf](http://www.onrc.ro/documente/presa/comunicat_15_03_2010/susp_ian_feb2010.pdf))
- [10]. OECD, "The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses", 2009, (<http://www.oecd.org/dataoecd/40/34/43183090.pdf>)
- [11]. Ramalho Rita, Rodríguez-Meza Jorge, Yang Judy, "How Are Firms in Eastern and Central Europe Reacting to the Financial Crisis?", World Bank, Enterprise Note no. 8, 2009.

## Study on the Application of the Accounting Regulations by the Economic Agents from Romania – Issues Concerning the Disclosure of Additional Information in the Explanatory Notes to the Financial Statements

Rotilă Aristița

„Vasile Alesandri” University of Bacau, Romania  
rotila11@yahoo.com

Enachi Mihaela

„Vasile Alesandri” University of Bacau, Romania  
enachi\_mihaela@yahoo.com

### Abstract

*Through our study we wanted to find out to what extent the economic agents comply with some of the requirements for the disclosure of information in the individual annual financial statements, formulated in the Accounting Regulations in Compliance with Fourth Directive of the EEC (approved by the Order of the Public Finances Minister no. 1752/2005 with subsequent amendments), to bring some clarification and to make proposals for improvement in the current accounting regulations, in order to help the preparatory of financial statements and to improve the quality of the information necessary for the users of financial statements in making decisions.*

**Key words:** financial statement, profit distribution, debt, financial position

**JEL Classification:** M4, M41

### 1. Introduction

It is known the fact that one of the objectives of accounting, in the area of practical or applied accounting, is to provide necessary information for fairly presentation the financial position, financial performance and other information related to unrolled activity (article 9 from the Accounting Law no. 82/1991, republished in 2008). Achieving this objective is, according to some authors, “a performance criterion of accounting, the accuracy of message contained in the information offer of the *accounts science*” [1].

Regarding the information which must be reported in the *Balance Sheet* and *Income Statement* (the format of Balance Sheet and

Income Statement can be found at the articles 22 and 23, respectively 37 from the Accounting Regulation in Compliance with Fourth Directive of the EEC approved by the Order of the Public Finances Minister no. 1752/2005), this is presented, entities being required to meet a certain format, a standardized one, using a software provided by the Ministry of Public Finance. Also, regarding other two components of the financial statements, the *Changes in Equity Statement* and *Cash-Flow Statement*, we can make the same remark, entities using example models from the accounting regulations, without a standard structure electronically available. It remains to be seen whether this information properly reflect the financial position and financial performance of the reporting entity or, in other words, if it presents “the accounting truth”. This depends on the extent which compulsory provisions from accounting regulations are respected, during the financial year and the reporting period closing works and the manner which, using the professional reasoning, within the regulatory framework, the appropriate accounting policies are established and applied.

For information presented in the financial statements be reliable, it must meet, among the others, the condition of completeness. Or, to achieve this, the accounting treatment applied must be presented in the *Explanatory Notes to the Financial Statements* in its entirety. Therefore we intend to find out to what extent certain information required to be presented in the notes to the financial statements is related by a number of economic agents.

As is known, the *Explanatory Notes to the Financial Statements* provide information about: *accounting regulations* which stand at the base of the annual financial statements preparation; *accounting policies* applied by the entity; *additional information*, relevant to the users' needs of adequately understanding the financial statements, information that completes and explains the data contained in the properly financial statements. Concerning the presentation in the explanatory notes of the first two categories of information (about the *accounting regulations* and *accounting policies*), the results of our study are subject to other articles. In this article we intend to address only issues related to *additional information*.

## 2. The objectives of the study and the documentation base

Related to the *additional information*, relevant to the users' needs of adequately understanding the financial statements, information that completes and explains the data contained in the properly financial statements, we tried to find out to what extent:

- the entities present information on the historical cost when they practice the revaluation of tangible assets;
- the entities report by segments the achieved turnover (by categories of activities, by geographical markets);
- the entities recognize extraordinary revenues and expenses and, if so, to what extent they offer explanations about their nature and size;
- the entities offer explanation about the nature and size of the deferred revenues and accrued expenses;
- the entities classify and present the debts and claims according to the exigibility, respectively the liquidity, in appropriate mode;
- when the result at the end of the reporting period is profit, the entities present its destinations and when the result at the end of the reporting period is loss, the entities present its coverage sources.

To meet the previously mentioned objectives, through our study we examined the annual financial statements from a number of 12 entities listed on the Bucharest Stock Exchange, entities from different regions of Romania.

We considered that the results of our study would be most relevant if we analyze the

financial statements of some listed entities, which, as is known, give a greater attention to the consequence that the financial information disclosure might have, than analyze the financial statements of small companies, which are especially interested in the tax implications of unrolled activity rather than the quality of the information presented for different categories of users, or the attraction of new investors.

All the entities studied are listed on the Bucharest Stock Exchange on tiers I and II. Also, we believe it is important to know what accounting regulations were applied by the entities studied until December 31, 2005, respectively before the application of the Accounting Regulations in Compliance with European Directives approved by the Order of the Public Finances Minister no. 1752/2005. All the entities applied the Accounting Regulations Harmonized with Fourth Directive of the EEC and with the International Accounting Standards approved by the Order of the Public Finances Minister no. 94/2001. We didn't include in the study entities that until December 31, 2005 applied the Simplified Accounting Regulations Harmonized with European Directives approved by the Order of the Public Finances Minister no. 306/2002.

Selected entities belong to different areas of the economy: trade, construction, industrial manufacturing, repairs - maintenance, handling, transport and others. Concretely, the activity of these is represented by: the wholesale trade (of computers, peripheral devices and software; of metals and metal ores); the building of ships and floating structures; the manufacturing of various products (pesticides and other agrochemical products, plates, sheets, tubes and plastic profiles; paints, varnishes); the handling of crude oil, mineral oil products, petrochemical products, liquid chemical products and other finished goods or raw materials for import, export, transit; the production of ferrous metals in primary forms and ferroalloys forms, parts and accessories for motor vehicles and engines; the electricity transmission and others.

The necessary data for making judgments over the aspects treated in the study we made are presented in the following table:

**Table no. 1 The disclosure of additional information**

Classificatory objectives	1	2	3	4	5	6	7	8	9	10	11	12
1 - Information on the disclosure of the financial results in periods:												
1 - Information on the revaluation of assets:	X	X	X	X	X	X	X	X	X	X	X	X
2 - Information on the revaluation of liabilities:												
3 - Information on the revaluation of equity:												
4 - Information on the revaluation of extraordinary revenues and expenses:												
5 - Information on the revaluation of deferred revenues and accrued expenses:												
6 - Information on the revaluation of extraordinary revenues and expenses:												
7 - Information on the revaluation of extraordinary revenues and expenses:												
8 - Information on the revaluation of extraordinary revenues and expenses:												
9 - Information on the revaluation of extraordinary revenues and expenses:												
10 - Information on the revaluation of extraordinary revenues and expenses:												
11 - Information on the revaluation of extraordinary revenues and expenses:												
12 - Information on the revaluation of extraordinary revenues and expenses:												

**3. The presentation of the information on the historical cost for the revaluated assets**

Analyzing the options of the economic agents for the revaluation of tangible assets or their keeping at historical cost, we found out that all the entities adopted the revaluation value as an alternative to historical cost (they made revaluations) at one time or another, for certain categories of tangible assets, on their own initiative or due to a legal obligation. But only in 25% of cases we met a *presentation of the information both to the revaluation value and the historical cost for revaluated assets*.

The absence of the information on the historical cost for revaluated assets could be justified by the impossibility of obtaining it by the entities without great efforts, at least for those economic agents who were set up before 1990 and still functioning. For many assets these entities may not have such information, being given the fact that in the 1990-2000 period there were made repeated revaluation required by a series of regulations, justified by the price changes that occurred either due to price liberalization in the economy or the effect of inflation. Such revaluations were imposed by:

- Government Decision no. 945/1990, on the inventory and revaluation of the patrimony of state economic units;
- Government Decision no. 26/1992, on the revaluation of some assets and liabilities as a result of the unification of the exchange rates of the Romanian leu and prices and tariffs in these circumstances;

- Government Decision no. 500/1994, on the revaluation of tangible assets and the share capital change;
- Government Decision no. 983/1998, on the revaluation of buildings, special buildings and lands.

We mention that the manner of reflecting in accounting for the revaluation differences, imposed by the above mentioned regulations, was different from one period to another: either by increasing reserves, either by inclusion in the share capital, or by reflecting revaluation differences.

After the year 2000, there were issued regulations allowing entities, so not imposing them, to make the revaluation of tangible assets, namely:

- Government Decision no. 403/2000, on the revaluation of tangible assets;
- Government Decision no. 1553/2003, on the revaluation of tangible assets and setting input value for fixed assets.

**4. The presentation of detailed information about the turnover, extraordinary revenues or expenses, deferred revenues and accrued expenses**

Entities are required, as long as the categories of activities and the geographical markets substantially differ from each other, to provide *detailed information on turnover*. At the economic agents we studied, the situation is as follows: 83.33% of them, respectively 10 from 12, make a detailed presentation of the turnover by categories of activities (or products) and geographical markets, sometimes distinguishing the domestic turnover from the export turnover (41.67%), or only by categories of activities (25%), respectively only by geographical markets (16.66%).

None of the entities recognized in the Income Statement *extraordinary revenues or expenses*, and therefore, we can't discuss about the presentation of detailed information in the explanatory notes related to their value and nature.

Regarding the *deferred revenues and accrued expenses* we relate the following: in the Balance Sheet there are deferred revenues for 75% from the entities (9 from 12), only 33.33% of them (3 from 9) presenting information about the value and nature of

these in the explanatory notes, and there are accrued expenses for all the entities, only 16.67% of them providing information about the value and nature of these in the explanatory notes. The requirement of presenting such aspects in the notes is for the cases when such information is material in evaluating the results. Obviously, such elements will affect the results of future years, but equally, the indicators determined in the Balance Sheet, which characterizes the financial structure, liquidity and solvency of the entity. Therefore, as long as deferred revenues and accrued expenses have a maturity that exceeds 12 months, we consider necessary that economic agents present them detailed by maturity.

### **5. The presentation of the debts and claims according to the exigibility term, respectively liquidity term**

Romanian regulator requires that entities make a *presentation of the debts and claims according to the exigibility term, respectively liquidity term*, creating in this respect an example model for an explanatory note (Note 4 *Statement of claims and debts*).

We found out that all the entities studied comply with this requirement of disclosure. However, we met some situations where the preparatory of the financial statements do not fit just properly some of the claims or debts according to the liquidity term, respectively the exigibility term. For example:

- at the debts category, the payable dividends older than one year (from 2005-2007 period) are reported as having an exigibility term within 1 and 5 years (instead be presented according to the future maturity, they are presented according to their oldness);
- at the claims category, the receivable VAT is reported as having a liquidity term which exceed 1 year.

### **6. The proposal for accounting profit distribution or loss cover**

In compliance with the Accounting Law, the annual financial statements must contain, among the others, *the proposal of distribution of accounting profit or coverage of accounting loss*. Accounting Regulations approved by the Order of the Public Finances Minister no. 1752/2005 (point 258) also mentioned that “in the

explanatory notes must be separately presented the proposal of distribution of net profit by destination, like this: a) the amounts distributed to reserves, b) the amounts distributed for covering the losses from previous years; c) dividends; d) other distributions”. In this respect, the regulator built an explanatory note model, Note 3 *Profit distribution*, which contains the possible destinations of the profit. In order not to leave out the case when the result for the reporting period is a loss, in the content of the same explanatory note model is made a mention, through a footnote attach to the title, as that “in the case of covering the retained accounting loss will be presented its coverage source”.

Regarding the result for the reporting period, we find out that 75% from the entities studied (8 from 12) register a profit and 25% a loss. The information on profit distribution is appropriate presented by only 50% entities (4 from 8) which register profit. The others (50%) consider “*net profit to be distributed*” only the part allocated to legal reserves, the part which remain being considered “*undistributed profit*”. One of those latter entities present, however, within the same note, but bellow the model created by the regulator, the proposals for profit distribution, while the others merely make a mention in the following manner: “the distribution of the profit from the year 2008 will be decided by the General Assembly of Shareholders in 2009”; “the distribution of the profit is registered in accounting by destination after the approval of annual financial statements”; or “at the General Assembly of Shareholders whose date will be settled in the future will be discussed and submit for approval the Balance Sheet for the reporting period ended on December 31, 2008, including the manner of distribution of net profit”. This latter entity presents, in addition, information on the distribution of the previous year profit, in compliance with the approval of the General Assembly of Shareholders.

In the model created by the Romanian regulator for an explanatory note on the distribution of profit appear the next two terms “net profit to be distributed” and “undistributed profit”. Some of the preparatory of financial statements instead of understanding through the “undistributed profit” the part of profit which distribution is

proposed to the general assembly to be deferred, understanding it as the part of profit which no allocation was register in the accounting at the end of the reporting period (at December 31, N, using the account 129 “Profit appropriation”) and which the distribution will be reflected in the accounting after the approval of financial statements (in the year N+1). In these circumstances, at the “net profit to be distributed” instead of appearing all the destinations which the approval is proposed, there are appearing only the amounts allocated for the legal reserves. Perhaps the preparatory of financial statements is taking into account the correlation between the “undistributed profit” from the content of this *note* and the value to be transferred at the beginning of the next year from the account 121 “Profit or loss for the period” to the account 117 “Retained earnings”. Therefore, it is necessary a clarification for consistently use the notion “retained earnings”.

None of the entities which the result at the end of the year is loss present its coverage sources. The information about the coverage sources of the loss couldn't be presented maybe for the reason that between the explanatory notes models there is none with this destination. This assertion is based on our next issue: analyzing the extent to which current models of explanatory notes indicated by the Romanian regulator are used, we found out that all the entities studied presented information, even if not completely, in all the 10 explanatory notes to the financial statements. We believe that, if the regulator had created a model for an explanatory note called, eventually, “Loss coverage”, indicating the covering sources for the loss (retained earnings, reserves, premium related to capital, share capital), certainly the entities which register a loss would have respected the requirement of presenting the information over the covering sources for the loss. An additional argument in favor of the above assertion is also the attempt of the preparatory of financial statements to adjust the model created by the regulator in the following manner, not very successful:

**Figure no. 1. Note 3 Profit distribution, prepared by S.C. „X” S.A.**

note 3		- Fin. -
Profit distribution		
Destinatia	Valori	
Net loss	1.092.795	
- share reserves		
- legal reserves		
- accounting loss covering		
- profit participations		
dividends		
Net loss	1.092.795	

Another problem related to the distribution of the profit is that concerning the part of the result which is going to be allocated as *profit share payable to employees*. Although the profit share payable to employees is (article 1, paragraph 1, letter e from The Government Ordinance no. 64/2001) one of the destinations of the accounting profit that have remain after the deduction of the income tax (i.e. net profit), through the Order of the Public Finances Minister no. 128/2005, is indicated, for its accounting treatment, the creation of provisions. We should mention that, since January 1, 2010, the same accounting treatment is prescribed also by the accounting regulations which apply to the economic operators (approved by the Order of the Public Finances Minister no. 3055/2009, regulations which replace previous ones approved by the Order of the Public Finances Minister no. 1752/2005 with subsequent amendments), in the following way: in the financial statements for the year which profit share payable to employees is proposed, its equivalent value is reflected as a provision, the expense being a result of the employee service (point 191, lines 2 and 3).

Two from the economic agents studied made this kind of distributions. In both cases, the preparatory of financial statements had a dilemma, namely: where should be presented in the financial statements such a distribution of profit? Obviously, as long as it is suggested that the registration in accounting be made by the rule available for the provisions, such values should be presented in Note 2 *Provisions* not in Note 3 *Profit distribution*.

The entities we analyzed present the information both in Note 2 and Note 3. But to present this information in Note 3 they proceed to a recomplition of distributed net profit with the value allocated to the employees for their participation in profit, which create a discrepancy between net profit



for distribution (Note 3) and net profit presented in the first two components of the financial statements, Balance Sheet and Income Statement.

Using the judgment, certainly a value can't simultaneously represent a distribution of net profit and an expense. It appears, therefore, a contradiction in the accounting regulations. If it is considered that such an obligation results from the employee's service, for an unitary regulation to these issues, it should be amended the regulation on "profit distribution of national societies, national companies and companies with integral or majority state capital, and autonomous companies", so that employees' participation in profit do not appear between the destinations of "accounting profit remaining after deduction of income tax". An additional argument can be represented by the need to ensure a certain consistency in presenting the information in some documents that serve, among the others, to the analysis of economic and financial indicators. In the revenues and expenses budgets, documents which reflect the obligation engaged and established by the entity for profit participation, the employees' participation in profit does not appear on the expenses side, but represents one of the profit destinations.

## 7. Conclusions

Studying the compliance of the information presented by various entities with the requirements of accounting regulations for the individual annual financial statements preparation and presentation, the results lead us to the conclusion that there is a certain "distance" between accountant regulator who prepares regulations, and accountant professional (practician) who apply (must apply) them.

Therefore, we consider that still must be made some efforts both directions which ensure the preparation and presentation of some quality information necessary for the users (financial statements preparers and regulation bodies). Accountant professionals must continuously improve their professional preparation, disposing in this way of an appropriate framework within international body related to international orientations – however the will, effort and personal exigencies are very important – and to pay the appropriate attention and importance to the application of accounting regulations, to the quality and the presentation form of the information prepared. Accountant regulators must concern with improving accounting

regulations, on the one hand, in order not to "confuse" accountant professional by misunderstandings which may arise from their manner of formulating these, and secondly, establish an appropriate framework necessary to achieve reliable and relevant information, comparable at European and international level.

## 8. References

- [1] Horomnea, E., *Fundamentele științifice ale contabilității. Doctrină. Concepte.* Lexicon, Tipo Moldova Publishing House, Iași, 2008.
- [2] Pătruț, V., Rotilă, A., *Contabilitate și diagnostic financiar – fundamente teoretice și aplicații practice*, Sedcom Libris Publishing House, Iași, 2005.
- [3] \*\*\* The Accounting Law no. 82/1991, republished in the Official Journal of Romania no. 454/ 2008.
- [4] \*\*\* The Government Ordinance no. 64/2001 on profit distribution of national societies, national companies and companies with integral or majority state capital, and autonomous companies, published in the Official Journal of Romania no. 536/2001, approved with amendments by Law no. 769/2001, with subsequent amendments.
- [5] \*\*\* The Order of the Public Finances Minister no. 128/2005, on certain accounting regulations applicable to economic agents, published in the Official Journal of Romania no. 153/2005, with subsequent amendments.
- [6] \*\*\* The Order of the Public Finances Minister no. 1752/2005 for the approval of accounting regulations in compliance with european directives, published in the Official Journal of Romania no. 1080/2005, with subsequent amendments by means of the Order of the Public Finances Minister no. 2001/2006, published in the Official Journal of Romania no. 994/2006 and the Ministry of Economy and Finance Order no. 2374/2007, published in the Official Journal of Romania no. 25/2008.

## Extending the Cost Calculation by Allocating Fixed Expenditures Using the Direct-Costing Method

Prof. Univ. Dr. Ruse Elena  
Spiru Haret University

Faculty of Accounting and Financial Management  
Email: iatan\_e@yahoo.com

### Abstract

*Estimating future costs helps the manager understand how costs evolve, influencing his decision to develop a business strategy.*

*Costs react differently to changes in production volume or in a business in general.*

*There are costs that vary with the volume of production or with development, while others remain fixed regardless of the changes in the volume of activity. Between these extremes we can find costs with their characteristics (variable costs and fixed costs). The type of analysis used in the costs evolution is related to the method of calculation (the total cost analysis or determining the unit cost). The emergence of a calculation method that allows the rapid determination of the production cost but it also helps to establish indicators with a broad spectrum of information needed to ground the decisions for the effectiveness of a business led to the Direct-Costing method. The Direct-Costing method based on regrouping the production costs in variable costs and fixed costs, allows the obtaining of a partial cost, fixed costs being spread over the outcome. Using an improved version that allows the allocation of fixed costs on products plays a key role in the decision making process of the enterprise, leading to a better prediction of both the activity as well as of the outcome which allows choosing the optimum version.*

**Key words:** direct-costing method, costs evolution, business strategy, enterprise

**JEL Classification:** M4, M41

### 1. The conceptual framework of the Direct-Costing method

Estimating future costs by developing a budget helps the manager understand how costs evolve, with influence on the

development of a business strategy.

Costs react differently to changes in production volume or in a business. Some costs vary with production volume or with development, others on the other hand remain fixed regardless of the changes in production volume. Between these extremes there are costs that show the characteristics of both variable costs and fixed costs. The costs evolution depends on the type of analysis used, if the total costs are analysed or if the unit cost is determined. The emergence of a calculation method that can ensure the fast determination of the production cost, which can allow setting some indicators with a broad spectrum of information, needed to substantiate decisions, led to the Direct-Costing method. The Direct-Costing method involves attributing to products only variable costs and not fixed costs (these costs will be planned on a global level and will not be included in the cost of each product). Using the Direct-Costing method means determining the overall profitability or for different types of businesses and then determining the cost for each product. For each product the gross profit contribution or the variable costs margin will be determined. Taking into consideration the limits of determining a partial cost, this option may not be a sustainable solution since it does not create the necessary framework for determining the total cost of the product.

### 2. The improved version of the Direct-Costing method by allocating fixed costs to products

A studied version is that of allocating fixed costs based on the gross contribution to profit.

An attempt was made to allocate fixed costs having as an repartisation criterion the volume of sale achieved.

Applying the version mentioned involves following these methodological steps:

Step 1. Regrouping the costs from section 1 and 2 into variable costs and fixed costs.

- separating variable costs into:

- variable production costs;
- variable sale costs.

Step 2. Determining the partial result 1 by eliminating from the total sale volume the variable production costs.

Step 3. Determining the partial result 2 by removing from the partial result 1 the variable sale costs.

Step 4. Determining the distribution percentage, by sale volume, of fixed costs for each section on products for that section.

Thus, the percentage of allocation of fixed costs per section can be calculated using the formula:

$$\%CF_{\text{section}} = \frac{CF_{\text{section}}}{\text{Sale}_{\text{section}}} \times 100$$

The percentage from which the fixed costs of section 1 are allocated, depending on sale volume is:

$$\%CF_1 = \frac{CF_1}{\text{Sale}_1} \times 100$$

The percentage from which the fixed costs of section 2 are allocated, depending on sale volume is:

$$\%CF_{II} = \frac{CF_{II}}{\text{Sale}_{II}} \times 100$$

Step 5. Determining the share of fixed costs per section, relating each product from the section (the product between the distribution percentage of the section and the sale volume corresponding to the product from that section).

The share of fixed costs per section is calculated using the formula:

$$\text{Share } CF_{\text{section}} = \%CF_{\text{section}} \times \text{Product Sale}_{\text{section}}$$

- For section 1:

$$\text{Share } CF_1 = \%CF_1 \times \text{Product sale}_1$$

- For section 2:

$$\text{Share } CF_{II} = \%CF_{II} \times \text{Product sale}_{II}$$

Step 6. Determining the gross contribution to profit of each product from the section and also the total for the section (partial result III). The contribution per product is obtained from the difference between the gross contribution to sale profit of each product from the section and the share of fixed costs of that section, the

two being allocated to the products of that section. The gross contribution to the total of the section is the sum of the gross contributions on the products of that section.

Step 7. Determining the distribution percentage according to sale volume, fixed costs of the group formed by section I and section II, on the products included in this group.

The allocation percentage is calculated using the formula:

$$\%CF_{\text{group}} = \frac{CF_{\text{group}}}{\text{Sale}_{\text{group}}} \times 100$$

Step 8. Determining the fixed costs share of the group, for each product from the group, by multiplying the allocation percentage of fixed costs of the group with the sale volume for each product from the group.

Thus the fixed costs share can be calculated using the formula:

$$\text{Share } CF_{\text{group}} = \%CF_{\text{group}} \times \text{Product Sale}_{\text{group}}$$

In this step the fixed costs of the group of sections are allocated to the products manufactured in this group.

Step 9. Determining the final result at the group of sections level as well as at the level of each section and product.

The final result is obtained as the difference between the gross contribution to the profit, for each section, allocated to the products from that section, and the share of fixed costs of the group of sections allocated to the group's products.

Step 10. Determining the unit cost per product as the ratio between total costs (variable total costs + fixed costs) and the quantity of product obtained.

Covering fixed costs in the improved version of the Direct-Costing method has as an allocation criterion the sales volume.

Following the successive elimination of variable costs and of fixed costs from the sales volume, the final result was obtained both on the product as well as on the total section group, allowing a more detailed analysis of the profitability of production corresponding to any product from the two sections analyzed.

Calculating the allocation of fixed costs per product by sale volume for the group of sections consisting of section I and section II:

Table 1. Allocation of fixed costs

Indicators Products	-	-	Step 2	-	Step 3	Steps 4 și 5		Step 6	Steps 7 și 8		Step 9
	Sale volume	CHVP	CBPP (I)	CHVD	CBPD (II)	CFS		CBP (III)	CFG		Final result
	1	2	3=1-2	4	5=3-4	6	% 6/5x 100	7=5-6	8	% 8/7 x 100	9=7-8
A	6401	32438	31574	4534	27039	6907		20131	2303		17828
B	972	5376	4352	749	3603	1049		2553	350		2203
C	74847	458401	290076	63928	226147	80771		145376	26930		118445
D	112705	666666	46038	9291	36747	12162		24585	4055		20530
E	10105	5664	4441	790	3651	1090		2560	363		2196
F	23838	15175	8662	2114	6548	2572		3976	857		3118
G	136	91	45	12	32	14		17	4		12
H	350	208	141	28	112	37		75	1		62
<b>Total section I</b>	973404	586297	387107	81767	305340	105043	10,8	200296	35023		165272
J	415	240	175	16	158	94		63	14		48
K	770	443	326	31	295	174		120	27		92
L	1078	625	452	43	409	244		164	38		125
M	816	470	345	32	312	185		127	29		98
N	824	475	349	33	315	187		128	29		98
O	1201	693	507	48	459	272		186	43		143
<b>Total section II</b>	5105	2948	2157	206	1950	1159	22,7	7.91	183		607
<b>Total group</b>	978510	589245	389264	81973	307290	106203	-	201087	35207	3,6	165880

Where:

- CHVP = variable production costs;
- CBPP(I) = gross contribution to profit from production (the 1st partial result obtained after eliminating the variable production costs from the total volume of sales);
- CHVD = variable sale costs;
- CBPD(II) = gross contribution to profit from sale (the 2nd partial result obtained after eliminating the variable production and sale costs from the total volume of sale);
- CFS = fixed section costs;
- CBP(III) = gross contribution to profit at a section's level (the 3rd partial result obtained after eliminating the fixed costs of the section from the gross contribution to sales profit);
- CFG = fixed sections group costs.

Using this version has a critical role in decision making process of the enterprise because it leads to a better forecasting of production activity, as well as of the result which leads to choosing the optimum version knowing that the determination of contribution is closely linked to the sale prices variation and to the variable costs.

During it's operation, there are a number of restrictive factors acting on the production process, factors which can influence the outcome of activity in a given period. When a factor is limiting the business, the company must increase the size of contribution. This can be achieved by calculating the average contribution of the key factor and the version that leads to the highest average contribution corresponds to a maximum total contribution.

### 3. Bibliography

- [1] Belveret E. Needless Jr., Anderson Henry R., Caldwell James C., Principiile de bază ale contabilității, Ediția a cincea, Editura Arc, 2001.  
[2] Charles T. Horngren, Srikant M. Datar, George Foster, Contabilitatea costurilor, Editura ARC, ediția a XI-a 2006.  
[3] Iatan E., Contabilitatea de gestiune aplicații,

Ediția a treia, Editura Muntenia, 2007.  
[4] Iatan E., Elefterie L., „Posibilitati de perfectionare a calculatiei costurilor prin metoda Direct-Costing”, Congresul profesiei contabile din Romania Bucuresti 1-2 Septembrie 2008.

# The IPO Underpricing Phenomenon – An Analysis of the Romanian Capital Market

Phd. Sandu Diana Ramona  
„Alexandru Ioan Cuza” University  
Phd. School of Economics  
Iasi, Romania  
diana\_ramona\_sandu@yahoo.com

## Abstract

*Why companies give up to substantial sums of money when, during an Initial Public Offer (IPO), they sell securities at a lower price, compared to the one obtained at the end of the first trading session, is an intensely debated question in the literature. After we systematize the main theories that explain the underpricing behavior, according to last relevant research, the paper objective is to analyze the domestic capital market in order to identify the level of the studied phenomenon. Using the adjusted initial return for the successfully closed IPOs, we measure the underpricing level and offer an interesting view to investors and companies.*

**Key words:** underpricing theory, domestic capital market, investors, company

**JEL Classification:** G14, G11

## 1. Introduction

When a company decides to become opened to investors by carrying out an initial public offer, managers and shareholders are aware of the important changes associated with this step. The decision is complex, with many implications and aspects (to whom should the company offer its shares, what should be the offer price, when is the right moment to go public, how and in what volume should the issuer allocate the shares to investors). The level of the offer price is a key factor and has become a controversial topic of literature because of its major market implications.

We assume that, as IPO underpricing phenomenon is a global one, the Romanian capital market has also a certain degree of IPO underestimation. According to economic literature, one of the major factor related with

this phenomenon is the level of investors optimism. However, we are aware of the changes in investor behavior along with the financial crisis and the weak confidence in investment environment. This is why we anticipate a certain change in the Romanian IPOs appreciation, especially after 2007.

## 2. Overview of major underpricing theories

Reality proved that, in most cases, the shares sold to investors through IPOs are offered at a reduced price or at an *underestimated* one, while substantial increases in their price occur on the first day of trading. The phenomenon is known in literature as the *IPO underpricing*. Moreover, specialized research recorded changes in this practiced form of *discount*: 21% in the 60s, 12% in the 70s, 16% in the 80s, 21% in the 90s and 40% between 2000 and 2004 [9].

Among the first observers of the underpricing phenomenon we can mention researchers Stoll H. and Curley A. (1970), Logue D. (1973), Ibbotson R. (1975). The phenomenon proved to be a global one, primarily in the IPOs belonging to companies with effective operational activity.

Theories attempting to explain this phenomenon, expensive for the issuer, at a first sight, are grouped into four categories:

- Theories of information asymmetry;
- Theories focused on institutional reasons;
- Theories related to the right of control;
- Theories focused on the investors behavior.

In the first group of theories regarding the *information asymmetry*, one of the three major parties involved (the bank, the issuer, the investor) has access to more information than the other two. Thus, if the bank is holding an internal piece of information, it

will use it for underestimate the shares in order to boost the demand [1]. According to other opinions, the issuer is more informed about the real value of shares and uses the underpricing to signal the market and attract investors [17]. Specifically, issuers with poor performance shares seek to sell them at an average price. To distinguish from them, the good issuers try to sell their shares at a lower price, in order to transmit a signal, hoping that their sacrifice will be recovered through future appreciation of shares or future issues.

Interestingly, the underpricing signal is stronger than the one provided by donations or advertising.

Researchers Michaely R. and Shaw W. (1994) reject the signaling theory and argue that some issuers voluntarily wish to give investors a good feeling by giving up to a part of their potential funds.

Informational asymmetry becomes in more cases the "winners curse" for investors [13]. Thus less informed investors receive shares in the oversubscribed but not performing IPOs, while those better informed receive shares from the lesssubscribed but performing IPOs.

Researcher Baron D.P. (1982) provides an explanation for the underpricing phenomenon using the *theory of agent*. This time, the issuer is less informed, but in the relation with the intermediary agent, not compared to investors. To motivate the intermediary agent in the distribution of shares, the issuer will accept a price reduction because a continuous monitoring is expensive.

*Theories focused on institutional reasons* argue that the underpricing phenomenon is preferred to avoid possible future complaints from shareholders relating to future bad performance of initial public offerings [6].

However, Drake P. and Vetsuypens M. (1993) conclude that IPOs that were the subject of complaints to lawcourts offered a high degree of underpricing, but did not eliminate the lawsuits risk. Furthermore, Ritter J.R. and Welch I. (2002) consider that the argument of avoiding future lawsuits is not robust enough to explain the underpricing phenomenon, maybe just in a small degree.

*Theories related to right of control* claim that once the company becomes public, the control right must be separated from the property right. When the separation is incomplete, conflicts between the third-party owners and managers

are imminent. Two models attempt to provide explanation for underpricing, but from different perspectives. Brennan M.J. and J. Franks (1997) suggest that underpricing is a defensive form of managerial control in order to avoid oversight by too many shareholders. Stoughton N.M. and J. Zechner (1998) argue that IPOs underpricing practice tries to minimize costs and encourage monitoring.

According to *theories focused on the investors behavior*, the irrational buyers rise the share price or issuers do not put enough pressure on banks to cooperate, in order to reduce the level of underpricing.

Most opinions converge to the idea that the underpricing phenomenon, identified on a high level during Internet Buble, is explained by the increased optimism of investors, who wanted to buy big amounts of securities offered through IPOs, especially in the first day of trading, which automatically led to an important difference between the offer and closing price. In time, however, investors accumulate new information, the excess of optimism is replaced by rationality and they stop paying more than the real share value. The share price goes down and many IPOs show a low performance on the long-term .

An interesting approach belongs to the author Derrien F. (2005): the issuer is not the only one who gives up to some cash by *leaving money on the table* [3]. The issuer knows that shares are offered in reality at a high price and only the market optimism generates the increase on the first trading day. He also knows that at any given time, securities will be valued at their fair value, namely when the offer will be nominated as with long-term underperformance. In these circumstances, investors who bought the shares offered through the IPOs, also lose a part of the invested capital, if they fail to close their long positions in time and wait until the price falls below the offer level.

In addition, researcher Leite T. (2007) shows that the underpricing phenomenon is more pronounced when IPOs are preceded by high capital gains and reduced after periods of low market returns. This demonstrates that issuers fail to adjust prices in real time according to publicly available information.

Whether issuers seek to attract investors, to protect themselves from the lawsuits, to encourage monitoring or to signal the market,

the underpricing phenomenon is a reality and comes from the company's decision to offer its shares at a certain price but also comes from investors reaction, which may slightly increase the stock price by a great demand.

### 3. Data sources and methodology

The Romanian capital market has not been characterized by the procedure of initial public offering, as a normal and main way of listing a company, but by the Process of Mass Privatization which quoted a large number of companies. In another interpretation, one can say that it was ignored one of the most important steps which normally should be carried out before opening a company to the public: the initial public offering of shares. The Mass Privatization Program allowed, at that time, in an easy and prompt manner the subsequent sales of gained shareholder certificates. Thus, many companies were listed on Bucharest Stock Exchange in order to allow the trading of shareholder certificates, without an IPO procedure. So, when finally they did the primary sale of shares, they were already listed, their shares were already traded.

For the present paper, we selected the Romanian successfully IPOs, who took place at the Bucharest Stock Exchange, between 2003 and 2009, and by which the companies listed. We found only 13 IPOs, the major part of them offering shares or allocation rights and the last three fund units. All numerical data were acquired from the online reports offered by Bucharest Stock Exchange.

For measuring the market influence, we used BET-C, the composite Bucharest Stock Exchange index, which reflects the price movement of all the listed companies, excepting the investment funds (SIFs).

In order to study the level of the Romanian IPO underpricing phenomenon, we calculated, for the selected IPOs, the Adjusted Initial Return Indicator (AIR) as the difference between the Raw Initial Return (RIR) and the Market Index Return (MIR), for the first day of trading and also after 7, 14, 21 and 30 days.

The raw initial return, calculated for every studied IPO, expresses the variation of the closing price for the selected day of trading ( $P_{t_n}$ ) compared to the offer price (OP), where  $t_n$  is the

first trading day for  $n=0$ :

$$RIR = (P_{t_n} - OP) / OP (\%)$$

The market index return is calculated in a similar manner, as the variation of the closing BET-C value for the selected day of trading ( $I_{t_n}$ ), compared to the closing value of the day before the first session of trading ( $I_0$ ), for all 13 IPOs:

$$MIR_n = (I_{t_n} - I_0) / I_0 (\%)$$

As an example, for the IPO of S.C. Vrancart S.A., the adjusted initial return indicator for the first day of trading (15 July 2005) is:

$$AIR_{VNC} = RIR_{VNC} - MIR, \text{ where}$$

$$RIR_{VNC} = (P_{t_1(15\text{ July }05)} - OP) / OP \text{ and}$$

$$MIR = (I_{t_1(15\text{ July }05)} - I_{0(14\text{ July }05)}) / I_{0(14\text{ July }05)}$$

In the end, after we determine all the AIR indicators for the selected IPOs, we calculate the mean, the standard deviation, the minimum and the maximum level, as measures for the Romanian underpricing phenomenon.

The results and also the main input data are systematized in Table 1.

### 4. Results

Before observing the results, we must recognize an important limit of the present study: the lack of data. As we mentioned in the previous section, after 2003 there were only 13 successfully IPOs on Bucharest Stock Exchange, as initial methods for listing the companies. Despite this, we used the present data in order to study the underpricing phenomenon, being aware of limitations.

As it can be seen from Table 1, although not all IPOs have been characterized by underpricing, for all selected trading days, we obtained a level between 18 and 31%. This in fact, confirms the hypothesis that domestic IPOs, between 2003 and 2009, were on average underpriced.

The medium level of underpricing, 20.27%, recorded in the first day of trading approaches the one that researchers Goergen M., Khurshed A., McCahery J. and Renneboog L. (2003) identified. Studying the European IPOs between 1996 and 2000,



Table 1. The adjusted initial returns obtained for the Romanian IPOs (2003 – 2009)

No.	Companies	Symbol	Start Trading Date (T <sub>n</sub> )	Offer Value (RON)	Offer Price (RON)	BET-C Value (T <sub>n</sub> -1)	Adjusted initial returns (%)				
							1 day (T <sub>n</sub> )	7 days (T <sub>n</sub> +7)	14 days (T <sub>n</sub> +14)	21 days (T <sub>n</sub> +21)	30 days (T <sub>n</sub> +30)
1	Grupul Editorilor și Difuzorilor de Presă S.A.	GDP	26 January 2004	1,401,099	10.50	1519.08	41.24%	230.82%	73.34%	58.80%	62.82%
2	S.S.I.F. Broker S.A.	BRK	04 February 2005	8,956,903	1.55	3768.66	159.05%	164.45%	195.49%	200.72%	184.27%
3	S.C. Vrancart S.A.	VNC	15 July 2005	17,475,000	0.15	3258.74	9.89%	-3.61%	-14.42%	-17.75%	-20.28%
4	S.C. Flamingo International S.A.	FLA	18 July 2005	46,920,000	2.30	3262.47	5.72%	0.62%	-3.04%	-0.85%	3.38%
5	S.C. Alumil Rom Industry S.A.	ALU	16 April 2007	28,750,000	4.60	5761.00	93.93%	75.99%	62.90%	63.18%	58.98%
6	S.C. Transelectrica S.A.	TEL	29 August 2006	123,140,422	16.80	4503.16	35.95%	60.83%	62.07%	64.46%	87.90%
7	S.C. Transgaz S.A.	TGN	24 January 2008	225,963,537	191.92	5149.79	40.87%	38.85%	33.53%	26.00%	24.85%
8	S.C. Casa de Bucovina – Club de Munte S.A.	BCM	12 May 2008	9,100,000	0.20	4996.95	1.68%	-10.91%	-24.34%	-22.21%	-17.83%

(continued)

Table 1. The adjusted initial returns obtained for the Romanian IPOs (2003 – 2009) - continued

No.	Companies	Symbol	Start Trading Date (T <sub>n</sub> )	Offer Value (RON)	Offer Price (RON)	BET-C Value (T <sub>n</sub> -1)	Adjusted initial returns (%)				
							1 day (T <sub>n</sub> )	7 days (T <sub>n</sub> +7)	14 days (T <sub>n</sub> +14)	21 days (T <sub>n</sub> +21)	30 days (T <sub>n</sub> +30)
9	S.C. Contor Grup S.A.	CGC	12 December 2008	11,784,813	0.38	2082.70	-45.99%	-66.69%	-68.65%	-57.31%	-44.28%
10	S.C. Teraplast S.A.	TRP	02 July 2008	49,645,980	1.00	4493.32	-14.78%	-18.71%	-26.76%	-35.91%	-40.63%
11	STK Emergent	STK	22 September 2008	50,000,000	281.00	3532.78	-65.62%	-54.94%	-44.93%	-49.08%	-44.69%
12	OTP WiseRO	WRO	08 October 2009	8,947,800	200.00	2650.73	4.92%	-8.04%	-7.78%	-10.54%	-19.76%
13	OTP Green Energy	GRE	01 April 2010	8,803,766	202.00	3519.93	-3.35%	-10.42%	N/A	N/A	N/A
<b>MEAN</b>							<b>20.27%</b>	<b>30.63%</b>	<b>19.78%</b>	<b>18.29%</b>	<b>19.56%</b>
<b>Standard deviation</b>							<b>57.92%</b>	<b>85.26%</b>	<b>71.45%</b>	<b>71.64%</b>	<b>68.67%</b>
<b>Maximum</b>							<b>159.05%</b>	<b>230.82%</b>	<b>195.49%</b>	<b>200.72%</b>	<b>184.27%</b>
<b>Minimum</b>							<b>-65.62%</b>	<b>-66.69%</b>	<b>-68.65%</b>	<b>-57.31%</b>	<b>-44.69%</b>

they determined a level of underpricing about 30% [5].

The study results differ from those obtained by Ursu S. (2007), who registered a 55.24% underpricing level for the first day of trading, because the database was completed with the latest IPOs. These last IPOs, in the context of financial crisis and low investor interest, were characterized by the lack of underpricing, being in fact overvaluated at the first sell moment (see the negative AIR values in the second part of the Table 1).

The high value of standard deviation shows the high level of heterogeneity of studied IPOs, an idea also supported by the significant registered differences between the maximum and minimum values.

## 5. Conclusions

The present study focuses on the IPO underpricing phenomenon observed at the level of Romanian capital market.

Because few companies listed on BSE, by carrying out a successful IPO, identifying only 13 IPOs in 2003-2009, we used the Adjusted Initial Return indicator as a measure for the underpricing level.

The hypothesis set forth at the beginning of the study, according to which Romania is characterized by IPO underpricing, is confirmed if we consider the final average value for all selected days of trading. However, although data are limited, we observe a significant change once the event of financial crisis occurs. Securities offered through IPOs, that started trading since late 2008, have achieved values below the offer price. Thus, in the last 5 IPOs conducted, only one was characterized by a low degree of underpricing (WRO-4.92%). The rest of them, on the contrary, had a dropped course in the first day of trading under the offer price.

Assuming the limits imposed by our insufficient data, we believe that due to the financial crisis, investor optimism was severely hit. This fact led to the loss of interest in new securities issued through IPOs and consequently dropped the price under the offer level. During this period, we can say that the underpricing phenomenon is not present but, taking into account previous recorded values, the final average indicator is positive and we can say that overall we had a moderate level of IPO underpricing.

In the light of our results, even though the number of local public primary sales of securities, in order to list on the stock exchange, is small, we conclude that the Romanian capital market was no exception for the general presence of underpricing phenomenon. But, with the appearance of financial turbulences, influencing the attitude and confidence of investment environment, underpricing phenomenon disappeared. This shows that a significant percentage of its manifestation is due to investors optimism, who through their demand generate and maintain high prices.

We hope that once the financial environment will find the balance and consequently investors will show confidence in the market, new IPOs will appear in the local stock exchange. Thus, over time, multiple data will make possible a better analysis of the underpricing phenomenon.

## 6. References

- [1] Baron D.P., *A model of the demand for investment banking advising and distribution services for new issues*, Journal of Finance, Vol. 37, 1982;
- [2] Brennan M.J., Franks J., *Underpricing, ownership and control in initial public offerings of equity securities in the U.K.*, Journal of Financial Economics, No.45, 1997;
- [3] Derrien F., *IPO Pricing in "Hot" Market Conditions: Who Leaves Money on the Table?*, Journal of Finance, Vol. LX, No. 1, February 2005;
- [4] Drake P., Vetsuypens M., *IPO underpricing and insurance against legal liability*, Financial Management, No. 22, 1993;
- [5] Goergen M., Khurshed A., McCahery J., Renneboog L., *The rise and fall of the European New Markets: On the short- and long-run performance of high-tech initial public offerings*, in J. McCahery and L. Renneboog (Editors), *Venture capital contracting and the valuation of high technology firms*, Oxford University Press, 2003;
- [6] Hughes P., Thakor A., *Litigation risk, intermediation and the underpricing of initial public offerings*, Review of Financial Studies, Vol. 5, No. 4, 1992;
- [7] Ibbotson R., *Price performance of common stock new issues*, Journal of Financial Economics, No. 2, 1975;
- [8] Leite T., *Adverse selection, public information and underpricing in IPOs*, Journal of Corporate Finance, No. 13, 2007;
- [9] Ljungqvist A., *IPO Underpricing from Handbook of Corporate Finance – Empirical Corporate Finance*, in Eckbo B. Espen (editor), Elsevier, Amsterdam, 2007;
- [10] Logue D., *On the pricing of unseasoned equity issues: 1965 – 1969*, Journal of Financial and Quantitative Analysis, No. 8, 1973;
- [11] Michaely R., Shaw W., *The pricing of initial public offerings: Tests of adverse-selection and signaling theories*, Review of Financial Studies, No. 7, 1994;
- [12] Ritter J.R., Welch I., *A Review of IPO Activity, Pricing and Allocations*, The Journal of Finance, Vol. LVII, No. 4, August 2002;
- [13] Rock K., *Why new issues are underpriced*, Journal of Financial Economics, No. 15, 1986;
- [14] Stoll H., Curley A., *Small business and the new issues market for equities*, Journal of Financial and Quantitative Analysis, No. 5, 1970;
- [15] Stoughton N.M., Zechner J., *IPO mechanisms, monitoring and ownership structure*, Journal of Financial Economics, No. 49, 1998;
- [16] Ursu S., *Going public in Romania: A review of IPO activity, costs and pricing*, The Annals of University of Oradea – Economic Science, No. XVI, Vol. 2, Section Finance, Accounting and Banks, 2007;
- [17] Welch I., *Seasoned offerings, imitation costs and the underpricing of initial public offerings*, Journal of Finance, Vol. 44, 1989.

\*\*\* Official Site of Bucharest Stock Exchange (www.bvb.ro)

## The Role of Investment in Terms of Crisis

Sarac Aldea Laura

*Lect., Andrei Şaguna University of Constanţa*  
*laurasarac@yahoo.com*

Mitea Neluţa

*Associated Professor, Andrei Şaguna University of Constanţa*  
*nelutamitea@yahoo.com*

### Abstract

*The present work proposes to realize a complex research of the investment in view of current conditions characterized by a global economic crisis. A special attention will be given to the opportunity and the efficiency of the investment as an instrument in the management decision for the development of a company.*

*Many aspects that a company has to take into account in its development strategy find themselves out in the financing programs regarding a maximization of the profit through investment of the capital in tangible and intangible assets, implementing of new technologies, measures for protection of the medium or financial investments.*

*The paper is structured as follows:*

- *Global Financial Crisis*
- *The economic crisis in Romania*
- *Investment – Theoretical viewpoints*
- *The controversial problems of the appearances of evaluation and recognition of corporal and immaterial asset*

*The scientific novelty work is focused on the element of complexity and actuality of information, which, due to deep changes from the structure markets, of transformations alerts and the process of productions based on the technical progress unknown in history, becomes vital.*

**Key words:** economic crisis, financial investments, history progress, global financial crisis

**JEL Classification:** G01, G14

### 1. Global financial crisis

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world, stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems.

On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly interconnected world. The problem could have been avoided, if ideologues supporting the current economics models weren't so vocal, influential and inconsiderate of others' viewpoints and concerns.

A collapse of the US sub-prime mortgage market and the reversal of the housing boom in other industrialized economies have had a ripple effect around the world. Furthermore, other weaknesses in the global financial system have surfaced. Some financial products and instruments have become so complex and twisted, that as things start to unravel, trust in the whole system started to fail.

### 2. The economic crisis in Romania

The world economic crisis is felt increasingly hard on the Romanian market. Although, globally it is estimated to go up slightly shy, the Romanian economy crisis occurs deeper, with more extensive effects both on economic indicators, as well as the human factor. Analyzing recent statements by the IMF, and results of studies conducted by Deloitte on the perception of Romanians

on global economic crisis we conclude that we are an optimistic people.

Director General of the International Monetary Fund, Dominique Strauss-Kahn, in according Mediafax said that the current International Monetary Fund forecasts predict an increase of 3% of world economy in 2010.

However governments should not withdraw too quickly incentives for savings, because it could trigger "a double recession, such as W", IMF director of interview that: -typically, unemployment continues to increase for one year after the start of recovery, during which the authorities must not withdraw support measures.

-IMF loans this year will be provided four times higher compared to 2008 to assist countries affected by crisis.

-G20, the group of the largest economies of the world, would be more representative if it included a few new members.

A recent study prepared by Deloitte show that Romanian entrepreneurs in their majority, believe in the economic recovery and prepare new products and services, but also anticipates big expenditure and staff reductions. In an recent report prepared by Deloitte, 40% of Romanian companies expect economic recovery in the next six months and are among the most optimistic in the region.

Romanian companies continue their business growth strategy, but with greater emphasis on costs. On the other hand, one in nine businessmen expected tightening of regulations, the following year and released a warning of difficult access EU funds " , said President of Deloitte Romania, George Mucibabici, according to NewsIn.

In addition, the interest in the Romanian business environment for accessing European funds is increasing, conclusion which follows from the fact that although the projects have lower values compared to 2008, their number increased by 38%. So it increased the interest of Romanians to access European funding at this time of crisis, but changed the structure of projects submitted for European funding.

Thus, 90% of projects submitted for European funding were for the development of human resources with the remainder distributed among projects for SMEs and cooperation (5%). Compared with last year, 80% of funding projects aimed the investment in equipment, projects of interest (5%) and projects on human resources (15%). In conditions of economic crisis, the Romanian entrepreneurs are beginning

to give importance to human capital, an intangible asset subject to research a growing number of experts from various fields, both psychologists, sociologists, and especially economists.

Across Central Europe, nearly three quarters of respondents believe the economy will be worse or remain the same next year. On the other hand, contrary to this trend conservative and pessimistic, show business optimism in the prospects that they have their companies, only 15% of respondents expressing negative expectations for the future.

Analysts state that the economy will show signs of recovery early in the last three months of the year, after it reaches its lowest point in the third quarter, but optimism should be moderate because recovery depends on the eurozone, is still unclear whether government measures will have a lasting impact on the private sector.

Finally we ask does this crisis end in the last quarter of 2009? It will meet as "V's" or rather from the first quarter of 2010 we wait a second recession, with more severe effects on overall economy unrecovered, watching as "W's"?

There are many questions asked, but who does? Nobody has the key, we all try to assess the effects of the crisis, and even more so to estimate the likely evolution in the near future.

Industry and services have a contribution of 70% and decreased 5.3% to GDP in the first half of 2009, by 7.6%, the National Statistics Institute data show. Meanwhile, agriculture and construction had a lower intake, only 11.8% of the total.

The largest share in GDP had decreased services - 2.9% of the total. Looking at the use of GDP, we see that an important contribution to the reduction product had a final consumption of households in Romania (contribution of 9.7%) and gross fixed capital formation (contribution of 4.8%).

Moreover, investments in national economy in the first half of 2009 have decreased by 16.7% compared to same period in 2008. Investment in construction in November decreased by 3.2%, while those in machinery and vehicles has decreased by 33.5%. Branches in which a higher volume of investment was achieved are industry, trade, services, agriculture and construction.

### 3. Investment – theoretical viewpoints

A proper characterization of the phenomenon of investment is based on: economic, financial, accounting and legal terms.

-In economic terms, investment is all consumption of resources that are currently used in the hope of future economic effects. In terms of financial investment is the creation of productive capital by forgoing immediate consumption of monetary resources, capital designed to achieve a future revenue stream.

-In accounting terms, investment is transforming the available money in physical assets subject to amortization, or financial assets. The expense of investment, is processing assets and finance money in tangible assets that increase property developer. This is an expenditure whose effect extends beyond the current year.

-In legal terms, investment is the creation of heritage items that may be the subject of property.

Considering investment as a phenomenon ,financial and monetary, it would be appreciated as these represent involvement on a long of a term capital of to his investor or given the accumulations of the populations in the aim obtaining of a the maximum gain with minimum of risk afterwards.

After some specialists, through investments are apprehended:

- " an act where one spends his money funds in hope that in the future shall be received big sums of money"[1]

- " anything used as an active capital in the aim of realization of economic efficiency and therefore of profit."[2]

- " Anything the expenditure of funds were in the sight realization conditions needfulness to obtain in future, on a specific distance the expected effects."[3]

- " investments have four elements, scilicet the investor, the object of investments, the cost and the effects."[4]

- "The term of investments is used most frequently surprised the flux of fated his expenditures to increase or to maintain the stock of real capital."[5]

As an agreement between the theories of the specialists, the components of the concept of investments are as follows:

-the concrete and material content of the effort of investments, I consider investments as a particularly structure of different funds as the nature and the volume, what I am brought in the realization of the project;

-the factor "The time", which show the fact as the any project of investments has a period of scroll, presented through stages and good moments described and on during which the indicators economically have the project have particular ways of evolutions;

-the concept of efficiencies, according to which the investor accepts the utilization of present funds for an effective series( receipts) in the future, more than the initial expenditures;

-the risk, carry results from the concrete way of achieve in the after days of the effects waited. Risk appears due to the fact that these effects waited are maybe, but not certainties, the degree of risk be inverse proportionate the probability of achieve the waited effects.

In the literature the maul can find a series of approaches on the concept of investments, such as in large sense and in liminary sense, or in economic sense, financier and the bookkeeper.

In large sense and from the microeconomic view, investment identified with the placements of the economies of physical his juridical persons in different areas and below different forms, as of example:

-Equipments of productions, therefore an increase the technical capital;

-The modernization of fixed capital;

-The stock of circulating assets;

-The constructing of buildings;

-The purchasing of buildings;

-The purchasing of stocks;

-Research Science and projection;

-The transport and the winding-up of the equipments of productions

In professor's Dobrota view, investments represent an addition to the capital, to personal existing patrimony, addition that result from the use of part of economies obtained from the activity of respective person.

The concept of investments has represented always a subject of discussion. The economist P. Caspar proposes a series of criteria appreciatory investments:

- for an expenditure on an employee today, is expected to be obtained a result tomorrow.

-this expenditure conduces to a constituted sinking-fund that is a capital of which effects are produced on an what

period exceeds the of a landmarks exercise.

-the correspondence expenditures conduces to a multitude of capacities of production or the commercialization of the enterprise.

-there is evidence as the different expenditures on employee increase the patrimonial undertook

And a supplementary condition applied to these expenditures were delimitate of the expenditures of operation:

-Place a break an in a report with the tendencies extrapolate from pasts.

All in sphere of the concepts concerning the answers of long-term capital existed the which specialists tried to accredited the term of " multi investments" as be certain which expenditures have the characters of investments but are settled all the some in the category current expenditures, because they have no frequent and the repeatability of investments the appearance.

Pierre Masse says as investments is " an expenditure dispute about future an uncertain" or, otherwise gave up to," the satisfaction quickly and sure, on the expense of the economies of which we dispose currently against of a future hopes of which support represents it just good invested"

The French economist F. Aftalion formulates the next definition: " The investments represent the renunciation to the monetary sources and current liquids against of a hopes future funds, obviously else big.

Nicolae Feleaga in his book " The risks of bookkeeping to balance among milleniums" brings an important contribution and a binevenues to this research themes and does the specification as the nameable studies take into account the investments considerate measurable excluding investments material toes enterprises how are for instance: Investments in the strategic reflection, in formalization of his methods or the organizational investments.

The author says that analyses of immaterial cannot be confined to a distinction between immobilizations and expenditures. If undertake achieves the important expenditures in this area, means they expect to obtain a series of advantages in exchange. The author considers as the investment as a papers of give in the immediate satisfaction of certain and against of a hopes of future benefits brought of good invested has a series of consequences.

In the researches done in this in area, the specialists adopt many concepts: investments, funds, expenditures or active.

The specialists consider that the mutations from the modern economy have a double consequence: On one side he causes a movement of the process of production from matter and energy towards information and knowledge and then lead to an interconnection and a diversification without unprecedented these. In the same time the specialists consider as the blast of informal technologies, nationalization the economies, globalization markets led to an index of uncertainty of the phenomena much more than by now what does as the productive classic his models don't the maul gives results. New in stage these shall must set-up on the strength of the fashions of which his organization based on the development flexibility and the speed of reaction to changes in order to integrated in a economy based on cognition.

A report of OCDE specifies as " despite of conceptual difficulties the practical and in the definiteness immaterial and in the adoption as an account rule which permits their taking in a account manner the proper maul, the economic contribution of immaterial investments to the growth of the performance and competitiveness undertake does necessary the progressive these uses in accounting systems ".

#### **4. The controversial problems of the appearances of evaluation and recognize of corporal and immaterial assets**

Objective the financial compliant situations of general frame for the elaboration and the presentation of financial situations elaborated of IASB is delivered informations about the financial sprocket, the performances and the modifications of financial sprocket ale of the entity, carry the useful of a by-pathes large spheres of users in the taking of economic decisions.

The fate of financial bookkeeping is connected with the elaboration, the presentation and the publication of balance-sheet in accordance to foresee of a frame conceptual bookkeeper.

The determination of the base of mensurement, used for the ascertainment different patrimonial elements in situations represented, one of the problems most difficult of bookkeeping. Recognise of a

active or a debt were a long weather the appanage of expert bookkeeper.

„Initial recognition of an asset is subject to credible assessment of its cost. After this time the assessment is doing the inventory, closing the year and the date of expiry of the estate.” [6]

The examples most typical the one by-paths according to the expenditures investigatory, to brands, to the commercial background

In the practice and in the theory of accounting were accredited on many bases of mensuration. As part of creating the presentation of financial sheats elaborated of IASB these are: The historic cost, the current cost, the nett value of realization, the actuallisated value.

Problem consist in the choice to fit the maul among these in contextually to satisfy the requirements of the users of accounting information on oe side and an observance of principles and an accounting foundations on the other hand.

Producers and the users of financiers sheets appreciated as , in the mensuration and the presentation of accounting information, as most utilized is the historical cost, although presents some weak points. This croppered another bases of evaluation. Moreover, the tendency is to pass to the utilization of current cost as a response to the incapacity of the model of the bookkeeper based on the historic cost solved the incident to effective problems of modification prices the unmonetary assets.

It is obvious as the determination clear value of realization is released of an uncertainty an estimation nice and an erect incites the how much good time sold really on sale caning generate the different estimations from the assessors.

„There are more than one difficulties and divergences between different viewpoints in the determination of historic cost especially in the case the production costs of a good obtained from own production.”[7]

In condition of inflation and hiperinflation by experience the years past were focussed serious difference of situations flatly falled across the undervaluations of the assets registrated to a historic cost became obsolete the in report with the monetary devaluation.

And yet certain experience from past makes impossible the prevision of earnings in the fight between the historic cost and the right value.

## 5. Bibliography

- [1] I. Vasilescu, “Management of investments”, Editura Mărgăritar, Bucharest, 1997, pp.6.
- [2] I.Vasilescu, F. Luban, “Investments in the system of the business”, Editura Eficon Press, Bucharest, 2003, pp. 134.
- [3] I. Romănu; I. Vasilescu, “Management of investments”, Editura Mărgăritar, Bucharest, 1997, pp. 12.
- [4] R H - Managerial accounting - Editura IRWIN, Homewood, Illinois, USA, 1988.
- [5] The MIT Dictionary of Modern Economics, The MIT Press, 1992, pp. 219.
- [6] N. Mitea, „Financial Accounting” , Editura „Andrei Şaguna” , Constanţa, 2008.
- [7] L. Sarac Aldea, „Particularităţi ale activelor imobilizate. Tratament contabil şi fiscal”, autor Sarac Aldea Laura – Conferinţa Internaţională „Dezvoltare şi integrare Europeană”, Sighetul Marmaţiei , Maramureş 16-17 octombrie 2009 , Universitatea Babeş-Bolyai



## The Implications of Public Expenditures and Debt Accumulation for Economic Recovery in Romania

Sava Anca-Ştefania

*Ph.D. student, Faculty of Economics and Business Administration, Department of Business Administration, "Alexandru Ioan Cuza" University, Iasi, Romania*

[sava.anca@yahoo.com](mailto:sava.anca@yahoo.com)

Dobranschi Marian

*Ph.D. student, Faculty of Economics and Business Administration, Department of Business Administration, "Alexandru Ioan Cuza" University, Iasi, Romania*

[dobrica\\_3@yahoo.com](mailto:dobrica_3@yahoo.com)

### Abstract

*The aim of this paper is to address the implications of using public expenditures and debt accumulation to enhance the Romanian economic recovery and support the economic development and growth on the long run. Firstly, we have presented a brief introduction that reviews the literature on the role of using public expenditures in times of economic downturn and their effects. Secondly, the paper presents, in a critical manner, according to the economic and functional classification, which categories of expenditures were financed by the government in 2009, compared with the previous two years, as a result of the stand-by agreement contracted by Romanian government with the international financial institutions. In the last part, we have presented two of the most important effects of public debt accumulation in Romania: the crowding-out effect and the intergenerational equity.*

**Key words:** public expenditure, debt accumulation, crowding-out effect.

**JEL Classification:** H63, H83

### 1. Introduction

Using public spending in order to stimulate the economic recovery in time of recession was initially proposed by the Keynesian school of thought.

According to Keynes (1970) [1], in periods of economic decline it is useful to employ higher public spending, given the multiplier

effect that public final consumption and investment demand entails.

It is known that in the current global crisis, governments with high share in the global economy implemented the Keynesian policy, trying through budgetary fiscal stimulus alleviating the economic decline.

Keynes's ideas were developed by P.A. Samuelson, W. Schultz, L. Harris, Gunnar Myrdal, Hyman Minsky and others who are refining his theory today.

According to Samuelson, in period of economic downturn, state becomes the most important player in the economy, he's "visible hand" is necessary for the economic recovery, in response to market mechanism's weakness.

Also, Alvin Hansen claimed, in the context of the interventionist state, carrying out public spending, considering the stabilizing effect of the whole economy affected by the phenomena of crisis and unemployment.

There are also economists (Auerbach and Feenberg, Dolls, Toshiki etc.) that emphasize the productivity of public investment spending and of social spending, such as unemployment benefits for boosting quickly demand, inducing private investment and thus contributing to the economic recovery.

In what concerns the neoclassical view about public expenditures and by default, on the Keynesian view about financing them by borrowing, it is assumed that if there is a high level of unemployment in the economy and the interest sensitivity rate of investment is low, the expansionary fiscal policy will lead to little or no increase in the interest rate and will increase output and income. In addition, the neoclassical view assumes that government spending increases private investment due to



the positive effect of government spending on the expectations of the investors.

Therefore, there is crowding-in rather than crowding-out. Keynesians agree with monetarists on the crowding-out hypothesis only when the economy is operating at the full-employment level.

According to Khan et al. (2009), the neoclassical view assumes full employment and advocates for competitive markets against government interventions. Also, according to the neoclassical loanable funds theory, “the balancing of savings and investments will be solved by the interest rate mechanism”. [2, p.8]

It is also considered that increases in government spending generate an increase in the interest rate in order to bring the capital market into equilibrium and crowd-out private investment.

## 2. Using public expenditures in the context of the economic and financial crisis

In times of recession, public expenditures can be seen as a good solution for the recovery of all economic sectors in difficulty and also as a source of further investments, thus contributing to long term economic growth.

The need for public financing of certain economic programs meant to decline the negative effects of the economic crisis became a priority at the end of 2008, in order to stimulate the private sector and the Romanian recovery.

The most important change in public expenditures was related with the stand-by arrangement contracted by our Government with international financial institutions (the International Monetary Fund, the European Commission, World Bank and with other international financial institutions), as a preventive measure in the context of the current crisis.

The external loan was nearly €20 billion and of this amount, €13 billion from the IMF represented a “stimulus package”, in order to counter the negative effects of the crisis.

This measure imposed certain limits in terms of budgetary deficit for 2009 and also for the next period. Romania’s budgetary deficit in 2009 was within the target of 7.3% of GDP (36.4 billion lei, respectively 7.2% of GDP), agreed by the Government with international financial institutions. In 2010,

Romania will have to be within the target budget deficit of 5.9% of GDP.

In 2009, consolidated budget expenditures amounted 193.0 billion lei, an increase with 41.35% compared with 2007, as results from Table 1. [3].

**Table 1. Evolution of public expenditures in Romania during 2007-2009**

Year	2007	2008	2009
<b>Total public expenditure (millions lei)</b>	136,556.5	189,121.7	193,025.4
Current expenditures	122,127.8	166,371.3	173,340.9
Capital expenditures	14,410.4	23,203.4	23,175.3
<b>% of public expenditures in GDP</b>	33.08	37.52	39.29

Source: (Developed by authors, according to data from the Ministry of Public Finance)

In the economic expenditures structure for 2009, we can see that current spending prevailed, representing 34.1% of GDP, respectively 172,340.9 millions lei, an increase with 3.58% compared to 2008 and with 41.93 compared with 2007, while capital expenditures accounted 23,175.3 millions lei, respectively 4.9% of GDP, decreasing with 13.3% compared to 2008.

The largest share in current expenditures was with social assistance transfers (63,962.1 millions lei), which represented 12.7% of GDP, followed by staff costs (46,710.7 millions lei, 9.2% of GDP). Expenditures on social assistance have increased by over 18% in 2009 compared to 2008, while staff costs increased by 2.4%, mainly due to salary increases approved in the second half of 2008. It is noticeable that high spending was on unproductive areas, which does not bring added value in the economy. Payments for salaries of government employees and pensions have consumed all Government resources, both internal and external.

If we talk about capital or investment expenditures, although the Government undertook in 2009, as in 2010, to allocate 7% of GDP for investments, budgetary execution for the last year shows that only 4.6% of GDP had this destination. According to EBRD

experts, although the loan was aimed at allocating more than €10 billion on infrastructure projects, investments in Romania are almost nonexistent, making this crisis extending.

Sustained participation of state with public capital is able to contribute to economic recovery, to poverty alleviation, improving business productivity, households and government services.

The Romanian Government important projects are: "First House", Romanian village revival program-10 houses for specialists, "Rabla" and the public-private partnership to build Comarnic-Braşov highway.

This year, through the "First House" program, the ceiling for government housing guarantees increased to €75,000, aiming at a multiplier effect in the economy, at increasing employment and bringing as many business resources in a period marked by economic difficulty. It should be noted that our state pays for these guarantees, between €60,000 and €75,000 on stages of implementing the construction.

In the case of "Rabla" program, money is taken from the Environment Fund, which collects money from taxpayers who pay the tax pollution. In what concerns the public-private partnership Comarnic-Braşov, it is known and stated by the Minister of Transport, that the project would have never been built with money from the state budget, because it would have increased the budgetary deficit.

According to the functional expenditures structure of the state budget, in 2009, the biggest expenditures were with social and cultural activities (31.3% of total expenditures), followed by general public services (23.63% up from 14.94% in 2008), economic affairs (22.43% of total expenditure increased from 21.18% in 2008) and costs for insurance and social protection (21.50% in 2009, compared with 19.2% in 2008).

The higher percentage of economic affairs expenditures is justified, given the economic and financial crisis.

The lack of credit has affected in particular SMEs, which faced difficulties in funding, compared with large companies. Thus, our state established the legal framework for granting "minimum schemes" (a maximum of 13 schemes were included in the Law on State Budget, 2009), state aid schemes, which were approved by the European Commission (since

May, 2009), totaling 210 millions lei for 100 potential beneficiaries SMEs from all sectors, in order to support businesses affected by the crisis, also it has extended government guarantees to support the export production, (as it increased by 900 million lei the share capital of the House of Savings Bank) etc.

As the current crisis has generated an unemployment rate that increased from 4.9% to 7.8% between January 2009 and December 2009, reaching 8.3% in February 2010, additional costs with unemployment benefits and reductions of unemployment insurance revenues were necessary.

We should also mention that solutions in order to stimulate job creation, to recognize the value of work, must be found, because employment is the real way to economic improvement. In this context, we find as very important the Government's decision, in February 2010, of exemption for a period of 6 months the payments of social contributions for employers which employ for at least 1 year unemployed persons, which have been unemployed for at least 3 months, the aim being reducing spending for the next period for all social budgets and employing almost 500,000 persons.

As the IMF representatives stated since the end of the last year, Romania is spending very much on wages and pensions. Our country is among the states with the most unsustainable public pension budgets of the European Union and according to the EU's forecasts, the estimated share of GDP spent on pensions state will have an upward trend, from 8.4% in 2010, to 15.8% in 2060 [4, p.147].

In 2009, the Romanian state has spent on pensions 48 billion lei, representing 9.5% of GDP and 31% of the state revenues. State budget lent pension budget with € 1.5 billion in 2009. Pension costs for 2010 will be 7.36% of GDP (538 billion lei).

Currently, Romanian public pension system is facing numerous abuses, including: the massive increase for cases of disability retirement, of 50% from 600,000 persons in 2001 to 900,000 in 2009; triple of the annual number of early retirements; disagreement between the lowest (350 lei) and the largest public pension (37,000 lei), more than 100 times, a ratio of 1 to 100; the actual average retirement age under the legal. This suggests an unfair system and we think that there is a need for a pensions budget on a self-sustaining

based, according to the contributivity principle.

The new pension law aims to introduce a mechanism to discipline early retirement system, to increase the average age retirement at 65 years for women and men, to eliminate all discrimination in the system, to reduce pensions set at a high level, and also to contribute to the unification of public pension system.

For the next period are necessary reductions of unproductive expenditures, such as staff costs and increases of intellectual and economic investments in strategic areas, which can represent an exit from crisis.

### 3. Effects of public debt accumulation

The current financial crisis rises many questions about how much should governments spend and therefore borrowing impose the necessity to rethink the old model of development.

In order to achieve and sustain growth and development of the national economy, governments often borrow large amounts of money to finance expenditures on public goods and services that promotes growth and increase nation's welfare.

The development of public debt and budget deficits has become a crucial policy problem not only in developed countries but mostly in emerging economies, like Romania. Political debates about the future course of fiscal policy and the need to keep government debt under control abound, and the sustainability of public finances is one of the most widely discussed topics in economics in these days.

In recent years, in this time of economic slowdown and regression many countries have built up substantial amount of public debt, often accompanied by growing public sectors and shortsighted fiscal policies. In many developing countries, structural fiscal deficits and growing unfunded social security commitments have raised concerns about the long-run consequences for intergenerational distribution and the political sustainability of the welfare state.

A sizeable literature has adopted the overlapping generations modeling framework to examine intergenerational welfare effects of fiscal policy. This literature has examined two channels through which public debt and

unfunded social security affect the intergenerational distribution. The first channel of intergenerational effects works through capital accumulation, and the second through price changes of assets traded among members of different generations.

In many OECD countries, however - particularly in Europe where union influence in wage bargaining is institutionalized - rates of unemployment and public spending on unemployment benefits are quite high. Moreover, in time of financial crisis, both unemployment and net public debt have increased considerably in the last 3 years.

Taking into consideration the actual financial crisis and the necessity of government intervention to help the economic recovery, in case of Romania, which is financing this intervention through public debt (where the amount of external public debt is over 81 % of total public debt), we analyze two of the most important effects of public debt over economic development and growth: *the intergenerational equity and the crowding out effect*. A major reason why emerging economies are more prone to financial crises than mature economies is that of the atypical composition of their debt.

So far, the literature has largely focused on external debt, notably on the inability of emerging economies to borrow on the international capital markets in their domestic currency, which is sometimes coined the external dimension of "original sin".

This suggests that the burden on future generations of increased public debt and the economic burden of high equilibrium unemployment could be interrelated and that the latter perhaps aggravates the negative welfare effects for future generations.

The conventional approach postulates a positive relationship between both the deficit and the inflation rate and the deficit and a negative current account, but no perceptible impact of the deficit on economic activity. Indeed, according to this theory, a rise in the deficit results in an additional supply of government bonds, which can only be sold by offering a more attractive yield, is creating upward pressure on interest rates. Consequently, the initial boost to the economy created by the deficit's impact on global demand ends up being partially diluted by the falloff in investment attributable to higher interest rates. This is called the "crowding out"

effect. Also, the resurgence of demand draws in its wake an overheating of the economy, resulting in price increases.

Two different views exist on the effects of increased government expenditure on investment. The traditional view argues that government expenditure crowds out private investment. Higher government expenditure, whether financed with taxes or debt, increases the demand for goods and services, raising interest rates, making capital more expensive and, as such, reducing private investment.

The non-traditional view supports the positive effect of government expenditures on investment. The crowding in of investment occurs when the economy's resources and labor are fully used.

That may arise in many developing countries where, for example, government expenditure on infrastructure can induce private investment. We find evidence consistent with the first view for both developed and developing countries, but consistent with the second view only for developing countries.

In the case of Romania, where the economy is not a fully developed and functional one, and taking into consideration the crowding out effect, we estimate that the impact over economic development and growth is a positive one, because of the latent financial resources that are "standing" without being used for further investments, especially in private sector, reasoning the lesser evil. The use of these latent and inactive financial resources by the state is more efficient and positive for the economy, instead of not using them.

Besides, if these borrowed resources are used in the adequate sectors, for example for investments in infrastructure, where the incomes and the benefits are positive for both sides, first for the private sector, enhancing the development of new areas of business and improving the existent one and by the other side, has positive effect over the public sector because new jobs are created and by this path, the recovery of the economies is possible.

In time of economic and financial crisis, the most evident features are: the consumption decreases, the production slows and thus, unemployment rate increases.

Even if governments borrow for making public expenditures, in such given conditions, like economic crisis, any financial resources

that are back in economic cycle, represent a way to trigger the economic recovery.

Moreover if money is spent for public productive projects, like infrastructure or buildings (houses, flats), the impact over the private sector is a positive one and it contributes to the economic recovery and development, on the long run.

#### 4. Conclusions

In the context of the economic and financial crisis, there was a need for Romanian government programs in order to boost competitiveness, to support certain sectors in danger of collapsing and helping those who have been hurt by the economic downturn.

In 2009, after analyzing the economic classification of public expenditures, we have found that current spending prevailed, especially those for social assistance transfers (pension costs, unemployment benefits) and staff costs, while capital expenditures decreased, compared with 2008, although the stand-by arrangement contracted by the Romanian government with financial international institutions aimed at allocating more than €10 billion on infrastructure projects.

Our opinion is that there is a need for further investments in Romania, in order to stop extending this crisis and also that are needed reductions of unproductive expenditures.

Regarding public debt and the evolution of borrowing process issued by the Romanian Government, we must draw a warning about the risks that Romania is complying. If borrowed financial resources are not used in a productive areas, such as public investment in infrastructure, the negative effects of public debt will appear and this will maintain the crisis for and long time in our country, public policies will be unable to recover the economic development and growth, in worst case Romania will reach the unsustainable level of public debt, basing our affirmation on the present worse example of bad management of public debt like Greece.

#### 5. Acknowledgements

We are grateful to "Alexandru Ioan Cuza" University of Iasi, for financial support of this article, as beneficiaries of a grant

POSDRU/88/1.5/S/47646, named “*Studii doctorale: portal spre o carieră de excelență în cercetare și societatea cunoașterii*”, cofinanced from the European Social Fund, within the Sectoral Operational Programme Human Resources Development 2007-2013, the project implementation period being 36 months, from March 1, 2010, until February 28, 2013.

## 6. References

- [1] Keynes, J.M, Teoria generală a folosirii mâinii, a dobânzii și a banilor, Editura Științifică, București, 1970.
- [2] Khan, Rana Ejaz Ali și Gill, Abid Rashid, “Crowding-Out Effect of Public Borrowing: A Case of Pakistan”, MPRA Paper No. 16292, Munich, 2009, Online at <http://mpa.ub.uni-muenchen.de/16292/>.
- [3] Ministry of Public Finance, Execuțiile bugetului general consolidat pe anii 2007-2009. Online at: <http://www.mfinante.ro/execbug.html?pagina=buletin>
- [4] European Commission, Sustainability Report 2009, European Economy, 9, Brussels, 2009. Online at: <http://www.apapr.ro/images/BIBLIOTECA/demografie/eu%20sustainability%202009.pdf>
- [5] Michele Bernasconi, Luca Corazzini, Anna Marenzi, “Expressive obligations in public good: Crowding-in and Crowding-out effects”, Working Papers, Department of Economics, Ca’ Foscari University of Venice.
- [6] Christou, Costas, Dellas Harris and Bellesakos Elias, “Foreign debt and Economic Development”, Review of International Economics, 1998.

## Relevant Aspects of the Credit

Conf.univ.dr.ec. Adrian ŞIMON,  
Universitatea "Petru Maior" Tîrgu-Mureş  
e-mail: [adr\\_simon@yahoo.com](mailto:adr_simon@yahoo.com)

### Abstract

The word "credit" comes from the Latin language, but it was only until 1447 that the word "credito" with the commercial meaning appeared. The credit represents a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. Anytime when an individual financial something with a loan, they are using credit. (Andrew Eduard 2000).

The credit score measures the financial credit worthiness of borrower. With credit score information, the lender assesses the risk involved in landing a sum of money to the borrower. The Credit Bureaus and Fair Isaac Corporation (FICO) closely guards the mathematical calculations; this calculation involves the analysis of large financial data. The FICO Credit Score ranges from 300 to 850. A credit score of 660 puts the borrower as potentially. Subprime where are borrower with blemished and limited credit history.

A higher Credit Score indicates better financial credit worthiness. (Dennis Estrada, 1997)

**Keywords:** credit, risk analysis, types of credit, financial crisis

**JEL classification:** E51

### 1. THE IMPORTANCE of risk analysis in credit evaluation

The nature of the business and the competitive environment in which the company operates determine to a large extent the assets investment financial decision and profit dynamic of the company.

Risk analysis is performing to understand the company's positions, its strategy and its effects on financing needs.

There are several steps that should be followed such as:

- *Identify the risk*

Define and document all risks inhered in the management, products, company, industry and economy that could affect the company's operations, and thus its ability to service its debt.

- *Evaluate the risk*

It should be evaluated how and what extend the risks will affect the operations of the business.

Generally the business risk regards the quality and efficiency of the assts , performance risk is determine through income statements analysis and financial risk is determined by how the assets are funded by liabilities .Management risk is determined by how well management controls the above three major risks.

- *Mitigate the risks*

After a through understanding of the risks has been made, it is in the bank's best interest that the risk are minimized .Once the interrelationship of all the risks has been defined , a balance must be found between the risks and return, which is done through the structure of the loan agreement, collateral as well as appropriate covenants.

A complete analysis is one that incorporates all available information regarding the company and industry in which it operates

The banks usually use the following sources (Golosoiu, 2002) of information such as *customer interview* that provides the most important information needed in credit investigation, including the type and the amount of loan required, sources and plans for repayment.

*Internal source* the credit files on any other current or previous borrowings, checking account activity, and other previous current deposits.

*External source* such as other banks, the client has the connections with, Credit

Information Bureau Database, Payment Incident Bureau Database, governmental organization, etc.

## 2. FINANCIAL crisis in Romania

There are no direct effects as the banking system is fundamentally sound. One can look at the lack of exposure to “toxic assets” which lie at the root of the crisis; also the traditional banking products are dominant due to their high profitability. Last but not least the prevalence of the “originate and hold” paradigm must be taken into consideration.

The indirect effects are significant. There is a major impact on the availability of foreign – exchange denominated credit, there is a decline in the volume of FDI inflows and an increased likelihood of profit repatriation, in the context of an ongoing process of international deleveraging. The negative impact on foreign demand affects Romania’s exports. The increase in the exchange-rate volatility represents a decrease in investors’ appetite for risk in emerging markets.

However, there are some alleviating factors such as NBR’s prudent policies provided a cushion for the banking system consisting of high level of reserve requirements (allows for the gradual adjustment of banking system liquidity, depending on the evolution of market conditions) and prudential and administrative measures (slowed down the expansion of credit to the private sector, supported lending in domestic currency to the detriment of forex credit, limited overall risk exposure). Also there is a low share of overdue and doubtful loans in total loan portfolio (1.1% as of September 2008). Starting 15 October 2008, the guaranteed level for bank deposits (per individual and per credit institution) is EUR 50,000 from EUR 20,000 previously; this represents a confidence boosting measure.

The continental type financial system, dominated by banks is expressed through a moderate impact of declining stock prices on corporate financing.

Wide external imbalances are no longer acceptable. That is because of High economic growth in recent years and even disinflation has come at the price of an ever larger current account deficit.

The crisis will have an ambivalent impact on the magnitude of the current account deficit (both exports and imports will decelerate).

The likely decrease in the FDI flow will make financing more expensive and significantly less available.

There are mitigating factors with regard to the availability of financing resources (alternative financing sources, credit lines from parent banks to their local subsidiaries will not be discontinued).

Economic activity will decelerate, but inflationary pressures will persist, as contracting external demand and subdued investment render a slowdown in economic growth unavoidable. Also rise in unemployment will follow and inflationary pressures are not likely to subside next year.

The fiscal position is likely to deteriorate in the absence of corrective action.

There has been a steep decline in new loans to corporations. The decline started a year ago as the credit bubble deflated, and has accelerated in the last months, during the peak period of the financial crisis. From August – October 2008 new loans were 36% less than they were in the prior three-month period. The drop was particularly large in October, 2008. Lending for productive investment such as physical and working capital has fallen as much as lending for leveraged buyouts (LBOs) and mergers and acquisitions (M&A). Revolving credit facilities have fallen more than term loans, and non-investment grade lending has fallen more than investment grade lending.

Although new lending has fallen, since September 2008, there has been a sharp increase in commercial and industrial (C&I) loans reported on the balance sheets of U.S. banks. CKK (2008) interpret this as new bank lending; however, our evidence is inconsistent with this view. Instead, we suggest that the rise in C&I loans on bank balance sheets comes in good measure from an increase in draw downs on pre-existing revolving credit facilities (“revolvers”). These draw downs are not just from high quality borrowers who are shifting from the commercial paper market because of disruptions in that market. Many of them are very large, low credit-quality borrowers, who are now borrowing on the generous terms

that were offered during the credit boom, though they are now much riskier. While this may help these firms, it may also crowd out new lending to other firms. The amount of outstanding revolving credit is very large, and banks may be holding back on new loans to protect against flood of draw-downs if the economy continues to deteriorate.

### **3. MEASURES that should be taken to combat the financial crisis**

- The current account deficit must be brought down through adequate policy measures
- A large budget deficit must be avoided
- A disorderly adjustment will occur and it will be neither smooth, nor reasonably sized
- A massive drop in foreign capital inflows is likely to follow (reduction in international reserves and loss of international credibility)

The past decade has seen dramatic losses in the banking industry. Firms that had been performing well suddenly announced large losses due to credit exposures that turned sour, interest rate positions taken, or derivative exposures that may or may not have been assumed to hedge balance sheet risk. In response to this, commercial banks have almost universally embarked upon an upgrading of their risk management and control systems.

Coincidental to this activity, and in part because of our recognition of the industry's vulnerability to financial risk, the Wharton Financial Institutions Center, with the support of the Sloan Foundation, has been involved in an analysis of financial risk management processes in the financial sector. Through the past academic year, on-site visits were conducted to review and evaluate the risk management systems and the process of risk evaluation that is in place. In the banking sector, system evaluation was conducted covering many of North America's super-regional's and quasi-money-center commercial banks, as well as a number of major investment banking firms. These results were then presented to a much wider array of banking firms for reaction and verification.

The purpose of the present article is to outline the findings of this investigation. It reports the state of risk management

techniques in the industry -questions asked, questions answered, and questions left unaddressed by respondents. This report can not recite a litany of the approaches used within the industry, nor can it offer an evaluation of each and every approach. Rather, it reports the standard of practice and evaluates how and why it is conducted in the particular way chosen. But, even the best practice employed within the industry is not good enough in some areas. Accordingly, critiques also will be offered where appropriate. The article concludes with a list of questions that are currently unanswered, or answered imprecisely in the current practice employed by this group of relatively sophisticated banks. Here, we discuss the problems which the industry finds most difficult to address, shortcomings of the current methodology used to analyze risk, and the elements that are missing in the current procedures of risk management and risk control. (ANTHONY M. SANTOMERO, 1997 Commercial Bank Risk Management: An Analysis of the Process).

### **4. IMPORTANCE of credit risk for non-financial institution**

For the most part managing credit risk is a defensive skill. The role of the corporation is to stop bad things happening or reduce their impact. The major concern in credit risk is seldom from large number of small, even risky, borrowers/creditors but from "excellent" risk that collapse without much warning and from inadvertent concentration of creditors that turn out to be highly collated. This means concern about receivable, suppliers and off balance sheet assets.

Credit risk management is usually based on a combination of reliance on public debt ratings, reports from other agencies for private firms, short term nature of most client accounts, aging reports. Credit risk is far from static. (Bryan Ranason, 2007 Credit strategies)



## 5. TYPES of credit

Due to great diversity of the forms the credit can take, the elements involved and the purpose there are more types of credit, according to:

*Economic nature and the parties involved:*

- Commercial Credit takes place between the economic agents in the form of postponing the payment
- Banking Credit the participants are on side the economic agents and on the other side the bank
- Consumption Credit selling of goods for personal and long term use with the payment in installments
- Bond Credit the credit taken by the state when issuing securities to cover debt
- Mortgage Credit the credit guaranteed with fixed assets such as buildings or land

*Debtor's and creditor's nature:*

- Private Credit
- Public Credit the state is the debtor, that borrows in order to finance the deficit, and the natural and legal persons are the creditors.

*Nature of guarantees:*

- Real Credit requires real guarantees such as buildings, valuable objects, goods
- Personal Credit the guarantees are represented by personal testimonies of third parties

*Extend of the creditor's rights:*

- Credits that can be declared eligible before their maturity date: the creditor has the right to ask for payment with or without announcing the debtor

- Credit that cannot be declared eligible before their maturity: the creditor can only ask for the repayment at an established date

- Mixed credits are conditioned by the right of the creditor to use it for different purposes agreed by the debtor also

*Way of paying off the obligations:*

- Redeemable credit the payment is done entirely at maturity
- Non-redeemable the repayment is done in instalments, that include also the interest,

*Maturity date of the credit*

- Short-term credits are given usually for one, maximum 2 years
- Medium-term credits are given for a period of 3 to 5 years and sometimes for 7 years
- Long term credits are given for periods of up to 25-30 years.

## 6. Reference

[1]. Alexe, Adrian Liviu. *Reglementări privind operațiunile de leasing*, București: Centrul de Informare și Documentare Economică, 2006 - 59 p. – (Biblioteca Economică)

[2] Peterson, George E. *Land leasing and land sale as an infrastructure-financing option*. November 2006 / George E. Peterson. – Washington : The World Bank, 2006.-25 p. – (Policy Research Working Paper ; 4043)

[3] Șimon, Adrian. *Bursa și piața bursieră/ La bolsa y el mercado bursátil*. – Editura Universității "Petru Maior" Tîrgu-Mureș, 2007

## Firm Acquisitions Strategy

Conf.univ.dr.ec. Adrian ŞIMON,  
*Universitatea "Petru Maior" Tîrgu-Mureş*  
*e-mail: adr\_simon@yahoo.com*

### Abstract

We analyze the intents of acquiring firms and target in the firms in the case of thirty recent M&A deals involving at least one firm. The findings indicate that horizontal acquisitions help retain or gain market leadership. Market entry may be a dominant motive for MNCs acquiring domestic firms, and MNCs may offer higher premiums than domestic acquirers for the acquisition.

**Keywords:** acquisitions, efficiency, target, market power.

**JEL classification:** F 23, G34

### 1. Introduction

Mergers and acquisitions (M&A) are fast becoming one of the key drivers of growth industry. Jensen and Ruback have classified acquirer intents into four categories

- to reduce production or distribution costs,
- financial motivations,
- to gain market power in product markets,
- to eliminate inefficient target management.

1. McCann has elucidated the following benefits accruing to service firms, increased economies of scale, increased market share, more efficient resource allocations, the ability to provide new services, a larger asset base, added name recognition, and acquisition of expert talent lacking in one or the other firm.

2. Brouthers et al have identified 17 merger motives, grouped into three categories - economic, personal and strategic motives.

3. Lubatkin has identified three potential sources of strategic relatedness between the acquiring and target firms that could be treated as motives for mergers - technical economies (scale economies through

improvising process efficiencies), pecuniary economies (achieved through dictating prices by exerting market power), and diversification economies (improving a firm's performance relative to its risk-attributes through managing a portfolio of business).

4. Gadiesh et al identify six key rationales for pursuing mergers - active investing (acquiring a company and running it more efficiently as a standalone firm); growing scale (exploiting economies of scale); building adjacencies (expanding into closely of related business); broadening scope (the scope of their products or technologies); redefining the business (by acquiring a new capability/competence in the wake of a major environmental shift); and redefining the industry (by changing the boundaries of competition through evolving new business models).

### 2. EFFICIENCY theory

With the merger of two companies, there is a possibility of lower unit costs, stronger purchasing power or gaining of management efficiencies. The differential efficiency theory argues that there are differences in the efficiencies of managements between companies. Hence when firms merge the less efficient firm will be brought to the level of the more efficient firm. It is likely that such potential gains in efficiency are more probable with firms in related businesses, so that there is significant managerial efficiency in the acquired firm, resulting in both personal gain (to the shareholders), and larger societal gains.

The problem with the differential management theory is that almost every firm operates below its efficiency frontier, and therefore is inefficient. The causes may be an inept management or lack of critical capabilities or resources (key success factors) required for surviving in that business. In such instances, conglomerate mergers

provide firms with the required managerial know-how and access to critical resources.

Efficiency theories also provide the rationale for synergy in mergers. Synergy occurs when the value of the combined firm exceeds the value of the individual firms. There can be three types of synergies namely, financial synergy, operational synergy, and managerial synergy.

Financial synergy results in lower cost of capital; operational synergy results from combining operations of hitherto separate units or from knowledge transfer; managerial synergy is realized when managers of either the acquiring or the target firm possess superior planning and monitoring abilities to their counterparts.

In other words synergies occur when mergers provide opportunities to leverage indivisible assets% resources (like people, equipment and distribution networks) over a larger scale and scope; when vertical integration through mergers eliminates transaction costs; by exploiting the firm's unused managerial capabilities in new product-markets through diversification-led growth; or by exploiting investment opportunities or cash flow streams that would be made available through a merger.

One important variation of the efficiency theory of merger is Jensen's management competition model. Jensen describes takeovers as a disciplinary force in the capital market, which functions as a market for corporate control.

Also, critics against financial synergy argue that it cannot be achieved in an efficient capital market.

Hence adherents to capital market efficiency have to explain the missing link between the public information financial statements and the public information incorporated in the stock price.

### **3. TARGET Firm's Intent**

The managerial efficiency hypothesis suggests that the preference for pure-play securities stems not from lack of confidence in the market's ability to value complex organizations, but from the perceived inability of management team may reach a point of diminishing returns as the size and diversity of assets under their control increases. Part of the problem is that top management may be unaware of the unique

problems and opportunities of a subsidiary in a different line of business. An announced motive in many sell-offs is to sharpen the corporate focus by spinning off (or divesting) units which are a poor fit with the parent company's other operations.

The issues of management incentives and accountability are related to management efficiency. Bureaucratization of management and consolidation of financial statements can stifle entrepreneurial spirit and result in good (bad) performance going unrewarded (unpunished). Incentive compensation plans tied to parent company stock options may be meaningless or even counterproductive. A spun-off subsidiary has the advantage of an independent stock price directly reflecting the market's response to management actions, and more closely linking compensation to performance.

### **4. MONOPOLY or Market Power Theory**

A significant motive for mergers and acquisitions is that it helps increase the firm's market power through increase in size (market shares). Increase in market shares leads to an increase in industry concentration, which provides firms with greater growth opportunities through access to better technology, control over demand and supply of intermediary and services, or the power to set prices, establish industry norms (dominant designs) in technology or (best practices) customer service. The acquiring firm can gain power through collusive synergy or through competitor interrelationship. Market power is achieved by cross-subsidization of products, deterring potential entrants, or limiting competition through tacit collusions. However, past studies show that the market power theory is weaker than the efficiency theory in explaining merger and acquisition.

### **5. ACQUIRING Firm's intent**

A firm can acquire a larger volume of operations sooner if it goes for horizontal acquisition, rather developing internally. The resulting increase in market share will help the firm achieve economies of scale and pursue more growth opportunities. In the case of vertical acquisition, the firm gets control over its resources and raw materials through backward integration; marketing capability and distribution network through

forward integration. This will give the acquiring firm better control over a larger part of the value chain, which in turn, will give the firm an advantage over its competitors. Similarly, access to better technology is also a reason for a firm acquiring another firm.

## **6. RAIDER Theory**

Raider theories focus on how an acquirer with no strategic intent (popularly known as private equity funds – whose only motive is to earn financial returns investments) acquires a controlling stake in a target firm to transfer wealth from the company stockholders to the acquirer stockholders. The primary value that raiders add would be to acquire distressed firms with inappropriate capital structures and restructure them to make them more efficient. Most often, these firms would be taken privately through leveraged buyouts and other forms of restructuring. Recently, private equity firms with access to substantial funds have bought distressed firms in a variety of sectors.

The acquiring firm is often able to see opportunities available to the target firm other investment bankers fail to see. By providing the target firm with sufficient capital flows, restructuring and selling off of non-profitable assets, the acquiring firm's intent is to enhance the value of the target significantly.

## **7. TARGET Firm's Intent**

The target firm would sell out to a private equity fund primarily to fuel its expansion and growth plans, for which its current operations might not be able to generate sufficient capital resources. Target managers also look for access to superior (corporate) management capabilities, advice on inorganic growth strategies, and enhancement of their valuations.

## **8. INFORMATION or Valuation Theory**

Since there is an information asymmetry between financial statements and the public information incorporated in the stock price, new information may be disclosed during a merger deal. Information theories refer to the revaluation of the firm through disclosure of new information during the merger negotiations, the tender offer process, or planning for a strategic alliance% joint

venture. The two major explanations of new information suggested by Bradley, Desai and Kim are:

A. stimulating the management to implement a higher-valued operating strategy (kick-in-the-pants explanation);

B. disclosure of assets% resources that were undervalued by the market, unearthed by bidders with access to superior information. (sitting-on-a-gold-mine hypothesis). These disclosures lead the market to revalue the firm with the new information. This theory is also known as the valuation theory.

## **9. ACQUIRING Firm's Intent**

Acquiring firms get access to inside information about the target firm during the acquisition process. The information will be more valuable in cases when such information is not freely available in the public domain (where the target is either a privately-held company or owned by the government). The additional information could be leveraged by the acquirer to chalk out a strategy that provides for greater synergies and value addition.

## **10. TARGET Firm's Intent**

The target firm's current owner's% managers might undervalue the firm because of the sheer complexity of the managerial holdings. For example, in vertically integrated firms, owners'% managers might not have the necessary information to value all their assets% resources, and therefore an acquisition would be able to release information about these assets and rationalize the value of the firm accordingly.

## **11. FINANCIAL Advantages**

Financial advantages in terms of tax advantages and higher valuation may induce mergers and acquisitions. Differences in the treatment of period income taxes and capital gains for taxation purposes guide mergers. Another tax benefit is to merge a highly profitable firm with another firm reporting losses, thereby reducing the tax liability of the profitable firm. Similarly, since a lot of insider information is revealed during the bidding process (as discussed in the section on information theories above), the

undervalued target firm gets reevaluated and its stock price rises, resulting in significant advantages to the target firm.

Firms can use acquisitions to capitalize their tax liabilities by buying out small high-growth firms with little or no dividend payouts, and subsequently selling them off to realize capital gains.

Retiring owners of privately-held firms could use sell-offs as means to convert their potential (but uncertain) period incomes to capital gains by a tax-free exchange of securities, thereby earning shares of the combined firm.

## 12. Reference

- [1] Bradley, M, A Desai, and E H Kim, 1983, "The Rationale behind Interfirm Tender Offers: Information or Synergy?", *Journal of Financial Economics*, April.
- [2] Brooks, Mary R and Pamela Ritchie, 2005 "Trucking Mergers and Acquisitions in Canada and the US since NAFTA", *Transportation Journal*, Summer, pp 23-38.
- [3] Daly, J, R Pounder and B Kabanoff, 2004, "The Effects of Initial Differences in Firm" Espoused Values in their Post-merger Performance", *Journal of Applied Behavioural Science*, Vol.40, No 3, pp 323-343.
- [4] Gadiesh, O, C Ormiston, S Rovit, and J Critchlow, 2001, "The Why and How of Merger Success", *European Business Journal*, Vol.13, No 4, pp 187-193.
- [5] McCann, J E, III, 1996, "The Growth of Acquisitions in Services", *Long Range Planning*, Vol. 29, No 6, pp 835-841.
- [6] Jensen and Ruback, „The Market for Corporate Control”.
- [7] Lubatkin, M, 1983, "Mergers and the Performance of the Acquiring Firm", *Academy of Management Review*, Vol. 8, No 2, pp 218-225.
- [8] Trautwein, F, 1990, "Merger Motives and Merger Prescriptions", *Strategic Management Journal*, Vol. 11, No 4, pp 283-295.

## Possibilities to Improve the Quality of Accounting Information

Lector univ.dr. Tinta Alice  
Prof.univ.dr. Munteanu Victor  
Lector univ.dr. Zuca Marilena  
*Universitatea Româno- Americană București*  
*E-mail: a2c\_vm@yahoo.com*

### Abstract

*Quality requirements of accounting information can be derived implicitly from the fundamental principles of accounting practices stipulated under the Law of accounting.*

*Based on such legal frame, according to which the accounting should give an accurate picture of economic reality, we can conclude that quality accounting information is information obtained by the rules on property valuation and other accounting rules and principles.*

*Quality is defined by a set of attributes that determines the usefulness of information in decision making. The four main features are: comprehensibility, relevance (significance), credibility (reliability) and comparability.*

*In its search for a true image, accounting can and should produce qualitative improvements in its information supply. Growing demands of internal and external users require such improvement.*

**Key words:** globalization process, quality, comparability, financial forecast.

**JEL Classification:** M41, M42

Accounting has become a vital tool in any trader's current life. In the same context, we believe that, in fact, accounting is the most important source of information on a nation's economic activity. Essential in the decision-making process and in post-decision analysis, accounting introduces means for the assessment of companies' performances.

The transition to a market economy requires major shifts in accounting. The implementation of the new accounting system in the Romanian economy has generated numerous and complex issues for the users of the accounting information. It is possible and necessary to improve the quality of accounting information, with direct influence on the

decision-making process (M. Niculescu – “*Diagnostic economic*”, Ed. Economică, Bucharest, 2002).

The Law of accounting (Law 82/1991) does not define explicitly *the quality of accounting information*. “Accounting as a major instrument of knowledge, management and control of assets” (Art.2/Legea 82) is focused primarily on technical matters concerning the registration of various operations, processing and publication of information, the valuation of property and control of economic operations.

Quality requirements of accounting information can be derived implicitly from the fundamental principles of accounting practices stipulated under the Law of accounting.

Based on such legal frame, according to which the accounting should give an accurate picture of economic reality, we can conclude that *quality accounting information is information obtained by the rules on property valuation and other accounting rules and principles*.

It is not surprising to encounter the same perspective at the French regulator, given the source of inspiration for our accounting information. “Compliance with the procedures and rules in force enables the accounting information to reflect accurately business reality”( Celine Michailesco – “*Qualite de l'information comptable*”, in vol. “*Encyclopedie de comptabilite, controle de gestion et audit*”, Ed. Economica, 2000).

The quality criteria considered by the French regulator concern the compliance and accuracy of information. The compliance ensures intelligibility of financial documents and their comparison in time and space. The accuracy is a quality that covers both accounting records, which must be as accurate as possible, and the accountants, who should mirror the reality in a loyal and faithful way.

According to the *Anglo-Saxon standards*, **quality information** is relevant and reliable

information, useful for the decision-making process. As a summary of various approaches, we can conclude that, explicitly or implicitly, the quality of accounting information is related to its usefulness in decision making. The general framework for preparation and presentation of financial statements, issued by the International Accounting Standards Committee (IASC), the issue of quality accounting information is presented directly and explicitly. The first two parts of the general framework deals with the objective of financial statements and qualitative characteristics which determine their usefulness.

*Quality is defined by a set of attributes that determines the usefulness of information in decision making.* The four main features are: comprehensibility, relevance (significance), credibility (reliability) and comparability.

**Intelligibility** is the quality of information to be easily understood by savvy users (who have sufficient knowledge of economic and accounting) and interested users (the desire to study the information presented).

**Relevance (significance)** is the ability of information to influence the users' *decision*, modify it according to its retrospective or predictive value.

Relevant information is information that generates behavioral changes of beneficiaries, enabling them:

- To assess past and present events;
- To predict performance, financial condition and other aspects of business activity;
- To acknowledge and correct past developments of various aspects of business activity.

Relevance is dependent on the nature of information and its importance. The importance of information is designated by materiality, i.e. limit where the omission or incorrect declaration of information affects user decision.

Information may be considered significant if it exceeds (Professional judgment in enforcing the accounting standards, Ed. Economică, 2001):

- Approximately 5-10% of profit prior taxation; or
- Approximately 1-2% of turnover; or
- Approximately 1-2% total assets; or
- Approximately 2-4% own capital.

Obviously, such thresholds should be carefully valued per each separate case by involving quality aspects.

Credibility (reliability) is the quality of the information to be free of errors in terms of representation of reality and communication. To be credible information must:

- Represent faithfully the transactions and other events in the life of the company;
- Account the events and transactions in accordance with their substance and economic reality and not just according to their legal form;
- Be neutral, i.e. not be influenced;
- Be provided in compliance with the principle of prudence, i.e. it should express precaution in substantiating value judgments necessary for preparing estimates under conditions of uncertainty, so that assets and income are not overstated and liabilities and expenses are not understated;

**Comparability** - is a general attribute of any type of information that allows users to make comparisons over time and space.

Comparability in space implies the possibility of users to compare financial statements of related businesses. This implies certain uniformity in the area of accounting methods. Given that the choice of accounting methods belongs to the company (obviously within the limits of national or international standards) and the incidence of this choice on performance, it is essential for companies to submit financial statements, which detail the accounting methods used. The analyst needs also information on any change in accounting methods or procedures for their implementing. International rules require not only mentioning the change of method, but also the presentation of reasons for such change and its implications in terms of performance.

Comparability over time means the possibility of comparing successive financial documents of the same company. It involves certain permanence in time of accounting methods and the need to have the figures of the previous financial year.

These characteristics of information may be collected and ranked differently according to users' interests. In financial analysis, the focus is on the features of information, which concern relevance and reliability, without neglecting the requirements of comparability in order to assess companies' performance, financial position and their dynamics.

Given the facilities brought by the IASC, the importance of information from yearly accounts must be tempered. Measuring performance based solely on accounting information still presents a number of limitations:

- It has an historical character, especially when financial statements are published in a few months after their issuance, it ensures knowledge of past performance; it provides changes in delay;
- It does not provide information on the resource difficult to assess, but vital for the enterprise (human capital, "the hard core of competence" of the company etc.)
- It generates a cost of treatment, often very important in relation to the results.

Analyzing the aforementioned, we list below the most significant means which lead to the improvement of accounting information's quality:<sup>1</sup>

### **1. Harmonization of accounting principles given the internationalization of business**

Business internationalization and globalization of financial markets bring into discussion the issue of multiplication of accounting rules and differences arising thereof in terms of accounting treatment of certain operations.

In a time of intense activity in mergers, public offers of purchase, the issue of accounting and [depreciation of purchase difference (goodwill or overvaluation) has exceeded the area of the accounting environment, becoming a major financial problem. We should not disregard a number of issues, some very complex, for which harmonization can contribute essentially to obtaining a true picture. We consider items relating to:

- Change of methods for determining the net situation;
- Capitalization of development costs;
- Establishment and valuation of assets;
- Foreign exchange operations and financing - location.

Stock control bodies have determined that International Accounting Standards Committee (IASC) to restrict, within the accounting rules they publish, the number of options offered to companies and to specify the conditions of use. A major effort in this direction is necessary.

Pending a better harmonization of rules, it is imperative that Romanian companies face conditions of fair competition.

Therefore, it is necessary:

- To undertake an inventory of accounting methods that involve significant divergence from those of our major economic partners in Europe and worldwide;
- To highlight the aspersions in the accounting reform;
- Foreign companies operating in Romania - to submit the differences in accounting rules and which lead to disadvantages for the Romanian entities.

### **2. To define an overall conceptual framework and promote research of accounting principles to guide best options for their best applications**

IASC has defined a conceptual framework to introduce accounting standardization. It is designed to help, in a deductive way, to obtain normative solutions appropriate to and accounting issues. Given the wide variety of legal environments specific in each country, an international conceptual framework has, naturally, a general character.

Such approach is also considered in our country, thus achieving the modernization of accounting legislation. This allows, on one hand, the connection to the specificities of each economy, such as keeping the spirit of European directives and recommendations of the IASC.

### **3. To ensure autonomy of accounting from the rules of taxation**

Despite progress, taxation maintains several traditional positions that interfere with the accounting rules and methods. We underline in this respect the necessary distinction between normal and derogatory depreciation and the need to apply provisions in practice. Accordingly, the company must provide information, in the Annex, concerning the

---

<sup>1</sup> N. Tabără, E. Horomnea, C. Toma - „*Conturile anuale în procesul decizional*”, Ed. Tipo-Moldova, Iași, 2001.



distortions in the annual accounts caused by:

- Methods used to calculate separately the depreciations and in both tax and accounting perspectives;
- Tax treatment of differences arising from revaluation;
- Summary indicating the extent to which the profit or loss was affected by the application of tax provisions and their implications for equity.

Without supporting a total "disconnection" of accounting from taxation, there should be cleared off any interference between accounting and taxation. This could be achieved by requiring the registration with the Table of determination of the tax outcome of operations recorded in the accounts for tax reasons (redemption exceptions, provisions covered, etc.). Obviously, it is certainly the right of economic operators to implement a reliable system to explain differences and to allow the management to exercise adequate control.

#### **4. To define and implement management accounting**

Accounting is a system of organizing and structuring information providing, consequently specific processes, a set of data capable of meeting the needs of different users in real time. The current accounting system has not developed some economic information required by managers of companies, not being reflected some specific elements of economic activity.

Modern computing means allow the development of a multidimensional accounting, able to meet all objectives. It is important to obtain reliable information, intelligent, relevant and pertinent to permit a significant improvement in the measurement of management performance. This raises the need and possibility of introducing intermediate management balances and financing table.

Therefore, it is necessary to analyze the list of accounts and presentation methods that are required by the Accounting Law and the Regulation on its implementation, so they do not constitute a hindrance on effective use of accounting by economic operators.

It is necessary to give companies, as options, more flexibility in using accounting tool to meet the operational needs with a high

degree of mobility and specificity. We deem that this approach implicitly assumes a re-normalization of essential aspects of accounting.

#### **5. To develop solutions to business applications on the difficulties of applying accounting principles**

Making available the means necessary to meet business' needs is essential to improve financial information. For instance, we should remember the negative influence that the inflation process, specifically in the transitional period, carries on delivering a true image, making it necessary to use an accounting adjusted for inflation.

#### **6. Comparative study on the practices of companies on international accounting principles**

Comparative studies have already been made by international bodies or press organizations and private institutions.

However, research is needed on two levels, if possible, harmonized internationally and domestically:

- Internationally, a harmonized framework can be developed by research, questionnaires, criteria of choice for business and performance of accurate investigations of the accounting methods used by major global companies;

- On European or national level, more nuanced approach is necessary, that would reduce the degree of selection of the companies or based on samples of some particular points in certain sectors. Some attempts have been made by the European Union, study commissioned by Federation of European Chartered Accountants - FEE or nationally. These studies must be adapted in the wider context of an effort carried out internationally.

#### **7. Publication of accounting and financial forecast**

On European and international levels, companies develop and publish two forecast documents:

- Account for results;

- Financing plan.

Forecast information is still often criticized. One of the points at issue is that of discrimination in communication of provisional documents. There are opinions that support the need for confidentiality of these documents; it is the reason for which the principle of publication has been excluded.

The enforcement of this principle in such field is delicate (in particular equality between employees of the company and its shareholders is increasingly difficult to meet). Today it is necessary to develop the employee-shareholding employee, which cannot be to the detriment of other shareholders. Forecast information for employees should be published.

Moreover, it is understood the interest that a profitable company expresses with regard to the "publication" of its results. Immediate effects occur in terms of the exchange quotation of issued shares, attracting potential investors, entering new markets, etc. Obviously a different behavior will "promote" the economic operator in financial difficulty.

### **8. Active participation of the accounting profession in the development of accounting rules and economic growth of the company**

The false idea according to which the accountant is the expression of "red tape" and the restriction of the economic operator remains what has always been: a lie. The strictly limited nature of most resources (except for, fortunately, human intelligence) requires the enthronement of the principle of economy, the effect maximum.

The development and enhancement of exchange of information regarding the accountant profession have always been beneficial in this respect. We suggest here a revival of national and international events by means of which communication becomes operational and efficient.

An improvement of the efficiency of international scientific events is possible through improved procedures for election of delegates and setting the criteria for competence and membership in such an institution.

Also, the transparency of action of international organizations and a better

preparation of meetings exercise positive influences on the development and strengthening of the prestige of the accounting profession.

### **9. The restructuring of accounting and financial information sources available to the public**

The sources of accounting and financial information are diverse and dispersed, and often useless information is provided.

The consequences of such situation are manifold:

- Increased costs for business;
- Appearance and ambiguous interpretations of the elements of uncertainty in the management of the company;

The criteria *characterizing* the accounting information relate to:

- Rapid dissemination;
- Extent of dissemination;
- Availability in time and space.

The accomplishment of a structured system of information requires the establishment of data banks to centralize all accounting and financial information published by the company.

The following matters should be, however, clarified:

- the nature of stored information (annual accounts, interim statements, management reports);
- Broadcast manner (on request consultation in real time or delayed);
- Material means of access available to users (nature of terminals, accessibility etc.).

Although such development cannot happen on short term, it is inevitable with the development of modern computer technology, which facilitates obtaining information in real time.

### **10. Acceleration of development and publication of financial information**

The acceleration of publication terms can be done in three ways:

- Acceleration of accounts' establishment;
- Acceleration of the process of publishing or making information available;

- Compliance with statutory deadlines for publication.

The accelerate accounts' establishment is the responsibility of companies and cannot be achieved only through proper organization of financial and accounting information-generating services. Currently, annual closing of accounts is seen by many companies as an unusual procedure that requires hard work of research, analysis and presentation of accounting information. Measures are needed to optimize procedures for closing the annual accounts, including obtaining intermediary reliable information. Several directions can be considered:

- Preparation of frequent intermediate situations (quarterly, monthly);
- linking financial accounting information with management information;
- Indication of materiality of information;
- Development of accounting functions to control and analysis of auditors;
- Acceleration of the information's process of publishing or making it available.

The delay in establishing the accounts requires an improvement of the publishing manners.

The acceleration of the publication process relies heavily on the communication policy of firms, which should not perceive financial information as a mere compliance with a legal obligation, but as a response to the information needs of different partners of the company.

The increased complexity of processes, together with increased degradation of information requires the decrease of its publication terms.

## **11. Simplification of financial information for the general public**

We note that the information is not always appropriate to demands of the audience to be addressed. It is abstract for the general public given the subtleties of accounting rules and financial accounting language.

The legal framework of accounting information is, in fact, inadequate to business realities, which are different. Currently, information is monolithic. The companies' peculiarities are least considered.

This reflection re-launches the debate on the principle of unity of financial accounting

information. The type and content are essentially defined, irrespective of the information's broadcaster or recipient. Therefore, the need to reflect on the real needs of different groups of user

An analysis of the users' needs shows that segmented information according to recipients, useful in this context cannot be conceived as a system with several levels. This would include basic information for the general public and additional elements for different users.

The information for the general public could be formed from an abbreviated report, together with a vocabulary and explanations to make the financial and accounting language available.

## **12. Establishing a comparison of the requirements on financial information**

The obligations on financial information differ from country to country. Therefore, the following aspects are significant:

- Content of annual financial information;
- Internal information requirements;
- Permanent information;
- Dissemination of financial information;
- Time of publication;
- Control of accounts;
- Obligations continuous information are more or less strictly defined;
- Information is more or less easily and directly accessible by country, but as a general rule, anyone, who wants information, can acquire it;
- The publication terms are highly variable, but they are not related to the extent of obligations: countries that publish more information are not necessarily those which publish it at the earliest, except U.S.;
- Finally, the notion of reliability of the accounts is seen differently by groups of countries: Anglo-Saxon, Continental Europe (Germany, France) and others (Switzerland and Japan).

It can be noticed that financial information published by companies depends on the importance of that country's financial markets. The assessment of financial markets has led to defining broader obligations on financial information in Anglo-Saxon countries.

Meanwhile, in its search for a true image, accounting can and should produce qualitative improvements in its information supply. Growing demands of internal and external users require such improvement.

### 13. References

[1] Feleagă N., Feleagă L. – Contabilitate financiară – o abordare europeană și internațională, Ed. Infomega, București, 2005;

[2] Munteanu V. și colectiv – Contabilitatea financiară a întreprinderilor, Ed. Prouniversitaria, Bucuresti, 2009;

[3] Ristea M., Dumitru C. – Contabilitatea afacerilor, Ed. Tribuna Economică, București, 2006;

[4] CCE – European Directives IV, VII and VIII;

## THE ROLE OF THE ACCOUNTING AND AUDIT STANDARDS IN THE GLOBALIZATION PROCESS

Tulvinschi Mihaela

*Stefan cel Mare University of Suceava, Romania,*

*e-mail: mihaelat@seap.usv.ro*

### Abstract

*The audit rules are necessary, they being able to be useful as much for the auditors and for the audit beneficiaries. For the auditors, the rules make first of all a support item, a guide or a support in applying the methods, techniques, procedures and second of all a support and justification item, for the case where difficulties show up. In what regards third-parties, these will be assured that the audit is made by unitary criteria, no matter by whom it is made.*

*Even if solicited by various firms, in order to raise the credibility of the financial situations they published, the audit process cannot take place at random, without the existence of legal regulations. Due to the increasing importance the audit gets in developing any business, in time imposing the necessity to make professional specific standards, that are to insure a minimum quality of the audit process an a certain performance to the auditor profession.*

**Key words:** audit, audit rules, report rules, audit process

**JEL Classification:** M41, M4

### 1. The national audit regulations

In Romania, the audit as a regulated profession is known after the year 1990. More exactly, terms as “financial audit”, “financial auditor”, “financial audit standards or regulations” have been introduced in our vocabulary after the adoption of the accounting law no. 82/1991, and also after publishing its appliance regulation in 1994.

Of a great importance for the further financial audit, financial auditor free profession, accounting expert and authorized accountant professions’ development was

publishing, in the Official Monitor no.243 of August 30<sup>th</sup>, 1994 the Government Ordinance no. 65/1994 regarding organizing the accounting expertise and authorized accountants activities, approved by law no. 42/1995 referring to the attributions of the Romania Authorized Accountants and Accounting Experts Organizations (CECCAR) to make regulations regarding the professional activity an ethic behavior of the accounting experts and the authorized accountants.

The normalization efforts of the CECCAR, combined with the support of the academic specialists and the accounting commissioners from France had, as an effect, publishing the “Financial audit and accounting balance certification rules”, due to the National CECCAR Conference Decision no.3 of October 23<sup>rd</sup>, 1995. The reference rules of the financial audit were classified as follows:

- accounting rules, or the common rules for all the ones that establish, control and use the accounts
- proper audit rules, or an assembly of rules established by the professional authority the auditor reports to in exerting his mission.

Also, the proper audit rules are divided in: professional working rules, opinion reporting rules and general professional behavior rules.

A problem that must be approached is connected to the audit normalization process. This process has, in general, 5 stages:

- first of all, on a national level, there must be a normative document that establishes a professional organization, that disposes of disciplinary powers to its members;
- second of all, there must be an professional ethic code, that stipulates the obligation of the organization members to apply the rules in their missions and that stipulates creating an organization (committee, commission, workgroup) which has the task to make the rule project;

- that organism makes or coordinates the research efforts and the necessary consultations, and presents a final version of the recommendations, version that is put under debates and is to be approved by the supreme forum of the professional organization (the only one that disposes of full control and punishment powers over its members);

- those made rules become applicable, and for that the professional organization adopts adequate publishing, informing and forming means (courses, seminars, debates);

- the last episode of the audit normalization process is organizing the quality control. According to international practices, the external quality control can be organized on 3 ways:

- a first method is the one where any society or expertise/audit cabinet accepts to be periodically controlled (usually once every 3 years), friendly, by another society or profile cabinet;

- another method is the one that means direct involvement of the professional organization, that is the case where it specifies a number of cabinets or societies that accept to do, temporarily, only quality control; that means that the mentioned cabinets are not working, in the considered period of time, as normal audit or expertise cabinets, dedicating themselves only to the control of other cabinets or societies they must survey;

- finally, there is also the method where the professional organization creates, within its superior structures, a specialized organization (for example, the General Control Department of the CECCAR), which has own coordination personnel, but which can also use controllers submitted in the national list and section lists.

The applicable rules in the financial audit are: accounting rules, control rules and proper audit rules. These rules are supported by internal regulations, but also by international and European recommendations.

**The accounting rules** that must be respected for the audit are the common ones for all the ones that are involved in accounting, make accounting balances, verify, certify or use financial situations.

**The control rules** are an assembly of rules defined by an authority exterior to the expertise or audit cabinets, and can be a national or international cabinet. These rules

will allow the use homogenous criteria and methods in all audit missions.

**The audit rules** are divided into three categories: general professional behavior rules, professional working rules and report rules.

**The general rules** determine the professionalism degree an auditor must comply with. Most of the external audit missions are made by people that comply with certain demands connected to professional experience. In most of the countries, people that wish to practice as auditors must adhere to an organization that is recognized for its professionalism in the domain. The more the audit users want a higher professional level of the auditors, the more exigent conditions will be imposed for a person to be part of the mentioned organization. From this point of view, most of the professional organisms impose these requirements:

- requirements regarding professional training: special studies in the financial-accounting domain, preferably university studies specialized on accounting;

- experience regarding specific practice: before giving the free- practice right for the audit domain, the candidates must have a minimum specific practice number of years (for example, in an audit cabinet or accounting expertise)

- promoting a specific exam: this consists of a complex testing, where the accent is put on the disciplines of the accounting domain.

**The professional working rules** are made for the auditors in professional working guides that help in understanding the way in which audit evidence are collected for making opinions.

**The report rules** aim only for those audit missions that are finalized by a written report. These rules include, mainly, the rules that are to be respected in conceiving and making of the reports regarding financial situations of the economical agents.

## 2. Evolution of the international audit rules

One of the characteristics of the financial audit is that at least 2 auditors, found in the same situation will have to reach at the same conclusions. In order to assure this homogeneity, the audit companies and professional organizations have taken

measures that have been concretized as unitary methods' adopting and common approach. This does not mean that all the auditors act strictly identically, each cabinet developing methods and techniques that will lead to reliable conclusions.

The international rules that regulate the audit profession are American, and this is due to the fact that the USA is one of the countries with the most vast experience in what regards the financial audit domain.

The first financial audit standards (ISA) were made in the years 1939- 1951, by the AICPA, by a permanent committee regarding audit procedures.

By the year 1972, the actual standard collection was finalized, and the name of the committee was modified into the Audit Standards Executive Committee (Aud Sec), this also having the role to interpret the generally accepted audit standards (GAAS). In the year 1978, the AudSec was replaced by the Audit Standards Board (ASB), which had the task to establish the main rules the financial auditors must respect in their missions.

The AICPA established the professional conditions an authorized accounting expert must comply with. This institute has made studies and researches, has published papers regarding numerous and various subjects of the accounting, audit, certification, insurance and accounting/ fiscal consultation domains. Within the initiatives made by the AICPA in order to promote the services offered by authorized accounting experts are included: national publicity campaigns, making of professional certificates and efforts made by the Certification Services' Special Committee in conceiving and promoting new assuring services.

The AICPA, by its committee, has made new standards and rules that can be classified as follows: audit standards, compilation and reviewing standards, other certification standards, the professional behavior code.

The ASB is responsible for publishing certain recommendations regarding various subjects connected to the audit. These recommendations are called Statements on Auditing Standards.

The Accounting and Review Services Committee makes recommendations regarding the responsibilities of the accounting experts,

when these are involved in making financial situations of companies that are not listed and that do not make the object of an audit. One of the standards made by this committee, made in the year 1978, replaces all the former standard formulations regarding financial situations that have not made the object of an audit. This standard refers to two types of specific services and those are:

- the case where the accounting expert helps the client to make the financial situations, without offering any assurance in what regards the contents of the situations (compiling services)
- the case where the accounting expert makes a review and applies the analytical procedures which offer a relatively reasonable base in expressing a limited assurance that there are not significant modifications to be done in the financial situations (reviewing services).

In 1986, the American Authorized Accounting Experts Institute has published statements on Standards for Attestation Engagements. The purpose of this publication is double. On one side, it offers a reference area, which is to be respected by the standardization organizations in their standard defining activity, aiming only to specific certification services. On the other side, it offers an orientation area for the practitioners, in the case where no other standards exist.

The professional behavior code was made by the Committee on Professional Ethics, which is part of the AAAEI. The behavior rules apply to all the services made by the accounting experts and offer a reference area for the more technical standards.

In Great Britain, the main rules and regulations for the audit were made by the following professional organisms: The Chartered Institute of Management Accountants, The Institute of Chartered Accountants in England and Wales, The Chartered Institute of Public Finance and Accountancy, The Association of Chartered Certified Accountants, The Institute of Chartered Accountants of Scotland. The five mentioned professional organizations, members if the International Federation of Accountants, have determined clear regulations for the audit, that are mostly about technical standards for the audit, but also adopting an ethic behavior code. One of the

most important measures taken in GB aimed to monitoring the quality if the made audit, especially for the public interest firms. After the monitoring was made, the existent relation between the auditor and the client was analyzed, and the way in which it affected the professional reasoning of the auditor and the audit opinion.

In France, the accountant profession is regulated by the Superior Council of the Accounting Experts' Order (CSOEC), and the National Accounts Commissars Company. The last mentioned organism is a member of the European Accounting Experts Federation, the International Accountants Federation and the International Accounting Standards Board. The main objectives that the professional organizations in France aim to are:

- developing the accountant profession in order to reach a high-competence level;
- assisting the state institutions in the accounting normalization process;
- organizing training courses;
- cooperation with the international institutions (EU, World Bank, BERD) in order to make normalization and harmonization projects for the accounting and audit domain.

On an European level in the year 1989 the European Accounting Experts Federation (FEE) was established, located in Brussels, made by the reunion of the European Accounting Experts' Union and the Accounting Experts Group of the CEE. The FEE published recommendations regarding the accounting reviewing of the ASB.

At the base of the juridical function of the audit, on the European level, an important role is played by the European directives, the most important being the 8<sup>th</sup> directive of April 10<sup>th</sup> 1984 regarding the legal control exerting conditions of the synthesis documents. This directive is considered to be the third concretization of the European accounting harmonization (the first two being the 4<sup>th</sup> directive in 1978 and the 7<sup>th</sup> in 1983). The objectives of the 8<sup>th</sup> directive are:

- the harmonization of the qualifications of the persons able to make the legal control of the synthesis accounting documents;
- assuring a increased level of theoretical knowledge and capacity to apply this knowledge in legal control practice;

- authorizing the persons and societies to do legal control.

The most important international organization in the audit domain is the IFAC, created in 1973 in New York. The mission of the IFAC is to develop the accounting and audit profession in order to allow it to assure superior- quality services for the public interest. The IFAC is a non-profit, non-governmental professional organization. By its cooperation with member and regional organizations, the IFAC initiates and coordinates the international normalization efforts from a technical, ethical and educational point of view. Within the IFAC, the permanent technical commissions are activating, in the following domains: education, ethics, financial and management accounting, information technology, international audit standards, international audit practices, international standards on professional services' quality, international standards on reviewing missions, relations with member organizations.

The International Audit Practices Committee is the department designated by the IFAC to make and develop the standards and declarations regarding the audit activity. The IAPC, by its activity, tries to harmonize the audit practices of the IFAC member countries and to minimize major differences, developing internationally applicable audit standards. These standards contain base principles and procedures, and also supplementary explanations and indications.

By the issued standards, the IFAC assures the international uniformity of the audit practices. In order to support member countries in implementing the international audit standards, the IFAC, by its IAPC, follows to promote and adapt these standards voluntarily. In order to obtain as much diverse opinions as possible, subcommittees made of specialists that are not IAPC represented can be made.

The international audit standards apply to the audit of the financial situations or in the case of connected services. International standards contain base principles and procedures, such as supplementary explanations and indications. For extraordinary situations, the auditor can consider detouring from the stipulations of one or more standards to reach the objective of its



activity in a more efficient way. In such situations, the auditor must be prepared to justify his detour from the international audit standards.

The international audit standards are exclusively applied to all the significant aspects. Any limitation of the applicability area of the international standards is clearly stipulated in the introductory paragraph of each standard. In some cases, the standards have at the end a paragraph that stipulates the specification of the public sector Committee. In the case that a standard does not contain such a paragraph, it is applicable to all the significant aspects of the public sector.

The international audit standards do not have a greater power than the national regulations of a certain country. If the national audit rules of a member country differ or are in conflict with the international standards, the professional organizations of the mentioned country must assure respect for the obligations of the IFAC members established in the constitution document.

In conclusion, it can be affirmed that the globalization and internationalization of the accounting profession have contributed to the development of the international audit standards. In the conditions of an obvious globalization, the investors and the capital markets' regulation organizations demand for more and more complete audit rules that are to attest the credibility of the world financial situations. The international audit standards are an assembly of reference practices created to improve the quality of the financial information on the international markets.

### **3. Audit standards in the globalization process**

The actual world, considered as an assembly, but mostly the actual economical world is in a continuous movement, manifesting as a permanent changing process. Today, we assist at a powerful globalization of commercial changes, of national economy forces and the never before growth of the financial markets' importance.

Within the nowadays globalization process, when the economical borders of the countries virtually disappear, and the businesses get a more international characteristic, the economical world has

created an universal language of business, concretized in international accounting and audit standards [7].

In a globalized world, communication in the economical language in general, in the language of accounting and the one of financial audit especially demands unity in conceiving the organization and leading methods for the commercial, administration and resource control companies, and also unity of the principles and accounting methods to develop, present and audit the financial situations.

The International Standards of Accounting Reporting group (ISAR), which gathers more than 100 countries within the 25-27 of September 2002 conference but also in the 2003 conference, has identified the obstacles the entities are facing in accounting leadership and quality financial information supply, and also some of the major difficulties that make hard to run the globalization process. Regarding the organization and leadership methods of the companies, within the mentioned conferences, the Corporate Governance concept was suggested (GC).

The CG, as an organization and leadership method for the commercial companies that stake the way the globalization goes on, is presented in the profile scientific literature by the Organization for Economic Cooperation and Development- OECD defined as: "the Corporate Governance is expressed by a set of relations between company management, its board, its shareholders, other title owners; nevertheless, it offers the structure that all the methods are established to reach these objectives and monitor the desired performances" [4]. The Corporate Governance is an art of leading, which varies in each country with the national legislative regulations, the complexity of the major stakeholders and specific conditions of the company, the complexity degree of the business, world economic status.

The FEE published, in July 2003, a very important document called „Financial Reporting and Auditing Aspects of Corporate Governance”, in which the followed are mentioned: „The FEE considers that the recommendations regarding Corporate Governance must be revised, so that they become efficient for the training and presentation of quality financial information,

by applying the International Financial Reporting Standards.

The Corporate Governance is one of the numerous mechanisms that stimulate economical and social development along with [10]:

- the commercial and consume rights rules;
- respect to ownership right
- respect to the contract rights and obligations
- fiscal and cash discipline.

The principles of the corporate governance are mentioned in the IAS no. 260, "Communicating the Audit Aspects to the governance responsible". There is no unique corporate governance model at a global level. The structures of the leading boards and practices vary with each country. A common principle is that the entity must dispose of a governance structure that allows the board to exert an objective reasoning regarding the society business, including independent financial reporting. The corporate governance principles focus especially on the companies that are listed. Problems that appear along the financial situation audit must be declared to the governance responsible. Audit problems, highly important to the governance are those problems that appear in auditing financial situations and which, in the auditor's opinion, are also important and relevant for the governance responsible in surveying the financial reporting and information presentation processes [10].

The IAS 240, "responsibility of the auditor to take into consideration fraud and error in a financial situations audit engagement" stipulates that the primary responsibility in fraud and error prevention belong to the governance responsible and the board of the entity. The board, under the survey of the governance responsible, must create an adequate climate and establish correspondent controls for preventing and detecting the frauds and errors within the entity.

The auditor must take into consideration the problems that appear as a consequence of the financial situations' audit and communicate them to the governance responsible. Such problems may refer to [4 ]:

- modifying the accounting policies and practices;

- possible effect over the financial situations of significant risks;

- audit adjustments, recorded or not by the entity, that have or may have a significant impact over the financial situations of the entity;

- important uncertainties that may doubt the capacity of the entity to continue its activity;

- disagreements with the board regarding certain problems which, individually or cumulated, could be important for the entity's financial situations;

- other aspects, such as significant debts in the intern control, frauds that involve management, that elicit the interest of the governance responsible.

IAS 315, called "comprehension of the entity and its environment and evaluating the significant misrepresentation risks" warns the auditor and highlights the importance of intern control, identifying and evaluating the risks of the financial situation's existence risks and misinterpretations, and also the opportunity of a systematical and permanent communication with the persons tasked with governance and management.

#### 4. Conclusions

It is remarked the fact that the international audit rules make an eloquent reference in harmonizing with the international standards and the European directives of the financial audit. The audit standards taken by our country apply in auditing the financial situations by financial auditors, members of the CECCAR. Financial auditors, persons or companies, activate in the domains of financial audit, internal audit, and also financial, accounting and fiscal consultancy, assuring financial and accounting management and professional special training in the domain.

In conclusion, one fact must be highlighted: that internationally there are clearly established objectives in what regards corporate governance, which is taken as an economical phenomenon in the long road of globalization. In almost all the countries there are preoccupations and direct actions that aim to the protection of the shareholders, power balance within the company boards, extension of the legal audit and audit committee making,

organizing internal control, understanding of the transparency significance and financial information quality. In this context, the role is obvious for the globalization process of the International Accounting Standards, the International Financial Reporting Standards and the International Audit Standards.

## 5. References

- [1] Arens A.A., J.K. Loebbecke, 2003 – *Audit – o abordare integrată*, Ed. Arc, Chişinău, p.395
- [2] Boulescu M., Brânză C., Preda B., 2005 – *Expertiză contabilă și audit financiar – contabil. Aplicații și studii de caz*, Ed. Fundației România de Mâine, București
- [3] Florea I., Macovei I.C., Florea R., Berheci M, 2005 – *Introducere în expertiza contabilă și auditul financiar*, Ed. CECCAR, București
- [4] Ghizari E.J., A. Rusovici, Gh. Rusu, F. Cojoc, 2006 – *Auditul situațiilor financiare în entitățile economice*, R.A. Monitorul Oficial, București, p.125
- [5] Guy D.M., C.W. Alderman, A.J.Winters, 1999 – *Auditing*, ediția a V-a, The Dryden Press, Londra, citat de A. Munteanu în *Auditul sistemelor informaționale*, Ed. Polirom, Iași, p.145
- [6] Hlaciuc E., Tulvinschi M., 2005 – *The Risks of Financial-Accounting Audit and Their Relative Importance*, International Conference on Finance and Banking, Silesion University Opava, School of Business Administration, Czech Republic, p.1715-1731
- [7] Iancu E., Morariu N., 2009 - *Accounting aspects seen in the point of view of the expert systems*, Buletin UASVM, 66(2)/2009, Cluj Napoca, ISSN 1843-5254, electronic ISSN 1843-5394, pg.243-245
- [8] Iancu E., Grosu V., Socaciu T., 2009 - *Information technologies and communications in all fields of economic activity and financial*, 6<sup>th</sup> International Conference 18 – 19 Nov., 2009, ISBN 978-963-87706-4-6, Budapest, Hungary
- [9] Raffegeun J., A. Ritz 1986– *Audit et informatique*, Presses Universitaires de France, Paris, 1986, p.42
- [10] Tulvinschi M., 2008– *Auditul financiar: abordari teoretice si practice*, Editura Sedcom Libris, Iasi, ISBN 978-973-670-292-1

## Resolving Ethical Dilemmas in Financial Audit

Professor PhD Turlea Eugeniu  
*Academy of Economic Studies Bucharest*  
eturlea@yahoo.com

PhD Student Mocanu Mihaela  
*Academy of Economic Studies Bucharest*  
mihaela.g.mocanu@gmail.com

### Abstract

*Resolving ethical dilemmas is a difficult endeavor in any field and financial auditing makes no exception. Ethical dilemmas are complex situations which derive from a conflict and in which a decision among several alternatives is needed. Ethical dilemmas are common in the work of the financial auditor, whose mission is to serve the interests of the public at large, not those of the auditee's managers who mandate him/her. The objective of the present paper is to offer support in resolving ethical dilemmas in financial audit. Methodologically, the paper applies an innovative moral reasoning framework – the Potter box – to a scenario frequently encountered in financial audit. Authors conclude that the Potter box can be a useful tool for both professionals and academicians in thoroughly investigating ethical decisions already made or in analyzing alternative courses of action.*

**Key words:** financial audit, dilemmas, decision-making process.

**JEL Classification:** M4, M42

### 1. Introduction

Financial auditors are highly respected professionals who offer credibility to the financial statements they audit and through their attest work ensure trust in the marketplace. Although mandated by the management of the auditee, financial auditors are required to represent the interests of the public at large: creditors, investors, business partners, government etc. However, their mission cannot be accomplished without ethics, especially because, throughout their career, auditors face various pressures both

from within the company and from without it. They must often make difficult decisions when faced with ethical dilemmas.

Generally, the literature in the field connects the process of resolving such dilemmas with moral development frameworks such as those of Kohlberg, Gilligan etc. Moreover, widely spread in the auditing literature is the model of Jones [4]. The present paper aims at providing a fresh perspective on the topic of solving ethical dilemmas. For this purpose, the authors apply an innovative moral reasoning framework that has successfully been used by specialists in the media – the Potter box.

The paper is organized as follows: the first section brings arguments that support the need for ethics in the profession of financial auditors. Then, authors define the notion of “ethical dilemma” and briefly discuss ethical dilemmas in financial audit. The following section presents the instrument promoted in this paper, namely the Potter box – a four-step moral reasoning framework. Then, the paper describes a situation that creates an ethical dilemma for the auditor involved. This situation is then analyzed by using the Potter box. The final section of the paper presents the authors' conclusions.

### 2. The need for ethics in financial audit

Financial auditors report on the truthfulness of financial statements, by stating their opinion on whether these statements provide a true and fair view of the audited company's financial position and performance. Financial auditors are not regular service providers, but offer an intangible good for which no proper price can be meaningfully set. Their work offers credibility to the financial statements and thus ensures trust in the marketplace. The

beneficiaries of the audit work are not only the audited companies, but also the investors, the creditors, the governmental institutions and other stakeholders.

Thus, the financial audit profession has characteristic features that inherently connect being a good professional and practitioner with having a proper ethical behavior. First of all, auditors are paid by the auditee's management, not by those whose interests they represent. Second of all, the profession emerged rather recently compared to other professions such as medicine or law, thus lacks the history, customs and self-understanding of traditional professions. Third, the responsibility of financial auditors mainly consists in seeking out and revealing the truth about the financial position and performance of the audited company. Last but not least, auditors play the role of "watchdogs" in the market economy, by protecting the interests of absentees investors, thus their judgment should not be impaired by personal or financial interests. Under these circumstances, the role of financial auditor seems very difficult to play. However, ethics provides a valid solution to the above mentioned structural problems of the profession [1].

### **3. Ethical dilemmas in financial audit**

In general, an ethical dilemma is a complex situation a person faces in which a decision must be made about the adequate action to be taken [2]. A dilemma may derive from the conflict between the rightness or wrongness of the actions and the goodness or badness of the consequences of the actions. In other words, doing what is morally right apparently results in a bad outcome and doing what is morally wrong seems to lead to better effects. From another perspective, an ethical dilemma is a conflict between at least two ethical principles both of which could lead to an equally good or equally bad outcome. In such a situation, obeying one principle leads to transgressing another, whereas both principles seem equally valid [6]

Over time, philosophy has argued in favor of and against many different ethical principles. This paper briefly presents some of the most representative and disputed ethical principles [3]. First of all, according to Aristotle, moral virtue is a middle state between two extremes. Thus, this view promotes the ethical principle of balance, moderation, temperance, the so-called "golden

mean" referring not only to the appropriate quantity, but also to the appropriate time, appropriate public, and appropriate way. Second of all, Kant's categorical imperative dictates to act according to that principle that one desires to become universal law. This ethical principle is to be followed at the expense of all natural tendencies and socially accepted standards, thus encouraging obedience and loyalty [3].

Third, Mill's principle of utility dictates that one must seek the greatest happiness for the greatest number of people, or in other words, the best balance of good over bad. Last but not least, Rawls states that justice is present where no social differences are taken into consideration. The so-called Rawls „veil of ignorance" eliminates roles and social differences, thus creating an imaginative equality, and asks the decision-maker to place his/herself in the position of the people his/her decisions may influence. All these ethical principles have been subject of intense debate and can be both embraced or rejected by an ethical agent [3].

In financial audit, the ethical requirements are set, at international level, by the Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC). According to Section 100 of this Code, the financial auditor is required to comply with the following fundamental principles: integrity, objectivity, professional competence and due care, confidentiality and professional behavior [5]. The principle of integrity is equivalent with straightforwardness and honesty in all professional and business relationships, while the principle of objectivity requires that no bias, conflict of interest or undue influence of others overrides professional judgment of the auditor. Moreover, the financial auditor is required to be competent and to comply with all relevant laws and regulations, thus maintaining the reputation of the profession.

Financial auditors face a diversity of ethical dilemmas, starting with the first steps in their career. For instance, a junior auditor recently hired may receive a suggestion from a senior to sample the files instead of analyzing them all (as instructed by the partner), because otherwise he/she would spend twice the time budgeted for that specific task and thus he/she might be in danger of being considered

incompetent. Or it may happen that a client asks the auditor to perform less and less attest work, by giving up financial audit first in favor of a limited review, then in favor of a compilation, although professional judgment and skepticism would require to thoroughly perform a financial audit. There are similar numerous cases in which such pressure on the auditor puts him/her in the position of making a difficult decision.

#### 4. Resolving ethical dilemmas

Several frameworks have been developed as aid for resolving ethical dilemmas, not only in financial audit, but also in various other areas: medicine, media, social work, research, public service etc. The framework most widely used in the specific area of financial audit consists in the following six-step approach [2]:

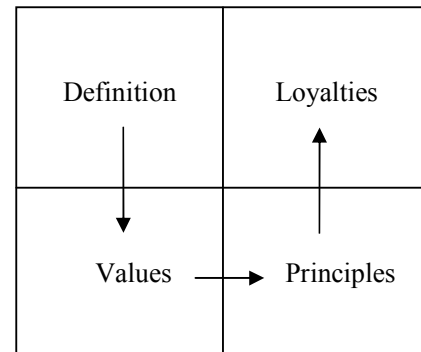
- (1) Obtain the relevant facts.
- (2) Identify the ethical issues based on the identified facts.
- (3) Determine who and how is affected by the outcome of the dilemma.
- (4) Identify the alternatives available to the person that must solve the dilemma.
- (5) Identify the likely consequences of each alternative.
- (6) Decide the appropriate action.

Although this approach is rather simple and easy to apply, the present paper promotes another framework – the moral reasoning framework of Potter. This framework encourages the innovative ethical analysis by identifying four dimensions that support reasoning in case of ethical dilemmas.

Figure 1 displays the Potter box, with its four elements:

- (1) Defining the situation;
- (2) Identifying values;
- (3) Establishing principles;
- (4) Choosing loyalties.

Figure 1: The Potter Box



Source: [3]

Thus, according to the Potter framework, the first step in the ethical decision making is the accurate definition of all facts of the issue at hand. Second, the analyst should identify the most important values that influence the discourse and the reasoning in moral matters of the decision-maker. The third step is the explicit use of an ethical principle, otherwise the conclusion is considered not to be morally justified. Last but not least, the analysis includes also the choice of loyalties by the decision-maker.

The use of this framework is particularly useful in clarifying ambiguous situations or contradictory loyalties. Being aware of the values that drive the thoughts and actions of the decision-maker is also critical in avoiding taking fast decisions, without proper reflection, based on personal preferences or unexamined prejudice. However, the moral reasoning framework of Potter cannot justify immoral behavior. The model serves only in circumstances in which several professional values are equally credible and can legitimately compete to one another. Once identified, the values can be validated in the third and fourth quadrant, with the help of principles and loyalties.

#### 5. Case study

For the purpose of applying the moral reasoning framework previously presented, this section analyzes, by using the Potter box, a representative scenario that poses an ethical dilemma to the financial auditor. This scenario is inspired and adapted from one of the ten cases presented for discussion in Chapter 5

„Acquiring good ethical judgment” of the work ”Understanding Accounting Ethics” by Cheffers and Pakaluk. These cases, including the one discussed in this paper, are taken from actual forensic accounting practice, and are meant to develop the reader’s „sensitivity” to the ethical dimensions of the accounting and auditing profession [1].

The chosen case study emphasizes a problem that often challenges financial auditors in their daily work: „How do you do your work – when you don’t have the time?” The case is approximately the following:

*Sara Johnson is an experienced partner in a CPA firm, whose largest audit client is a mental health provider, VitaCare. Sara deeply admires the president of the audited company, William York, a good friend of hers from college, who, for humanitarian reasons, had given up a well-paid job in order to take on the management of VitaCare.*

*VitaCare is a recurrent client of the CPA firm, and, as in past years, it mandated the audit company to perform a review as at the 30<sup>th</sup> of June, required by the creditors of the auditee. The deadline for the auditor’s report is the 15<sup>th</sup> of August. VitaCare’s system relies on Medicare reimbursements for its revenues and due to the importance of these reimbursements, Sara plans to personally review the reimbursement documentation. However, Sara and VitaCare agreed upon the fact that these papers will be sent to her on the 10<sup>th</sup> of August.*

*This year, however, on the 10<sup>th</sup> of August, William calls Sara to explain that the papers will be delayed, due to the fact that the person in charge with preparing them is ill. They both state their commitment to finish the review on time. However, a few days later, Sara receives another call from William, who announces that the papers will be even more delayed. Once again, both Sara and William reaffirm their commitment to finish the review in due time. It is not until the 14<sup>th</sup> of August (one day before the deadline) that Sara receives the required documentation, together with the apologies of William, who emphasizes his need to have the review delivered by the end of the 15<sup>th</sup> of August.*

*Unfortunately, when Sara received the papers in the late morning of the 14<sup>th</sup> of August, she did not have the time to look at them. She had lunch planned with her son, who had just returned from an overseas trip. After lunch, she had an interview with a job candidate and in the*

*evening, she had to attend a party for her husband in another city that she could not cancel, since her husband and she have recently had some issues.*

*Given these facts, the question is what should she do, how should she deal with this situation.*

First of all, according to the moral reasoning framework proposed by Potter, one should carefully **define all facts that build up the situation**. Thus, the case presented is that of an audit partner that cannot fulfill her responsibilities concerning a review of the financial statements as at the 30<sup>th</sup> of June, due to time limitations. Critical aspects of the presented situation are the following:

- the auditee is a recurrent client;
- the audit partner and the manager of the audited company are old friends; moreover, the audit partner carries great admiration for the manager;
- the deadline is very tight, thus the time pressure is high.

All these aspects may represent threats to auditor independence. The Code of Ethics for Professional Accountants stipulates that the auditor must have not only independence of mind, but also independence in appearance. Independence of mind is the state of mind that permits an individual to act with integrity and exercise objectivity and professional skepticism. Independence in appearance means avoiding facts and circumstances that may lead a reasonable and informed third party to think that the virtues of integrity, objectivity and professional skepticism have been compromised.

In this case, both the requirement of independence in appearance and that of independence of mind may have been endangered. The fact that the auditee is a recurrent client poses familiarity threats, while the feelings of admiration and friendship that the audit partner holds for the manager of the auditee create a self-interest threat. Time pressure is also an important aspect that may tempt the audit partner not to carry out her work (premature sign-off).

At a first level of analysis, it is obvious that Sara faces an ethical dilemma:

- to sign off the papers without reviewing them would mean to infringe the principles of integrity and objectivity, since such a decision would be based on the trust in

William and in her positive experience from the analysis of similar papers in past engagements;

- to explain to William that, unfortunately, she cannot deliver the review report within the deadline, due to time constraints would mean to break her promise made to her friend, but in this case she would act with integrity and objectivity;

Once the situation is defined, in order to solve this ethical dilemma, it is necessary to **identify the values, the principles and the loyalties that compete with each other in the decision-making process** of the audit partner, Sara Johnson. Thus, what are the conflicting values in this case? It is important to note that values form the reference framework in which theories, decisions and situations make sense to people. They influence the moral discourse and judgment of individuals and ultimately generate behavior.

For Sara, the value that may drive her decision in this particular circumstance is, on one hand, friendship. Friendship is accompanied by trust, respect, affection, and admiration. The ethical principle that validates this value could be to maintain mutual trust in friendship relationships, thus breaking William's trust or not trusting him would be unacceptable, since in this manner, this principle would be infringed. From this perspective, her loyalty would be directed to her friend. From this perspective, based on the identified value, principle and loyalty, the ethical dilemma of Sara would be solved by signing off without reviewing the documentation on Medicare reimbursement, especially that the long term relation with the client does not pose any suspicion of misstatement or omission in this audit area.

On the other hand, Sara's values could be integrity and objectivity. The Code of Ethics for Professional Accountants define integrity as straightforwardness and honesty in all business relationships, while objectivity allows no bias, conflict of interest or undue influence affect professional judgment. The principle that validates these two professional values (integrity and objectivity) would be to always offer correct and objective information. By the choice of integrity and objectivity as driving values, Sara would also assert her loyalty for the CPA firm and thus for the profession. As a consequence, the course of action that conforms to the identified values, principle and loyalty would be

for Sara to honestly state her impossibility of issuing a review report, instead of delivering it without properly analyzing all necessary documentation (as in the first alternative provided above).

Of course, the debate can be enlarged. There are also other alternative courses of action for the audit partner. First, Sara could ask some of her fellow partners to work late hours on the 14<sup>th</sup> of August in order to support her in delivering the review report. However, they may not have the necessary experience, competence or information for performing the analysis of the reimbursement papers. Second, Sara could discuss with the creditors of VitaCare and ask for an extension of the deadline.

However, this could also be inappropriate, since, on one hand, this is not her responsibility, and, on the other hand, it would create suspicion among creditors and eventually have negative consequences for VitaCare. At most, she could suggest William to negotiate with the creditors an extension of the deadline for the review report. In fact, Sara cannot be blamed for not respecting her contractual obligations, because without proper documentation from the client, her job is impossible to perform within the time limits. The responsibility of providing the papers for review in due time (on the 10<sup>th</sup> of August) belongs to the audit client and the time pressure thus generated is due solely to his tardiness.

This analysis, performed with the help of the moral reasoning framework of Potter, does not offer a firm solution on for the ethical dilemma at hand. However, it does clear up the underlying issues of the decision-making process, by bringing to light the conflicting values, principles and loyalties on which different courses of actions are based. The analysis was performed from a micro-level perspective, namely from the perspective of a complex individual, with a complex life that includes not only the work as auditor, but also important personal relations with family and friends.

## 6. Conclusions

Ethics is inherently connected to the work of financial auditors. Such professionals find themselves in a rather unusual position: of not



being paid by the ones whose interests they represent, with whom they do not even come into contact. Moreover, the auditing profession is young compared to others and its mission, although noble, is a difficult one: seeking out and revealing the truth about the financial position and performance of the audited company. Through their work, auditors protect the interests of the investors and ensure a climate of trust in the marketplace. Without ethics, surmounting this difficult position and fulfilling these requirements are nearly impossible.

In fact, auditors are confronted with many different pressures: time pressures, budget pressures, competition-related pressures, litigation risks etc. that may lead to complex situations in which delicate and difficult decisions are to be made – the so-called “ethical dilemmas”. In such situations, the decision-making process is a very complex one, since not only the auditors’ values, but also their principles and loyalties are critical for the final choice. The Potter box, consisting in four elements: the situation, the values, the principles and the loyalties, can be used as an instrument for making decisions that can be supported by solid arguments, since values are validated in the third and fourth step (by the choice of principles and loyalties).

Therefore, this moral reasoning framework can be successfully applied in financial audit too, making professionals aware of their ethical position.

## 7. References

- [1] Cheffers M., Pakaluk M., ”Understanding Accounting Ethics”, Allen David Press, Sutton, 2007.
- [2] Arens A., Elder R., Beasley M., “Auditing and assurance services: an integrated approach”, Pearson Education, 2007.
- [3] Christians C., Rotzoll K., Fackler M., McKee K., ”Etica mass-media: studii de caz”, Editura Polirom, Iași, 2001.
- [4] McPhail, K., Walters, D., ”Accounting & Business Ethics: An Introduction”, Routledge Taylor & Ffrancis Group, New York, 2009.
- [5] International Association of Accountants, Code of Ethics for Accounting Professionals, 2008.
- [6] <http://www.friesian.com/dilemma.htm>

## 8. Acknowledgements

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

## Principles for factoring transactions accounting and tax

**Viorel Turcanu**

Moldovan Academy of Economic Sciences, Professor, Dr.Hab,

**Anna Zachernicinaia**

Moldovan Academy of Economic Sciences Doctoral Candidate, auditor

### Abstract

The up growth of business rivalry at the consumer and services markets make many of the suppliers grant delayed or deferred payments to their customers and act as creditors who thus accept credit, exchange and interest risks. It results in the suppliers' floating assets withdrawal and has a negative impact upon their financial statements showings. Factoring is one of the ways to release funds that have been frozen on accounts receivable.

**Key words:** factoring, the adherent, financial risk, accounting tax, financing

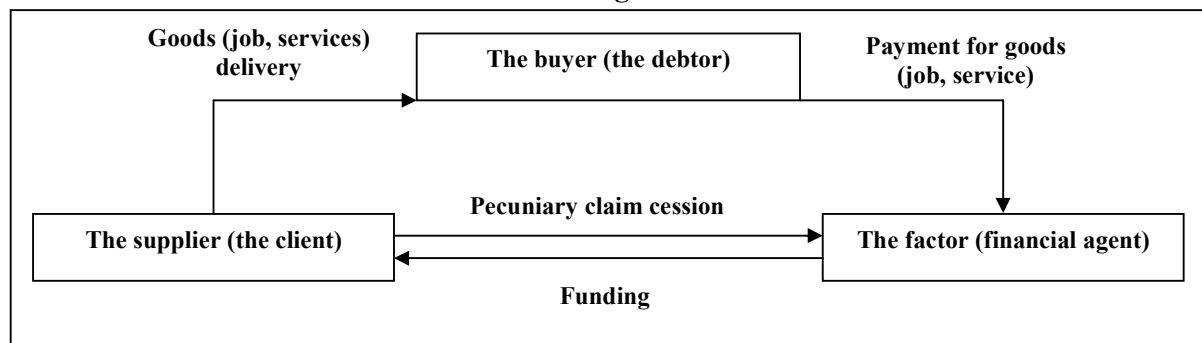
**JEL classification:** G 32

### 1. Introduction

**Factoring** is a kind of financial service that commercial banks or their subsidiaries (factors) render to small and medium business (clients). In factoring operations the client assigns the right to claim debts to the factor and the factor partially pays the client's claims to their debtors about 70 to 90% of the total debt value before the payment is due. The remaining sum, less interest rate, is paid when the debtor pays his debt off.

### Chart

#### How factoring works



### 2. The history and the mechanism of the factoring

Factoring has its origins in the 17<sup>th</sup> century as a reseller operation that later on became a form of crediting. Factoring has been

widely practiced abroad as a tool to protect civil circulation property and financial interests by factoring banks and factoring companies. Our commercial banks first factoring operations date back to 80s. Today factoring transactions are governed by

legislation and are widely practiced in some ex-soviet countries such as Russia, Ukraine and Belarus. Moldovan factoring market is still incipient. Operating commercial banks' licensed activities include factoring transactions however there is actually just one company dealing with factoring transactions in Moldova, NFC-Moldfactor.

The table below summarizes factoring transactions being practiced:

**Table  
Factoring Types**

By compliance with the Accounts Receivable Sales Contract	By the contractual parties place of performance	By the buyer's factoring transaction awareness
<p><u>1. Non-recourse (no turnover)</u> - Complies with the contract, the accounts receivable are actually being sold.</p> <p><u>2. Recourse (with the turnover)</u> - <b>does not</b> comply with the Accounts Receivable Sales Contract. The company that sells the debt assumes liabilities and risks for the debtor's failure to pay the debts and pays the factor's damages.</p>	<p><u>1. Domestic</u> - sales contract parties and factoring company are residents of the same country.</p> <p><u>2. International</u> - the supplier and his client are residents of different countries.</p>	<p><u>1. Open</u> - the buyer is aware about the factoring transaction and makes payments to the factor's account.</p> <p><u>2. Quiet</u> - the buyer is not aware about the Factoring Contract and makes payments to the supplier who in its turn transfers them to factor.</p>

It is reasonable that we shall consider factoring as a method of the company's floating assets management so far as it is being

reflected within assets only and never appears among liabilities. In factoring transaction there is a decrease within the Accounts Receivable on the supplier's balance sheet and at the same time an increase within Cash Assets account. Thus factoring changes the floating assets structure: accounts receivable are transformed into cash assets, cash inflows increase and give an opportunity to increase materials and goods purchase that results in production and future sales increase and consequently in the company's profits growth.

First of all the factor's concern is a reward for the factoring service. Factoring fee usually comprises three basic components: fixed processing fee, fixed interest rate from the client's turnover that covers factor's service cost value (control over the due payments, activities for payment delays, accounts receivable current record and due reports to the client) and a reward for acceptance of cash, credit and interest risks.

The basic international act that governs crediting on pecuniary claim cession is the UNIDROIT (International Institute for the Unification of Private Law) Convention on International Factoring that was adopted on May 28, 1988 in Ottawa and took effect in 1995. Moldova has not yet joined this Convention so far.

Our national legislation stipulates factoring in Civil Code article 1290 "under a factoring agreement a party, the supplier of goods and services (adherent), undertakes to assign the existent or future claims under sales, service or production contracts to another party, factoring company (factor), who undertakes to carry out the following two liabilities:

1. Financing the adherent, the loans and the advance payments included;
2. Record-keeping of the claims;
3. Notification and collecting debt payments;
4. Acceptance of risks against the Debtor's insolvency concerning the claims being assigned (del credere)".

Factoring does not appear on Business Licensing Law as a separate activity subject to licensing. However article 26 of the Financial Institutions Law lists licensed financial operations, crediting included (consumer and mortgage loans, recourse and non-recourse

factoring, transaction crediting, guaranties and securities etc.). Since under the Civil Code not only banks may practice factoring transactions, any commercial organization that has factoring on their articles of association, as well as sufficient funds and experience, may practice financing under debt claim cession as a financial agent without any license.

Factoring transactions record-keeping has been described neither in national accounting guides nor in laws. The example given below is based on international practice and is an advisory opinion.

### Example

#### **Factoring transactions record-keeping on supplier's and factor's chart of accounts**

Under the Sales Contract the supplier A has shipped the goods to the amount of 120,000 lei, 20,000 lei VAT included, to the buyer B. Under the contractual provisions the buyer B undertakes to pay for the goods within 60 days after shipment. The supplier A signed a Non-recourse Factoring Contract with Factor C and thus assigned the right to claim the due payment for the shipped goods. The seller notifies the buyer about the transaction. Under the contract Factor C first transfers 90% of the shipped goods value to the supplier A and the remaining 10% transfers as soon as the buyer makes the payment, less the factoring fee. The factoring fee amounts to 3% of the transaction value Under the Factoring Contract.

This transaction **on the supplier's A accounts** shall be shown as follows:

##### 1. Showing the debt on sold goods

Dr 221 "Accounts receivable" - 120 000 lei,

Cr 611 "Sales Revenue" subaccount 6112 "Sales Revenue - Goods" - 100 000 lei,

Cr 534 "Taxes Liabilities" subaccount 5342 "Value Added Tax (VAT)" - 20 000 lei.

##### 2. Showing the assignment of the pecuniary claim to the factoring company C:

Dt 229 "Other debtors" - 120 000 lei,  
Cr 221 "Accounts receivable" - 120 000 lei,

##### 3. Funds transferred by the Factor C under factoring contract (initial payment of 90%):

Dr 242 "Bank Account" - 108 000 lei,  
Cr 229 "Other debtors" - 108 000 lei.

##### 4. Remaining funds (10%) transferred by the Factor C, the factoring fee included (120 000 - 120 000 x 3% - 108 000 = 8 400) as soon as the buyer makes the payment:

Dr 242 "Bank Account" - 8 400 lei,  
Cr 229 "Other debtors" - 8 400 lei.

##### 5. Showing the Factor's C factoring fee:

Dr 714 "Other operating expenses" - 3 600 lei,  
Cr 229 "Other debtors" - 3 600 lei.

This transaction **on the factoring company C accounts** shall be shown as follows:

##### 1. Showing the supplier's A assignment of the pecuniary claim:

Dr 229 "Other debtors" - 120 000 lei,  
Cr 539 "Other liabilities" - 120 000 lei.

##### 2. Funds transferred to the supplier A under Factoring Contract (initial payment of 90%):

Dr 539 "Other liabilities" - 108 000 lei,  
Cr 242 "Bank Account" - 108 000 lei.

##### 3. The buyer's debt payment:

Dr 242 "Bank Account" - 120 000 lei,  
Cr 229 "Other debtors" - 120 000 lei.

##### 4. Showing the factoring fee (120 000 \* 3% = 3 600 lei):

Dr 221 "Accounts receivable" - 3 600 lei,  
Cr 611 "Sales Revenue" subaccount 6113 "Sales Revenue - services" - 3 600 lei.

##### 5. Factoring fee reckoned towards settlements with the supplier A:

Dr 539 "Other liabilities" - 3 600 lei,  
Cr 221 "Accounts receivable" - 3 600 lei.

##### 6. Final settlement with the supplier A:

Dr 539 "Other liabilities" - 8 400 lei,  
Cr 242 "Bank Account" - 8 400 lei.

### 3. Conclusions

To sum up the aforesaid it should be mentioned that a company may sign factoring contract with a bank or a factoring company to reduce the client's insolvency risks during the world recession. Bank fee costs may be reckoned towards operating activities costs that shall be deducted for taxes under article 24 "Deduction of costs for running business" of the Tax Code as customary and necessary that have been paid or incurred by the taxpayer when running his/her business. The factoring service benefits are apparent for each transaction party, the supplier, the factor and the buyer. Factoring is the most efficient method both for the suppliers who increase sales and explore new markets and those newly created companies who lack funds due to the payments delays. Factoring is a way to accelerate the exporter's capital turnover. It is common that such companies have an unfavorable balance structure that blocks their access to bank loans. In such a case the factor mediation solves the problem of short-term loans. Besides, through the factoring companies mediation it is possible to cut down the executive expenses and to increase operating efficiency since along with record-keeping the factor company deals with their client's transactions credit control and carries out business analysis, selling strategy analysis and market study. The factor company concern is in the reward first of all. Financial agents not only receive a return on loans and a factoring fee but also a fee for other financial services offered within a factoring transaction. In his turn the buyer is concerned with the commercial credit (the seller ships the goods

with an average 3-month payment delay), increases the purchase amount, minimizes the risk of getting faulty goods and accelerates capital turnover.

### 4. Bibliography

1. Republic of Moldova Civil Code. RM Law #1107-XV dated 06.06.2002.
2. Republic of Moldova Tax Code. RM Law # 1163-XIII dated 24.04.1997.
3. Financial Institutions Law # 550- XIII dated 21.07.1995.
4. Business Licensing Law # 451-XV dated 30.07.2001.
5. Exchange Control Law # 62-XVI dated 21.03.2008.
6. Encyclopedia of Economics.2008. Moscow: Eskimo. Page 816.
7. International Financial Reporting Standards. 2007. Translation of the complete EC official text. Moscow: Askery. Page 1078.
8. Alexander D., Britton A., and Yorissen E. 2005. International Financial Reporting Standards. Moscow: Vershina. Page 886.
9. Agueyeva O.A. 2008. International Financial Reporting Standards. Moscow: Bukhaltersky Uchyot. Page 464.
10. Damian Oleg. 2005. Factoring is tripersonal: Факторинг един в трех лицах: financier, lawyer and insurer. Economicheskoye Obozrenye Logos Press 34 (626).
11. <http://factors-chain.com>.
12. <http://factoring.ru>.

## Fiscal Tendencies within the Community's Field

Viorel Țurcanu, Prof. Dr.  
Academy of Economic Studies of Moldova, Chișinău  
Drd. Perifan Mihai  
Drd. Caraman Tania

### Abstract

The Stipulations of Treaty of Maastricht concerning the Monetary and Economic Union offer a new dimension to the politics of general taxation, by strict limitation of the governments' possibility on financing the public outgoings by loans. The Accord for Steadiness and Development foresees that member states having a budgetary deficiency greater than 3% have to establish not-carrying deposits of rates of interest, which transform in non-reimbursable penalties in situation where deficiency reduction is not performed. The general objective is that the budgets of member states have to maintain equilibrium over the economic cycle, reason for which any increase of the public outgoings will be financed by the increasing of excise taxes.

**Keywords:** taxation, budgetary deficiency, fiscal policy, tollage of exchanges

**JEL classification:** E 62

### 1. Introduction

Taxation stands for an important instrument of national sovereignty, which ensures the achievement of public revenue and makes it possible for governments to implement policies in certain areas. Meanwhile, as an instrument of economic regulation, taxation can be used to influence consumption, to encourage savings or to adjust the organization of companies.

Responsibility for fiscal policy appertains to the Governments of Member States, taxation being considered a symbol of national sovereignty. In the EU, taxation policy is essential for all member states, the organization

and functioning of the community assembly making the actions of a country to have an impact not only on that country but also on the neighboring countries.

In the past, differences between the tax rates of various goods among different countries tended to influence the commercial activities, producing both distortions between production and distribution of goods and social repercussions. Therefore, in order to reduce fiscal burdens, taxpayers moved their residence in another member state where the tax regime was more tolerant.

Differences in tax rates, as well as the "migration" according to the tax system led to an apparent competition between member states in terms of taxation. The integration into the EU, the introduction of single currency, as well as the interactions and the influences of national systems of taxation in member states, require a thorough analysis of these systems and, if possible, a common management, aiming at decisions on this matter to guarantee that policy taxation in a member state has a desirable impact on other member state, at the same time ensuring real sovereignty of European Union citizens and their representatives, a sovereignty manifested by member states' common actions.

In this context we must exhibit that the European Treaty contains no specific provisions for alignment to revenue. Therefore, taxation, especially the direct one, and coordination of taxation proved to be relatively difficult to put into practice. Taking into account that the coordination of taxation procedure is of special importance, the European institutions seek to create an appropriate framework for harmonization.

## 2. Normative marks of the EU regarding taxation

The creation of the Single Market and the completion of the Economic Monetary Union led to new community initiatives in the taxation area. Eliminating restrictions on free movement of capital has caused fears that national tax bases could be eroded by competition in revenue, leading to a tax burden shift from capital to labor force, having adverse consequences on employment and on social protection.

As a result, the Community aims at a number of objectives when constructing general tax policy. A first long-term goal was to prevent differences between indirect tax rates and tax systems which may introduce distortion of competition within the single market.

As regard to the direct taxation, the existing legal framework is generally represented by bilateral agreements between member states, aiming to "eliminate legislative ambiguities" that lead to tax evasion and to avoid double taxation.

Although the related objectives were generally accepted, national governments have been reluctant to make major steps in harmonizing tax systems within the Community. For this reason, all tax measures must be adopted by the European Union unanimously.

## 3. Direct taxation

With regard to direct taxes, the European Community Treaty does not explicitly specify their alignment and, according to the principle of subsidiarity, it allows Member States freedom to make necessary regulations. However, since direct taxation has an impact on the free movement of goods, services, people and capital, as well as on the right of individuals or companies establishment, member states should establish a national tax system that respects these fundamental rights.

The appearance of some special circumstances, such as double taxation or cross-border economic activities, has required the

adaptation of some legislative measures common to all member states, measures applicable in particular to companies, and that are adopted by the Council unanimously.

The implied measures were initiated in 1990 as evidenced by two directives and one convention. Directive no. 90/435/EEC refers to the abolition of double taxation of profits distributed between parent companies in one of the member states and their subsidiaries located in another Member State. Directive no. 90/434/EEC reduces the tax burden that may impede the reorganization of companies and Convention no. (90/436/EEC) based on the Treaty's Article no.239 introduces an arbitrary procedure to avoid double taxation regarding the adjustment of profit between associated enterprises located in different member states.

**Business and investment taxation.** Before January 1, 2007, the place Romania will occupy among the European Union states in terms of taxation has been thoroughly examined. The imposed final conclusion was that we hold a favorable position, while community officials' recommendations for a tax increase have a foundation. Currently, we have revenue that could embezzle major investments from west towards us. Income taxes' level and the costs borne by employers divide Europe into two separate entities, the main advantages being represented by the countries that joined the union since 2004. In Ireland and Cyprus workers pay the lowest direct taxes, as contrasting to the Portuguese whose incomes are taxed at about 50%. The highest employment costs are borne by German employers. The states that joined the EU since 2004 seem to be more attractive for both employees and employers in terms of the level of direct taxes and social security contributions. However, Ireland remains the most attractive. Out of the total revenue, the Irish pay taxes and insurance costs of 6.34%, thus registering the lowest level of taxation compared with employees in European Union countries. Among top-employees who pay the lowest taxes, the Irish are followed with a difference of 1.44% of workers in Cyprus, the amount paid by them adding up to 8.77% of total revenue. In the same category, Malta and

Luxembourg are the following ones, while incomes of the British are taxed at 23%. The higher taxes and costs of health insurance are paid by the Portuguese, whose total incomes are taxed at about 50%. **Under \$ 10,000:** In Lithuania, one of the ten countries that joined the EU in 2004, the total costs that an employer bears, including social security contributions, amounts to 5124 euros, the equivalent of 6697 dollars annually. Thus, the Baltic State records the lowest average total costs relating to hiring for companies. Still below the amount of 10,000 euro sum the costs borne by employers in Slovakia, Estonia and Hungary. It seems that the most difficult situation is faced by German employers, where the average costs amount to 50.417 euros. (*S. Diaconu, Curentul, January 4, 2007*)

#### 4. Indirect taxation

Starting with 1992, by the elimination of border taxes and customs formalities at the member states' borders, indirect taxation has undergone major changes by introducing new laws regarding excise duties and by the intra-community rules regarding the value added tax.

**The Value Added Tax.** The main source of this law is Directive no. 77/388/EEC on the common system for implementing this taxation, also called "The Sixth VAT Directive".

Directive shall apply in countries belonging to the community (principle of territoriality) and includes regulations on: taxable persons, taxable transactions, the exceptions and exemptions (for both goods and services), the place of the tax rates transactions, the standard tax rates (which are the same for both goods and services), deductions and how to calculate them, persons responsible for VAT (including taxpayers' obligations and regulations applied in special cases, such as the farmers or the travel agencies).

The Directive has been gradually implemented, with transitional stages for each member state and has simplified the application of the VAT system, making distinction between sales among taxable persons, sales to individual traders or sales to VAT exempt traders.

Under the new regulations (Directive no. 92/77/EEC on the approximation of VAT rates), member states shall apply a standard VAT rate of minimum 15% (Directive no. 99/49/CE) and are allowed to apply up to two reduced rates (of minimum 5%) for certain goods or services of social or cultural nature. The same directive allows member states to fix for a limited time zero rates or rates below 5% for certain products.

**Excises.** The principle underlying the application of excise duties is that they apply in the country where consumption takes place. General regulations refer to products subject to excise duties and to the holding, the circulation and the surveillance of such products (see Annex 4).

These rules, applicable from January 1, 1993, underline a strategy regarding the approximation of tax rates, tax structures harmonization and establishment of the general framework regarding the possession and circulation of products. Regulations apply to alcoholic beverages, processed tobacco and mineral oils and allow the circulation of goods in the member states, the excises being paid by the final purchaser at rates set by the member state where consumption takes place.

The minimum rates of excise duties on alcohol and alcoholic beverages, cigarettes and processed tobacco products other than cigarettes, are established by the Directives no. 92/87/CEE, 92/79/EEC and 92/80/EEC. Given the internal market and the real values of these allowances, every two years, the Council reviews the minimum rates and may impose new regulations. With regard to mineral oils, Directive no. 92/82/EEC regulates the excises' rates on these products. To respect the environment, the Commission promotes the use of renewable energy products, putting forward two proposals in this respect, one referring to an excise duty reduction on fuels produced from agricultural sources (bio-fuels) and second, referring to the harmonization of indirect taxation of energy products.

#### 5. Conclusions



From another perspective, despite all efforts recently undertaken by the European Commission, we may emphasize the fact that tax harmonization is far from being satisfactory. Coordination of taxation at the community level faces two major obstacles: the decision-making procedure under the principle of unanimity and the lack of proper assessment of those obstructions to the social and economic development deriving from inappropriate undertaken decisions.

In these circumstances, the Commission (Verona, 12-13 April 1996) outlined its ideas for a comprehensive strategy on taxation. Three major issues are confined here and they constitute the key elements of tax policy of the European Union in the coming years: member states' tax accumulations stabilization; a stable functioning of the single market; improvement of labor market and reduction of unemployment.

## The IMF governance?!

Vancea Diane Paula Corina

Aivaz Kamer

Universitatea Ovidius Constanta

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

### Abstract

The paper makes an analysis of the relation between International Monetary Fund and Romania during the financial crisis started in 2007 and the effects and the results of the economic and fiscal policy in Romania due to the involvement of the IMF and the internal political decision.

**Key words:** International Monetary Fund, loan, Financial crisis

**JEL classification:** G28, G01

After almost 6 years since the first agreement, that was successfully realized by the Romanian authorities, with the IMF, Romania was, once again, finding itself in the position of having to sign a loan agreement with this financial organization, this time around, the amount employed being unprecedented in the history of our relations with the Fund, respectively, 12.95 billion Euros. The official reason: diminishing the effects of the financial crisis on the Romanian economy. The unofficial reason: the up and coming electoral campaign at the end of 2009. IMF's presence in Bucharest, disavowed in the beginning even by the president, Traian Basescu, questioned by many of the politicians and even some economists and disliked by the vast majority of the population, has become a certainty in the spring of last year. Now, after one year since signing the loan, the quasi-generated opinion is that the IMF is governing over Romania.

Is this affirmation true or false? By analyzing the steps that have been taken by both parties, since the signing of the loan agreement, we can conclude that there are many arguments

in favor of this affirmation, but also sufficient elements that lead to this conclusion.

In May 2009, the Executive Council of the IMF approved a 17.1 billion dollar loan. The program had as its main goal the diminishing the effects of the crisis and covering some extra costs for the social security system. After a robust economical growth in between 2003-2008, with a GDP average of 6.3%/year, mostly fuelled by FDIs and the flux of foreign capital in and out the country (facilitated by foreign banks that opened subsidiaries in Romania), at the end of 2008, Romania was confronted with a sudden halt of the growth rhythm and problems in retracting the foreign capital.

The national currency lost 15% in relation to the Euro and the current account deficit has grown. Moreover, the increasing fiscal deficit left very little room to maneuver when the economy started declining and the reforms, that could have turned the economy around to become more productive, were stopped. Under the circumstances, the IMF, under agreement with the World Bank and the E.U., have taken it on themselves to support the Romanian economy by signing a 12.95 billion Euro stand-by agreement with the Romanian authorities as part of a larger financial support package of 20 billion Euros.

This is the first loan program of its size and importance in the history of this country, by which means the economical decline was hoped to stop and the adjustment measures of the economical policies were to be supported, in order to avoid the grave consequences of the economical crisis. The program regarded three main elements: the fiscal consolidation, the reform of the banking sector and the reduction of inflation in order to maintain a financial stability.

The goal was to support public investments and, all the while, limiting the fiscal deficit in order to ensure a long term improvement of competitiveness. By rationalizing pensions and salaries and streamlining public loans it was aimed to obtain a supplier efficient and transparent public sector.

Also, with the intent to diminish the negative effects of the crisis on the vulnerable part of the population, pensioners and those supporting low wages, the government was going to increase the expenses for the social security system. In regard to the monetary policy, the National Bank of Romania (BNR) committed itself to reducing the inflation and maintaining it within the limits set, all the while securing to reduce the reference interest rate. At the same time, the commercial banks agreed to support financing in order to grant extra capital and foreign banks to keep their money in the country.

Although at a first glance the conditions set by the IF for the Romanian government seemed “more humane”, meaning less strict, in time it was demonstrated that this “humane side of the Fund” only shows one side of the shield. Given the crisis and the findings made by the Fund’s specialists, in time, who emphasized that in situations in which strict conditions were set, things worsened, the IMF did not give details on the impositions made on our country but it did warn, even from the beginning, that in the absence of a firm commitment from the Romanian government, that will lead to a clear assumption on its behalf, they can get back to certain conditions or even the revision of the whole program.

What is interesting though, is the fact that the first evaluations made by the IMF (September 2009 and February 2010) highlighted the meeting of the majority of the quantitative performance requirements, including the deficit target of the general consolidated budget. The IMF evaluated that the efforts put in and the implementation of the program have lead to the increase in confidence and a reduction of risks on the financial markets, and that the economy shows all the signs of a first stage recovery.

In 2009, inflation was maintained at 4.7%, over the superior limit of the target set for inflation by BNR, but it was also lower than in

2008 (6.3%). It is also mentioned in IMF’s report of February 2010, that the tension on the financial market decreased and, maybe the most important thing is that, exports have begun to rectify. More concretely, in the IMF report, roundly, Romania was beginning to look better: a growth of the GDP by 1.3%, a decreasing inflation, towards 3.5%, a contracting current account deficit, starting at 12.5% of the GDP in 2008 and reaching 4.5% of the GDP in 2009 (compared to the 7.5% stipulated in the terms of the program). The IMF considered, at that time, that in 2010 the economical activity will improve and that “the perspective continues to depend on some uncertainties, but that risks are mostly balanced”.

At the end of the report the IMF stated that from its perspective, “financial tensions were weakened and the economical recession reached its low point in Romania”.

What could have happened then, in these 2 short and fateful months (February-April 2010), that upon the return of the IMF in April 2010 sudden chaos began, concerning Romania’s disastrous situation, that culminated with a public statement from the president, Traian Basescu, who presented a drastic deduction of salaries, welfare pensions, allowances etcetera. The sensation of a country on the verge of collapsing has travelled the whole of Romania, that has unexpectedly frozen.

This turn of tables happened 2 months ago (a period of time too short for it to have registered something significant from an economical perspective). Or maybe the answer should be found in the past or even in the external economical circumstances. Obviously, with this occasion we have managed to see the less humane side of the IMF. Or is it that of the Romanian government? This situation revealed After a significant percent of the money that was loaned to Romania has fueled the pension fund and budget salaries for a year, even with the IMF’s agreement, without being oriented toward investments and sustaining the real economy, for the achievement of the “social peace” that was absolutely necessary, considering the impending electoral campaign, after BNR infused IMF money into the commercial banks, that later loaned money to the government, with significantly higher interest rates (6%-4%) than the 3.5% that the IMF granted us the loan with,

though this action took place under the strict supervision of the IMF, now, suddenly, the Fund is declaring that “it doesn’t trust the government” and changed its attitude entirely.

In 2009, 8.3 billion Euros entered Romania, from the IMF and the European Council. The Central Bank also received 1.225 billion Euros and the Department of Finances 2.225 billion Euros. Moreover the Department of Public Finances also attracted over 37 billion Euros from the budget, through state emissions, at the beginning of 2009. All this money was used by the Finance Department to cover current expenses – pensions, salaries and the reimbursement of some loans that had reached their expiration.

You don’t have to be an expert in the economical field in order to realize that there is something definitely wrong with this picture. It is clear that the current government has swallowed billions from the IMF to cover the holes in the salary and pension fund, that Romania is in debt for nothing, that we do not have major investments, that the degree of occupancy is dropping and that this country is not on the right track. But all this took place under the strict monitoring of the IMF.

From this moment on there are only 2 ways to go with this. With the government lied, when presenting the situation to the IMF it overestimated the budget income and masked the negative evolution of the economy, or the IMF, constricted by the recent global evolution, the case of Greece and the cease of grants at a global level, revised its position radically and forced a strict program that it did not foresee onto the government, in order to reduce budget expenses. One thing is sure though, and that is that by carefully analyzing the facts and figures, both parties are equally guilty. Where was the IMF when Romania couldn’t realize or apply a pertinent anti-crisis program? Where was the IMF when the money destined for investments, the only solution to saving the country, were directed toward fueling current expenses in order to buy social peace? The government’s exoneration and transfer of all its responsibilities onto the IMF’s shoulders is risky but the indemnity of the Fund is also a highly problematic matter.

The IMF is not a stranger to the way Romania presents itself now, one year since

signing this loan that has indebted the Romanian people immensely, and over a long period of time, but the Romanian government is RESPONSIBLE for the country’s economical situation.

With 250,000 more unemployed people than last year and a consumership that is already on a descending trend, the Romanian economy is still in contradiction with itself, without being able to give any insurance that, based on these drastic measures to cut salary and pension expenses, it will be able to set itself on its feet.

What guarantee does this government give that the money will not be wrongly used, by making some least optimal public acquisitions, at this time, (promotional web sites worth 500 million Euros) and that this sacrifice made by the citizens, some of them among the poorest people in Romania, will not be, once again, futile, seeing as how Romania made a commitment to the E.C. to reduce the budget deficit from 7.4% to 5.9% this year and the 850 million Euros, the 5<sup>th</sup> installment from the IMF, are exclusively destined for BNR and not for the financing the deficit, it is obvious that there are serious measures to be taken in Romania. However, these severe measures to reduce salaries by 25% and pensions by 15% are not the only ones to be taken, let alone the fairest. These sudden cut backs will affect consumership even more, and, although they will not directly influence it, the private sector. The effects on the private sector will be observable shortly thereafter. Without a correct and honest evaluation of the Romanian economy, any measure of this type may seem cynical and prove inefficient on a medium and long term.

There are much more efficient measures that would be more easily handled by the population, such as reducing tax evasion, reducing the handicaps of private, but more importantly, state owned societies (also by taking fiscal amnesty measures), reanalyzing the expenses on public acquisitions and prioritizing them, in parallel with the improving the collection of income.

The IMF says that there are drastic provisions to be made, and we all agree that they should take place. But it would have been better though, if we were to have acted bravely ever since last year, and if the Fund would have been more careful regarding the path that the money

took. It does not, however, tell us what actions we should implement. It is the Government's duty to choose the ways by which the established targets will be met. Unfortunately the government seems absent and this is why we are constantly under the impression, that we are being lead by an external force, feeling that was had time and time again throughout our history. We are acting as though on external command, without an ample and concrete analysis and without social and political solidarity.

The result seems foreseeable: an aggravation of the crisis in parallel with the growth in degrees of our debt. Who will be responsible for an eventual failure? The IMF government?

### **Bibliography**

1. [www.imf.org](http://www.imf.org)
2. [www.fmi.ro/](http://www.fmi.ro/) rapoarte
3. [www.bnr.ro](http://www.bnr.ro)
4. [www.ziare.com](http://www.ziare.com)
5. [www.capital.ro](http://www.capital.ro)
6. [www.kmarket.ro](http://www.kmarket.ro)
7. [www.bursa.ro](http://www.bursa.ro)

## The Dynamics of the World Population between Demographic Explosion and Implosion (period 1950-2050)

ACELEANU Mirela Ionela  
*Academy of Economic Studies, Bucharest*  
IACOB Doina  
MICU Angela-Eliza  
*„Dunarea de Jos” University of Galati*  
*aceleanu\_mirela@yahoo.com*  
*doina.iacob@ugal.ro*  
*angelaelizamicu@yahoo.com*

### Abstract

The population is the general premises of the existence, of the dynamics and structure of the employment factor; it is the labor market support, the employed persons. Therefore the analysis and forecasts on the development of the population are very important. Our paper presents the trends of the world population and its projections for the period 1950-2050. Based on the levels, structure and trends of Earth's population (in general, on continents and on countries), we decided to point out the dynamics of the population that emerges within the demographic processes in Romania.

**Key words:** population, demography, evolution

**JEL classification:** J11

### 1. Historical changes regarding the continental population

By the role that work has in all resources and production factors, the population is the primary component of any society, and hence of any economy. The population is the indispensable condition for the existence of any society, of any population whose economic role is reflected in the fact that it is the support of the primary production and active-creator factor and which represents the consumer and the virtual recipient of the results of any economic activity.

The issues of the dynamics and structure of the world population, of its distribution by country and by geographical area is the subject

to some extensive historical research and forecast.

Within the XX<sup>th</sup> century, especially in the second half thereof, the approach views of the *relation between the population and economy* (both of them regarded in dynamics) have multiplied themselves, the points of view as regards this subject becoming not only much more diverse but also opposite. All these views are characterised by *the population transformation in endogenous factor* (in internal, intrinsic side) of the economic development (of the economic growth), factor that, at its turn, is determined by the economic processes. The double position of the population in the demo-economical relations system - as main production factor and as virtual recipient of produced goods - is a strong argument in the favour of the *demographic factor* as endogenous factor of growth and economic development. The correlations between the two variables are diverse and very difficultly to be quantified. It is known that *the effect of the demographic impact upon the economic factor is felt after many years from the date of the demo-economic phenomenon occurring*. So, within the last decades, the research intended to identify certain essential, durable relations between the population evolution and the economic growth became more intensive.

Although the demographic matters are the favorite subject of the politics of countries (governments), of each country, more and more institutes and international organizations are concerned about what happened and especially what will happen to the demographic processes on continents. Based on such concerns, there have been introduced

into the ideas circuit expressions such as "Asian demographic explosion", "African demographic explosion," the depopulation of Europe ", "populating North America".

The transition from the analysis to the statistical data and the structures of the world's population and of individual countries in the preparation of the demographic projections has become a major problem of maximum complexity. Taking into account that the socio-economic and demographic forecasts are a starting point in designing strategies and policies in these areas, it is also required such a background of projections as to boost the confidence of decision makers at all levels (social and economic individual agents, national states, international organizations) in such instruments. The increasing professionalism of the specialists in the field,

the capitalization techniques and modern tools of public record and aggregation of those data have become constituent elements of studies of population dynamics.

General conclusions about the future of Earth's population, by the year 2025 and 2050 reflect the general progress of social sciences in this millennium.

In Table 1, it is captured Earth's population distribution on continents and on geographical areas in the years 1950, 1975, 2004 and 2008. However, the sizes of the population on continents are in relation to their weights in the planetary land surface.

In the table there are given the projections funded by prestigious institutes regarding the population size, the number of people who will populate the continents in the year 2050.

Table 1

**WORLD POPULATION**  
*continents-century1950-2050*

- million people and % -

Continents	Share in the Earth's Surface	Population									
		1950		1975		2004		2008		2050	
		Abs.	%	Abs.	%	Abs.	%	Abs.	%	Abs.	%
ASIA	21,4	1.436,9	56,6	2.416	59,10	3.866,4	60,4	4.054	60,44	5.693	61,1
AFRICA	20,6	227,3	8,9	411	10,05	873,7	13,7	973	14,50	1.706,4	18,2
EUROPE	15,7	546,4	21,0	677	16,57	729,4	11,4	732	10,91	675,5	7,3
NORTH AMERICA	14,8	220,8	8,6	347	8,49	508,9	8,0	577	8,6	704,1	7,6
SOUTH AMERICA	12,1	111,4	4,4	216	5,28	366,8	5,8	337	5	490,5	5,3
OCEANIA and AUSTRALIA	5,8	12,5	0,5	21	0,51	32,3	0,5	34	0,51	41,2	0,5
<b>WORLD</b>		<b>2.555,4</b>	<b>100</b>	<b>4.087,3</b>	<b>100</b>	<b>6.377,6</b>	<b>100</b>	<b>6.707</b>	<b>100</b>	<b>9.300</b>	<b>100</b>

Source: *International Programs Center, Bureau of the Census, U.S. Dept. of Commerce; The World Almanac and Book of Facts, 2005, 2009*

As it can be seen, in 1950, Earth's population of 2.555.4 million people spread over the continents as follows: 1.436,9 million people in Asia (56,6% from its total); 546,4 millions in Europe (21% from its total); 227,3 millions in Africa (8,9% from its total); 220,8 millions in North America (8,6% from its total); 111,4 millions in South America (4,4% from its total); 12,5 millions in Oceania and Australia (0,5% from its total).

If it is compared the population of each continent with its area it results that the intensity of the population of the continents was very uneven. Thus, on the Asian

continent which which occupied and still does 21.4% of the world, there was concentrated 56.6% of the global population, so the population's density was 2.6 times higher than the planetary average. Also on the European continent, the population represented 21% of world population, although the continent's surface is 15.7% of Earth's dried land.

In contrast, in Africa, in South America, in North America, in Oceania and in Australia the degree of population was much less. These continents were populated well below the overall average. In South America, for instance, which owns 12.1%

of the Earth, people living on this continent in 1950 represented 4.4% of total population. The population density here represented 37% of the world; it was 3 times lower than the imaginary global average. Africa had also a special position. This continent had 8.9% of world population, its territory representing 20.6% of the Earth's land.

## **2. The Asian demographic explosion, the perspective on the African demographic explosion**

During 1950-2004, on all continents there were registered increases in population. The same upward trend is recorded in the period 2004-2008. But these absolute gains of population experienced very different rates, which made that the continental structure to change significantly. For example, during 1950-2004, on an overall growth of 149% (6377,6/2555,4), the demographic increases in Asia, Africa and South America were much stronger, which made that the increases of these continents to grow as follows: 4 percentage points more in Asia (from 56,6 to 60,6); 4.8 percentage points more in Africa (from 8,9 to 13,7); 1,4 percentage points more in South America (from 4,4 to 5,8).

Europe and North America recorded population growth rates below the overall average. As an effect of the increase of only 34%, the share of Europe's population in the world reached 11.4%, so a decrease of 9.6 percentage points. Regarding North America, it reduced its share in the world population by 0.6 percentage points.

In conclusion, Asia, Africa and South America have focused most of the population increases in the latter half of the twentieth century. From the total population growth of 3.822,2 million persons, 3.331,3 millions represented absolute growth in the three continents. But the most significant structural continental change is the absolute population growth of Asia with more than 2.4 billion people, of which China's population growth was of over 800 million people. Therefore, quite rightly it is stated that the period is identified with "the Asian demographic

explosion", especially "the Chinese demographic explosion".

A special interest - theoretically and practically - has the projections that the specialized institutions do regarding the possible developments of the population on continents in 2050.

The overall average increase during 2004-2050 was evaluated at 45% (9300/6377, 6) and at 38% (9300/6707) during 2008-2050.

In the first half of the XXI century, Africa and Asia will witness both absolute and relative population increases in their countries. As a result, Africa will have 18, 2% of the world's population to 14, 5% in 2008 and 13, 7% in 2004 and to 8, 9% in 1950. In turn, Asia will concentrate 61.1% of the total world population, compared with 60.4% in 2004, 2008 and compared with 56.6% in 1950.

South America and North America will know the absolute population increases, but at rates lower than the world's average (34%, and 38%). Under these conditions the South American share will decrease in 2050 to 5.3% from 5.8% in 2004, and the share of North America will reach 7.6%, compared with 8.6% in 1950.

Regarding Europe, there will appear depopulation; the continent's population will absolutely decrease.

Much has been made about the demographic explosion in Asia in the late twentieth century. Many experts insist that in the first half of the XXI century there will be another demographic explosion on this continent. Indeed, if one takes into account the absolute growth of the Asian continent population of 1.828.6 million during 2004-2050 (5693/3864,4 millions) and of 1.639 millions (5693/4054) in 2008-2050, that assessment is fully justified. In addition, the share of the Asian population in the total world's population remains huge, about three fifths (61.1%) compared to 60.4% in 2008. This share is almost three times than the share of the continent in the earth's surface (21.4). So, the density of the Asian population is three times higher than world average.

The same assessment can be done if it is taken into account some Asian countries such as India (with an absolute increase of 536 million people); Bangladesh with an increase of 100% (280 to 141 millions);



Nepal also with an increase of 100% (53,3 to 27 million people); Pakistan with an increase of about 140 million people; Yemen with an increase of 3,5 times (from 20 to 71 million people).

There are a few Asian countries which in 2050 will know decreases of population, such as Japan, with a minus of about 27 million people, of South Korea.

If the analysis would only define the criteria for the economic development level, it could be said that some developed countries of Asia record the absolute decline of population and other relatively moderate increases, while the least developed countries, by contrast, will witness a significant increase.

But if one compares the demographic forecasts for the period 2000-2050 relating to African countries with forecasts for Asian countries, it must be concluded that the most powerful demographic explosion is emerging in Africa. The statement is based primarily on the relative growth of the total population of the continent, which will be of 95% (1706,4/873,7) in 2004-2050 and of 75% in 2008-2050, compared with the relative increase of 45% throughout the world. It will get to the point when the share of the African continent is close to the planet Earth's population share (18,2%, and 20,6%).

„The African population explosion” and high concentration of African population may be marked with greater strength if they do real forecasts regarding some countries of the continent. Besides the fact that the population doubled in eight countries on the African continent, the population size will triple by 2050. Here are the African countries where the increased population will experience much higher rates than the continental average: Benin (18,1 millions in 2050 to 7,2 million persons in 2004); Burkina Faso (39,5/9,2 millions); Chad (29,2/9,5 millions); The Democratic Republic of Congo (181,2/58,3 millions); Guinea (30,1/9,2 millions); Madagascar (65,5/17,5 millions); Mali (32,5/11,9 millions); Malawi (29/11,9 millions); Nigeria (307,4/137 millions); Somalia (25,5/8,3 millions); Uganda (83,6/26 millions).

If we compare to the population levels in these countries in 1970, then the *idea of African demographic explosion is even*

*more reasonable*. With nearly 30 years earlier, in Nigeria, for instance, there lived 55 million to 307 million persons as are projected for 2050.

These African countries will massively by overpopulate in 2050; they will be inhabited by over 815 million people, which will mean half the African population. Four African countries will each have in the same year, more than 100 million people (Nigeria, The Democratic Republic of Congo, Egypt, and Ethiopia).

The only country on the African continent that will see decline is South Africa where there will live about 31 million people in 2050 compared to almost 43 million at present.

### **3. Socio-economic considerations on the development and demographic structures**

Some reputed demographers (C.P. Blaker) formulated a new theory of the progress of population in modern times, the national stage occurs globally asynchronous. These stages are as follows: *stationary* (resulting from the confrontation of the relatively equal high birth and mortality rates) *early expansionary* (the percentage increase of mortality is lower than the relative increase in birth) ; *the expansion of the termination* (decreases the mortality rate more than the birth one), *stationary* (birth and death are balanced at low levels), *decline* (lower birthrate than death rate).

All these considerations of demographers and sociologists are based on current the knowledge of the people. It seems that human knowledge in the coming decades will move within other parameters. The American scientist Ray Kurzweil launches the revolutionary idea, that through "nano-robots (robots with ultra-microscopic dimensions), injected into the body, the whole body will be freed of all imperfections and the muscle structure, the bone structure, arteries and brain cells will undergo an intense process of regeneration. Even if, now, the technology has not reached such performances, the discoveries in genetics and an appropriate technological breakthrough will enable people to "ensure" the body against disease

and aging. Although Kurzweil's theory has some science fiction elements, including the idea of immortality, however, the considerable growth perspective of the average life expectancy is entirely plausible, which means changing the sequence of stages of population development. If are taken into account the studies showing that in developed countries, this increase in life expectancy at birth is accompanied by the declining of fertility, it will result in a dramatic change in the population's distribution by age.

In 1850, in the United States, it was registered an average age of population of 19 years and over one hundred years, in 1990, the average age reached 34 years, a trend that will worsen so that by the year 2050, the U.S. median age will rise to almost 40 years! Within 200 years, 1850-2050, the average age of population in most developed countries of our world will grow by 21 years, over 2 times.

In some European countries and in Japan, as a result of fertility rate that will not increase, estimated by the demographer Nicholas Eberstadt, based on UN data, the average age of population in Germany will reach 54 years, in Japan at 56 years and 58 years in Italy. In comparison to the U.S. trend in these countries, around 2050, the average age will be 14 years higher in Germany, with more than 16 years in Japan and more than 18 years in Italy, which means more dramatic changes. In this case significant problems may arise concerning the relationship between productively employment and the retired persons.

*The new relationship between economics and demography was realized in developing new analytical concepts. The demographic transition is the concept (term) with the highest cognitive and methodological value.* The vision of modern demographic transition means the transition from high birth and mortality rates (often with small natural increases) at the lower levels of the two basic demographic variables (sometimes with relatively high natural increases). When the birth rate is high and it is increasing, and the mortality rate records decreases with delay, there may be a population explosion.

The increasing professionalism of the specialists in demography has resulted in

the substantiation of concepts with which it is analyzed and assessed the population's dynamics and its structural changes. By these concepts it is surprised and appreciated the relationship between stability and change in conducting demographic problems.

In general, specialists in the field believe that change requires knowledge of (highlighting) the factors affecting a particular state (A), transforming it into another state (B).

In a first approach, the process of change is seen only as a result of factors outside of it. In time it came to the realization that the new state (B) is due to its natural state (A), to its dynamic transformation and to some external factors. The emphasis is on stability.

A second perspective on the report shown is by reversing the ontological priorities, accepting the fact that change is most important and stability is a slow change. In such a perspective, the socio-demographic historical reality consists of continuous processes and their results, with acceleration and deceleration phases. In fact, this way of approaching the change is synthetically expressed by the conclusion became a common good: the steady state is relative, while the state of imbalance is absolute.

So, the changing social reality is a series of human acts of knowledge, creation and practical actions. Knowing is very important. But more important is to use what you know, to conceive strategies for transformation.

This final point of view implies two sets of analysis. The first one seeks to explain why and how these socio-demographic aggregations can lead to institutions (political, economic, religious, pedagogical, aesthetical, etc.). The second analysis examines the new compounds resulting from the change in question. According to this view, between institutions and changes there is a permanent relationship of interdependence, the changing having acceleration or deceleration times.

Social sciences have identified four such types of interdependence relations, so called: drift, evolution, revolution, mutation.

In the spirit of social change theory, it can be argued that the prospect of

Romania's population by the year 2050 is a multi-factorial mutation.

It can hardly be a simply demographic derivation because the society as a whole is aware of the change project and its scope. High degree of knowledge makes the process of change to be perceived by the population, even if its deep meaning remains hidden.

This change cannot be reduced to a simple socio-demographic evolution, because the emerging process can not be reduced to a progressive update of the original program to be applied without major disturbance.

Finally, the prospective on the Romanian population in the first semi-centenary of the third millennium can not be classified in the category of revolution, which expresses a crisis of legality. As such, this state of crisis can not be solved by introducing on an administrative-political way some foreign socio-demographic patterns.

The socio-demographic mutation is defined as the change that occurs on introducing new programs. Only in this field there is nothing radically new. As a result, the specific nature of the mutation change is that the history, the premises of the mutation are emerging along with the mutation.

The demographic transition theory has been deeply studied in the recent decades in many directions. The main cause of the diversification process of the perception methods of the economic - demography interdependence lies both in the growing complexity of the population's issues, and in the new characteristics of the socio-economic development during the globalization process.

Moreover, in this new socio-economic background, the demographic transition can not be deducted and characterized only by taking into account the two fundamental sides of the population's dynamics. Therefore, different specialists have found and examined other types of demographic transition, such as age structure transition, which means, ultimately, aging (J. Bourgeois-Pichet); *marriage transition* (K. Hajnal); *type of family transition, transition rates, especially rates of female activity* (J. Durand); *territorial mobility transition* (W.

Zelinski); *urbanization transition* (Vl. Trebici).

Anticipating, we can say that many of the recent developments in specific countries' populations can be analyzed and assessed especially in light of these kinds of demographic transition and less on the relationship between fertility and mortality rates.

If the demographic transition is a law-like process with a global, regional and national nature, the ways and concrete forms of this process differs from one country to another, from one community to another, as from one historical period to another. However, it was naturalized the view that population should be regarded as endogenous side of the sustainable development and also as a multi-factorial process, the cultural factors accounting for an increasing role.

#### **4. The specific dynamics of the population of Romania at the turn of centuries and millennia**

In the recent decades - more than in the past and with more professional techniques - the medium and long demographic projections have been subject to all the national authorities and UN specialized institutes. However, there are institutes and private and joint organizations that conduct research activities of the population dynamics on the global level, on large geographic areas and in the individual countries.

The studies undertaken in the recent years have failed to answer a number of questions concerning the demographic transition. "The demographic transition - it is stated - is a law-like process for all countries, its ways and forms will differ from country to country.

As the factors, besides the economic and social ones, a major part is played by the cultural ones, as the American demographer Anslez J. Coale demonstrated.

Most times, the projections made by these institutions and organizations provide identical or very close information to each other in terms of future population sizes. Clearly, these projections have reached common assessment on the meaning of

evolution (down or up) of the population at its various levels of structure and time horizons.

Most demographer specialists, along with national and international institutions use for their century-old analysis, the following information about the Earth's population: in 1750 – 1 billion people ; in 2000-6 billion people ; 2050- 9,3 billion people. In 1950, total world population was of 2.730.000.000 persons. So in 250 years (2000/1750), the world's population increased by 5 billion people, which means an average annual increase of 20 million people. Obviously, the average annual bonuses have been increased from one century to another, from a semi-centenary to another and even from five to five years.

According to some projections prepared by the specialists in the next 50 years, Earth's population will increase by about 3.3 billion people. Such an overall increase in the next 50 years would result in an average annual increase of about 66 million people. Each year Earth will be populated with a number of people equal to the current population of countries like France, Britain, and Turkey.

*The greatest population growth is expected to occur in countries with low per person incomes in Asia and Africa, densely populated countries.* In Asia, the population growth in the next 50 years will be over 1.5 billion people. Only in India, the population will increase by 420 million, reaching 1.4 billion people.

From such a perspective, the first question that we ask is: in what relation is (will be) the demo-socio-economic change in Romania with the changes of the same processes on a planetary and continental level?

The general answer to this question will be made by comparing the projections regarding Romania with the ones expected to happen in the world.

In Romania, beginning the transition to competitive market economy (capitalist) marked, among other things, changing the evolution of the population. If the period 1930-1991, the population's dynamics in Romania joined on a continuous upward trend since 1992, it was characterized by a strong downward trend. The census of the population and buildings in 2002 confirmed this decline and the demographic

projections for Romania announce a continuing downward trend started in 1992 with greater intensity.

The census of the population in 1930 recorded that Romania had 14.280.721 people, the one in 1966 recorded 19.103.163 people. The census of the population in 1978 recorded that Romania had 21.914.187 people. In 1991, in Romania were 23.203.187 people.

However, this level was far from 30 million people, a figure which was planned by the Ceausescu regime and who formed the basis of the demographic policy in the decades 7th and 8th of last century.

During 1930-1966, a period in which there were important general historical processes (the war in 1941-1945, changing the country's borders), there was a decrease in natural growth rate from 14,8‰ to 6,1‰. This decrease of natural increase was due both to the falling birthrate from 34,1‰ to 14,3‰, but also to the decrease of the mortality rate from 19,3‰ to 8,2‰.

In fact, the sub-period 1955-1966 is the one which strongly marked the characteristics of the demographic transition in Romania. The notable declines of demographic variables in those years were the basis administrative support and political policy of population growth in the next sub-period. During 1967-1978, it was originally marked a change of meaning of the natural growth. Thus, in the years 1967-1968, the natural increases were about three times higher than in the years 1964-1966. Maintaining a birth rate of around 20 ‰ and the death rate of about 9 ‰, it resulted in relatively high natural increases. Based on these natural increases, in 1978 our country's population reached 21.914.163 people, which meant a total increase of nearly 2,800,000 people from 1966.

The period 1979-1991 marks another atypical development of the Romanian population. The continuous reduction of the natural growth (from 8,7‰ to 1‰) was exclusively due to the mortality reduction that reached 11,9‰ in 1991 to 18,6 ‰ in 1979.

Whatever the real causes of these dynamics were, during 1979-1991, the population increased by nearly 1,300,000 people. However, the year 1991 is the turntable of the change of the direction

belonging to the population development in Romania.

During 1992-2002, the development of population in Romania knew special trends. Natural growth turned negative due to the decrease both of birth rate and the growth of death rate. From a natural growth of minus 2.7 per thousand inhabitants in 1992, it was minus 2.5 ‰ in 1996 and to minus 2.7 per thousand inhabitants in 2002.

As a result, at the population and housing census in 2002, Romania's population was of 21,890,910 people. It was numerically lower with 1,504,110 people compared to the one in 1991. According to the National Institute of Statistics, in 2007 Romania's population reached 21,537,563, continuing the downward trend.

Most prospects view that, in 2050, the world population will reach 9.3 billion people to 6.3 billion in 2000 (1998), which means a relative increase of 47.6%. For its part, Romania will register at the same time horizon, absolute notable decreases. If we use as a source The World Almanac and Book of Facts, the absolute reduction in the range expected for 2004-2050 will be of 3,678,000 people, representing a relative reduction of about 17% (3.678./22.356). The projections of other international institutions such as the The Population Reference Bureau on the global population, advances the figure of 15.7 million people for the population in our country in 2050.

Comparing the estimated level of Romania's population for 2050 with the population of Romania in 1990, we see an absolute reduction of nearly 4,600,000 people. So, the population growth in the period 1948-1990 will be canceled by the decrease that will be marked until 2050.

If the Romanian territory will depopulate, in the optimistic variant with 17% and the Earth's population will increase by 47%, then it will take place the reduction of the share of population in our country in the world's population from 0.35% in 2000 to 0.20% in 2050.

This phenomenon of population decline in our country is also caught by the National Institute of Economic Research. Vasile Ghețău, the Professor and Director of the Center of Demographic Research "Vladimir Trebici", supports the theory of

Romania's population decline by 2050 of about 16 million people.

This decrease is due to the declining birth rates and increasing life expectancy. The decrease of fertility is determined by factors that, from the years 1960-1970 have triggered massive recoil of fertility in most developed European countries in terms of economic and social progress: the women's empowerment and its increasing participation in the economic activities outside the household, the increase of the duration and level of education, the increase of social mobility, the high cost of child care etc.

Moreover, the new economic and social realities have left their mark on the downward evolution of the phenomenon: the degradation of living standards, unemployment, uncertainty, stress, changes in attitudes and behavior on marriage, contraception, and divorce. The time gap regarding the massive fertility decline in our country to the developed European countries is explained by forced pro-birth policies of the former regime.

Another cause of the decrease of population in Romania is still the high mortality rate. When the standard of living, the quality of care and the access to health services will undergo sensitive improvements and the lifestyle of people will be directed towards a better health, the decrease of the mortality rate by age and the increase of the average of life will know the desired evolutions.

*The atypical situation of the decrease of population in Romania consists of the size of the reduction, and increased migration, especially as there was no reliable statistical information about this phenomenon.* In addition, the future evolution in the external migration is unpredictable today, being directly dependent on the economic and social development of Romania, on the immigration policies of the developed countries, on the membership of the European Union.

Keeping a low birth and fertility rate, and due to the aging generations, different in size, the age structure of the population in our country will continue to change.

In time, the effects felt as a result of the population decline will consist of specific economic problems, on the one hand on the

labor shortages and on the other hand, on the insufficient economic resources necessary to support the elderly. A low number of children today means that in the future we will have fewer taxpayers and thus lower income or higher taxes. If a pensioner in 1990 was supported by 2.7 employed persons, in 2006 a pensioner is supported by only 1.30 persons, following in 2050 as an adult to pay for the pensions and allowances of 9 people.

Until now, Romania's population decline did not have negative economic effects – says the Professor Ghețau – but it also might be said that it had rather positive effects by reducing the costs made by the family and the state for pre and post natal leave, child benefit, health care, education. However, "everything that has been good so far, in time has terrible consequences, by long-term demographic connection, if there is not a substantial recovery of birth."

Since all former socialist countries of Europe will register a decrease in population in the coming years, there can also be made links between the socio-demographic policies of boosting the population growth in the years of the socialism and the freedom of people to decide on family size, starting with the period that marks the transition to the new socio-economic system, on the market. The population declines in these countries are a consequence of understanding the development, but this is not the only cause,

especially that there are countries that are experiencing decline and have not gone through such a process. In conclusion, we can state that there is no single major cause of the depopulation of these countries; this phenomenon is influenced by many factors.

## 5. References

- [1] Eberstadt, Nicholas: World Population Implosion? Public Interest, 1997
- [2] Dobrotă, Niță: The perspective of the population in Romania by the year 2050 in Analysis and Economic Prospective, No. 1-2/2005, ASE Publishing House, Bucharest
- [3] Dobrotă, Niță; Aceleanu, Mirela Ionela: Employment in Romania, Economic Publishing House, Bucharest, 2007
- [4] Ghețau, Vasile: The year 2050: Will Romania's population reach more than 16 million?, Demographic Research Center of the National Institute of Economic Research – The Romanian Academy
- [5] Săvoiu, Gheorghe: The world's population between demographic explosion and implosion, International University Press Publishing House, Bucharest, 2006
- [6] Trebici, Vladimir: The Earth's population. The World's Demography, The Scientific Publishing House, Bucharest, 1991
- [7] Trebici, Vladimir: Demography, Encyclopedic Publishing House, Bucharest, 1996
- [8] \*\*\* The World Almanac and Book of Facts, New York, 2005, 2008 [www.worldalmanac.com/](http://www.worldalmanac.com/) și [www.aneki.com/world\\_almanac.html](http://www.aneki.com/world_almanac.html)
- [9] \*\*\* Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects, <http://esa.un.org/unpp>

## Influence of Implementing Social Responsibility Programmes on the Evolution of Companies

MICU Adrian,  
CRISTACHE Nicoleta,  
SUSANU Irina  
“Dunarea de Jos” University of Galati  
mkdradrianmicu@yahoo.com  
cristache.nicoleta@yahoo.de  
irisusanu@yahoo.com

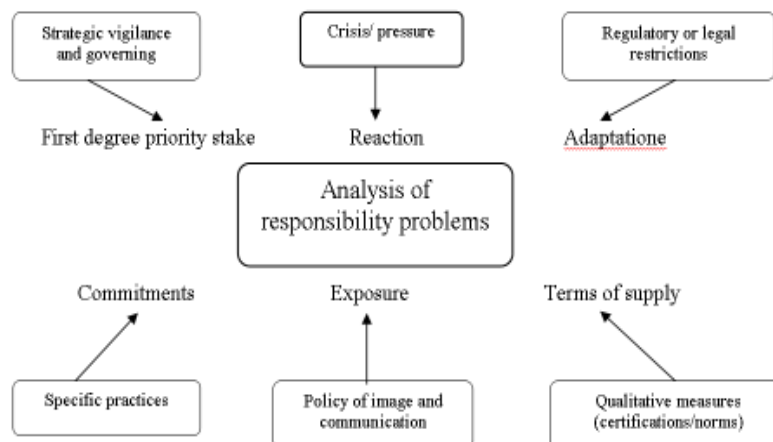
### Abstract

For most companies in Romania the corporatist social responsibility domain is reduced at social investment campaign – donations, patronage, philanthropic actions – oriented towards problems considered to be of community interest. Some of these programs are considered to be inefficient, don't have social and marketing clear objectives and aren't professionally evaluated and promoted. For the wide public the news about the companies' social programs have a lack of credibility, and for the journalists the official statements to the press about such community actions aren't interesting.

**Key words:** Corporate social responsibility, strategies, programmes, proactiveness.

**JEL classification:** R11

*Figure 1.1 Analysis of responsibility*



Source: Patrick d'Humiers, *Le développement durable*, Editions d'Organisation, 2005, p.180.

The challenge consists of identifying the impact of social responsibility and of assessing the situation in economic and

## 2. What I give and what I gain if I implement a CSR programme

The vast majority of companies reject spontaneously the external costs that are imposed by the regulations in force. This reaction can be explained by a tendency of saving the resources on a short term, which, on a long term though, generates greater costs than a proactive attitude of integrating social responsibility within the corporation would have. Let us take for instance the environment issues: certain corporations are comfortable buying the cheapest antipollution devices on the market instead of investing in research and development which might lead to discovering less polluting production methods (“end of pipe” approach) and which would generate long term cost reduction or even a competitive advantage, therefore, income.

- On a short term, corporate social responsibility generates supplementary costs through:
  - Keeping in line with the ever more exigent norms/regulations;
  - Precautionary investments and voluntary provisions, for various risks related to social and environment aspects;
  - Incurring the new qualitative requirements of the customers, of the the employees and of the public authorities (exploitation costs); corrective programmes;
  - Specific expenses regarding the elaboration and funding of initiatives.
- On a medium and long term, social responsibility creates new income for the corporation:
  - Conquering new markets by adapting the supply;
  - Launching on the market products that aim at satisfying a growing demand of ecological/ethical products;
  - Saving resources by eco-efficiency practices, by changing those processes capable of generating net reductions of production costs.

The correlation between financial performance and responsible social behaviour is most often than not emphasized by examples of practices that proved to be efficient (“Best Practice”)<sup>1</sup>. A study done by IBE (Institute for

financial terms in order to exploit the opportunities of growth and competitiveness.

Business Ethics) has demonstrated though by calculating the financial indicators and of corporate responsibility that the “ethical” companies have generated a significantly superior added value and an average 18% higher profit than the rest of the companies.<sup>2</sup>

## 3. To what extent the implementation of a CSR programme may influence the evolution of a company

The company may do this before its competitors or it may wait for a general sectorial involvement in order to act based on the costs/advantages analysis. But, depending on the general pressure of society, of regulations and of markets exerted on the company, this may adopt different strategies:

- 1) Transferring the supplementary costs onto the final consumer willing to accept them, hoping to obtain the desired results at the level of society;
- 2) Integrating the supplementary costs under the effect of the regulation applied to all companies. The optimization of this integration might create a competitive advantage;
- 3) Generating of supplementary income by growth and innovation, exploiting the expectations and opportunities on the market regarding corporate social responsibility.

The organization has to define its own strategy combining these three strategic options according to its degree of involvement.

Regarding the attitude and strategy adopted by a corporation in relation to social responsibility, it is worth mentioning Carroll’s model of societal performance (1979). For Carroll, societal performance corresponds to a responsibility that is analyzed in terms of:

- four hierarchized components: economic, juridical, ethical, philanthropic;
- a way of managing responsibility, by means of four philosophies in their turn hierarchized: opposition, defense, progress, proactiveness ;

---

implemented and proven on successful projects”(Spawar Systems Center, San Diego, California- counseling office).

<sup>2</sup> S. Webley, E. More, “Does Ethics Pay?”, Ethics and Financial Performance, IBE Publications, 2003 / [www.ibe.org](http://www.ibe.org)

---

<sup>1</sup> Best Practices-“effective high-leverage technical and management processes that have been



- discrimination and environment – the two specific fields to which the Carroll model is applied.

The first dimension is associated with the “**Pyramid of social responsibility**” which Responsibilities:



Figure 1.2 The pyramid of social responsibility  
Source: **Carroll (1991)**, taken from:  
[www.oldredlion.here2stay.org.uk/ethics](http://www.oldredlion.here2stay.org.uk/ethics), accessed on  
November, 20<sup>th</sup> 2008, 14.00.

Archie Carroll describes the essential characteristics of every level but some of them are challenged by specialists. For instance, for a great part of researchers the fourth level of the model – philanthropy – has different significances than those attributed by Carroll.

This approach by which corporate social responsibility is defined in philanthropic terms is specific to the United States of America<sup>3</sup>. The company donates a part of its profit to charitable causes, without expecting any benefit in exchange.

The European model is based on integrating social responsibility into corporation's operational activities and into investments oriented towards the community. Although there is no universal “best way”, the cultural differences being obvious, we still consider this model as more viable because:

- corporate social responsibility becomes integrate part of the process of creating value which, in its turn, provided it is correctly managed, will generate competitiveness and will contribute to the wealth of the society;

- in case of difficult situations, there is the stimulus of implementing social responsibility

more efficiently, as an instrument of managing the crisis; whilst, if this is exerted according to the philanthropic model, which is peripheral as compared to the central activity, it will always be the first thing to be given up in situations of crisis.

We shall dwell upon the second dimension of managing corporate social responsibility which displays four attitudes that might characterize a corporation:

- 1) *Ignorance*: associated to a “zero” degree of responsibility. What characterizes such a corporation is: exploiting the weak points of the regulatory systems and of the society where it is implanted;
- 2) *Defensive*: classic attitude. It translates into philanthropic or Mecenat actions but not all expenses of this kind are necessarily related to social responsibility. On the contrary, not being a Mecena does not automatically mean irresponsible from a societal point of view.
- 3) *Adjusting*<sup>4</sup>: it is equivalent of a preventive social responsibility which consists of ensuring a certain comfort through adhering to the norms. It aims first of all the preservation of corporation's reputation and manifests into a behaviour code. If this behaviour code is only the responsibility of the communication department, there are serious risks regarding the credibility of the management both inside, and outside the organization, and the company could be in this case be suspected/accused of false publicity.
- 4) *Proactiveness*: the corporation integrates the social/societal and environmental risks in defining its policies, in applying and controlling the procedures. This initiates partnerships with groups of interest and actively participates in solving the present or future problems that might appear in the environment where it activates.

Starting from the analysis of the companies that are listed on the stock market: Eurostoxx 50 and CAC 40 and of other multinationals, the researchers of the Novethic group suggest a typology of strategic positioning of corporations as related to the issue of social responsibility:

<sup>3</sup> Mallen Baker -  
[www.mallenbaker.net/csr/csrfiles/definition.html](http://www.mallenbaker.net/csr/csrfiles/definition.html),  
accessed on March, 12th 2007, ora 19

<sup>4</sup> Revue *Management & avenir*, n°7, Zouhair Benbrahim, “Éthique et Gouvernance: Entre intentions et pratiques”

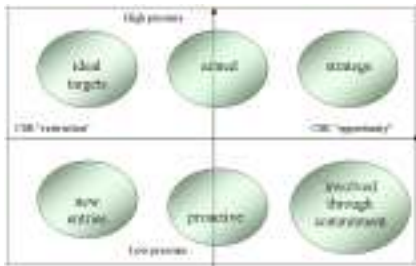


Figure 1.3 Types of “responsible” strategies of multinationals

Source: *Novethic* study, November 2002, <http://www.novethic.fr/novethic/upload/etudes/ImpactDD.pdf>, accessed on November, 24<sup>th</sup> 2008, 18.00.

Besides integrating a coercive system based on the internalization of the restrictions related to social responsibility, it is also indispensable and complementary to implement a system of management that should aim at the adherence of the groups of interests, of collaborators, to the values and objectives of the organization and which should also maintain a balance between the permanent adaptation to the external pressures and the organizational cohesion.

*Elaborating a “responsible” strategic plan*

A strategic plan allows the company to create a connection among three major stages: pressure, impact, operational inflexion. The purpose of such a deep analysis is to help the organization to manage the degree of seriousness of various challenges (de exposure degree) and to determine the ways of involvement and action.

Corporation’s exposure degree and, consequently, the pressure exerted on it are determined by four parameters:

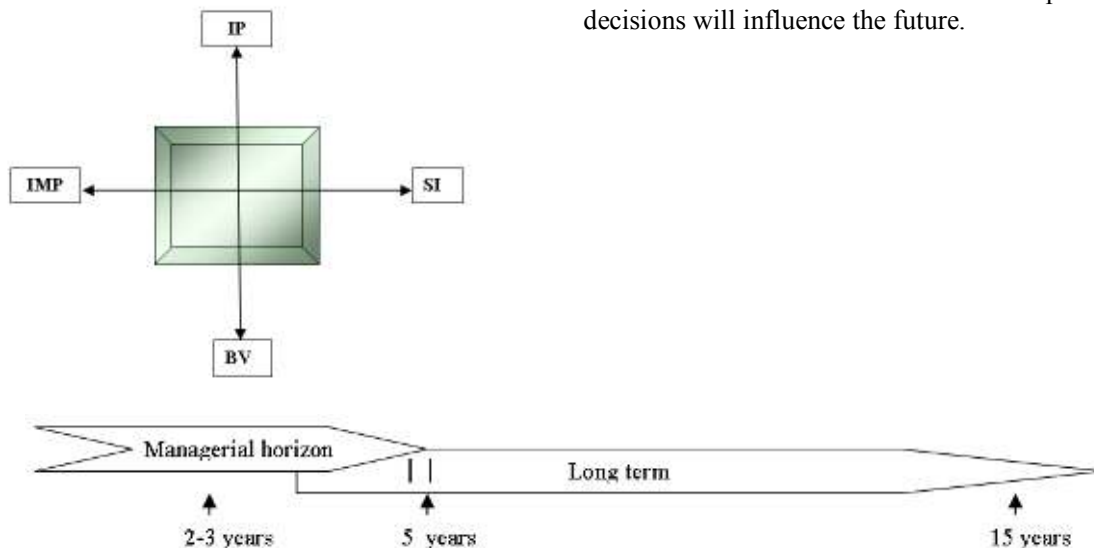


Figure 1.5 Projecting the potential impact of CSR on company’s results

Figure 1.4 The parameters measuring the corporation’s exposure degree

**IP** - Involvement in Planet’s problems

- Connection with the social and political problems ;
- Presence in the «South» and in the developing countries;
- Role in ensuring vital needs.

**IMP**- Real environment impact from production to product

- Security of production, the effect of the product upon health;
- Wastes ;
- Eco-conception of product.

**SI** - Social impact of activity

- Importance and welfare of personnel and community;
- Mobility need;
- Capacity to manage long term commitments.

**BV** - Brand vulnerability

- Company trust ;
- Positioning/receptivity to change;
- Capacity to listen and answer the needs of the groups of interests.

For each of these key parameters influencing the company’s perennality, the corresponding strategic horizon should be outlined. The “responsible” management process is a complex one which needs an interval of at least 2-5 years of leadership in order to reach pertinent results in the eyes of the civil society and financial community observers. It is advisable to go beyond the managerial horizon in order to identify the long term risks and opportunities and understand to which extent the present decisions will influence the future.

After analyzing each factor according to certain criteria, they are organized in a top

conferring priority to those items that have

the greatest strategic importance. The criteria that have been used are the following:

- economic impact;
- evolution in time;
- situation in space;
- competitiveness factors.

The first attitude adopted regarding corporate social responsibility is the defensive reaction towards the risks that the company is exposed at, the second being focused on identifying and exploiting the opportunities by offensive and proactiveness. The “responsible” strategic review should act as a “compass” for the corporation subjected to multiple pressures from external or local factors which wish to orientate the company’s action in the direction of each momentary specific preoccupation, which do not always correspond to the global project of long term corporate social responsibility.

#### **4. Conclusions**

In general, we cannot bring a real dimension of the social responsibility concept as a guarantee of the organization’s business success, but we have to be aware of the fact that this isn’t just an instrument of the value

maximization through image construction, but an essential element of the long term success, which is strongly bounded by the social and environmental performances of the community.

Without being perceived as the sign of economical power, the social responsibility takes the form of a civic corporatism – a way of establishing stable and profitable business relations for everybody, a non aggressive method, a friendly way of communicating with the society. In this way the RSC is nothing else but modern, open, flexible method of management. In this context the social responsibility isn’t just an attribute of the multinationals companies, but an elementary condition of the economical game in an open market.

#### **5. References**

- [1] Bowen H.R., *Social Responsibilities of the Businessman*, Harper & Row, New York, NY, 1953
- [2] d’Humiers P., *Le développement durable*, Editions d’Organisation, Paris, 2005 ;
- [3] Mercier S., *L’ethique dans les entreprises*, Editions La Découverte, Paris, 2004.
- [4] Oprea L., *Responsabilitatea socială corporatistă*, Ed. Tritonic, București, 2005;

# Managerial Integration of Corporate Social Responsibility

MICU Angela-Eliza,  
MICU Adrian,  
CRISTACHE Nicoleta  
“Dunarea de Jos” University of Galati  
angelaelizamicu@yahoo.com,  
mkdradrianmicu@yahoo.com,  
cristache.nicoleta@yahoo.de,

## Abstract

In a time when the world is interested in phenomena such as ecology, the environment protection, the safety of food, the ozone layer, the waste of resources, starvation and their effects, the initiatives concerning social responsibility are more and more welcomed.

There has been observed a more obvious need of the companies to appeal to community in order to find the necessary support and resources to accomplish their mission and objectives. For the society to develop, the population and the business sector must involve in communication and social responsibility programs. The state is added to these two elements, which can act as a catalyst in making every one responsible. Thus, we can have a real process, by means of which we create a responsible society in which the companies try to cultivate a sense of responsibility and a better capacity to understand the economic, social and environment problems the society is confronted with, and the consumers are equally exigent and responsible.

**Key words:** competitive advantage, corporate social responsibility, benefits for community, risk management

**JEL classification:** R11

## 1. Introduction

In order to gain legitimacy, a requirement of the civil society, the multinational company has no other option but to implement a real social responsibility policy, to integrate it in the industrial strategy, in the communication function and, most importantly, in its systems of management.

The management of corporate social responsibility is often wrongly perceived as a “brand management” technique due to the

sensible connection between the brand image and the opinion society. The use of this technique strictly as a communication instrument is inadmissible. One should use an incremental approach, step by step, by integrating elements that are already known to or practiced by the organization. Corporate social responsibility is first and foremost a way of continuous learning and improvement.

## 2. Integrating CSR programmes – a process of constant improvement

The process of corporate social responsibility is an extension and an enhancement of the qualitative processes, by integrating the long term factors, of ethics, by taking into account the groups of interests that may include even the civil society. Both have a mutual engine, that of constant improvement (Deming’s wheel: *Plan-Do-Check-Act*).

The involvement of the corporation in the process of societal responsabilization is based on a series of key factors of success and on two *behaviour postulates*:

- ✓“Walk your talk” (apply what you say): it is about creating a system of management of social responsibility which should offer a clear vision and develop products and services reflecting the real, effective commitment of the company regarding its global responsibility.
- ✓“Talk your walk” (say what you are doing): it aims at defending a professional and visible profile of the company that has committed as an active, honest and sincere actor on the road of social responsibility.

*Key factors of success:*

- ✓Ensuring a process that is at the same time ascendant and descendent, developing a conscience of responsibility among the company’s managers, on all levels, giving

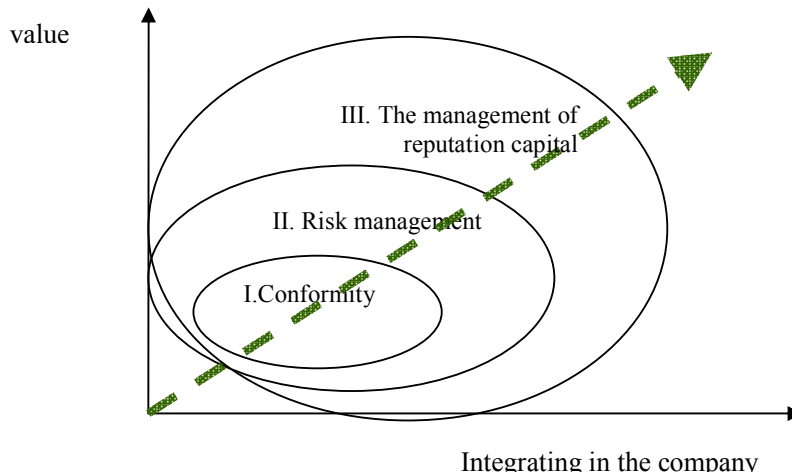
them the possibility of constantly learning and of suggesting solutions.

- ✓ Ensuring and anticipatory, flexible management.
- ✓ Integrating corporate social responsibility into the quantitative and qualitative objectives, ensuring its coherence and “mapping” the progress on objectives and domains, the purpose being that of correlating (or even quantifying) the costs and advantages.
- ✓ Ensuring a fair measurement of performance, of progress but also of failures, understanding and evaluating them.

- ✓ A preference for an incremental evolution, with small steps, rather than for ruptures that are always brutal.
- ✓ Favouring flexibility, harmony, diversity and innovation.
- ✓ Ensuring transparency and credibility.

*Stages of the process*

**Three learning stages characterize** the progress towards corporate social responsibility, represented as follows:



*Figure 1. Stages towards CSR implementation*

Source: Olivier Dubigeon, “*Mettre en pratique le développement durable*”, Edit. Village Mondial, 2002, p. 78

First stage: Regulatory conformity

The reference is not about the regulated efficiency control systems, perceived as performance drawbacks, but about adopting certain programmes meant for instance to develop formation processes, conformity audit processes, correctional actions, to repair the caused damages: all of these allowing the company to go further beyond the strict compliance with the regulations.

The second stage: Risks management

The multinational company may adopt a preventive attitude implementing the risk management in an extended perimeter (including the so-called “*reputation risk*”). Environment policies, environment management systems, pollution prevention techniques or recycling are characteristic for this stage.

Approaching the issue in terms of precaution allows the company to minimize and prevent risks, to develop certain ecological techniques and, at the same time,

to reach operational excellence, to diminish the damages and to minimize the costs. In the context of risk globalization, this kind of measures have become more and more delicate, more and more complicated for the following reasons:

- It is harder and harder to stay informed on potential risks and answer efficiently once they manifest;
- Multinational companies are intensely monitored by a significant and growing number of groups also. Moreover, these groups are interconnected thanks to the Internet allowing for the facts to be instantaneously transmitted (or for the reality to be twisted) to millions or even billions of consumers;
- The need for transparency is growing under the pressure exerted by the consumers, the employees, the local community which no longer trust companies without them proving the manner in which the production is made

and what impact its products have on society.

#### The third stage: Reputation capital management

Risk management, even extended to cover societal risks, is nothing but a stage on the road to corporate social responsibility. It is a preventive stage. Reputation capital management, by its proactive actions, allows for the companies to advance voluntarily towards an optimum compromise between their own interests and those of the present and future generations. Initially engaged in a development dynamics, the company transforms the environment, social and societal problems in a competitive advantage: this implies analyzing and, then, minimizing the impact of the products during their entire life span, from raw materials, through production and products use, till recycling. The companies that have reached this stage of improvement are trying to establish a “win-win” relationship with the groups of interests with positive effects the reputation and perennality of the organization.

**Three stages of maturity** characterize the practice of corporate social responsibility: a restrictive approach, a cumulative approach and integrative approach.

The restrictive approach: the organization is basically motivated by financial profitability, its social field or the environment representing regulated constraints that it has to comply with.

The cumulative approach: the company makes efforts to address both social problems as well as those regarding the environment and the stake of financial performance as efficiently as possible. The corporation makes a number of annual reports (activity report, environment report, social responsibility/sustainable development report). Nevertheless, these annual reports and especially the social responsibility/sustainable development report present all the fields separately, reflecting a segmented organization of the respective responsibilities.

The integrative approach: in order to solidly anchor its legitimacy, the company needs to develop a social responsibility management system which should allow the management of the relationship among the three pillars – economic, social, societal and

environment performance and their integration into the corporate government. This integrative dimension transforms the corporate social responsibility into a vision and a sense shared by their groups of interests and, consequently, into a formidable ambition for the future.

By taking into account the entire range of problems, the internal display of intentions, the establishing of some preliminary diagnoses, the definition of the internal organization methods, the decision to get involved in various programmes and the systematic construction of a dialogue with the groups of interests, the “reporting”, the research and the partnerships we find ourselves in the middle of specific and complex process of management.

### **3. The role of the decision factors in the implementing of CSR programmes**

- The Board of directors, the general director, evaluates the process of social responsibility (activity report) and establishes the objectives (annual action programme).
- The social responsibility/sustainable development committee ensures the dynamics of the process and its managerial reality.
- The coordinator of the social responsibility integration process runs the committee, ensures the execution of the corporation social responsibility programmes, the connection with the exterior and the technical quality, as well as the cohesion and coordination of all involved.
- The functional departments suggest, make the connection and supervise the evolution of the process (the financial department, the human resources, sales and communication departments).
- The operational departments initiate and apply the progress actions (research-development, industry and marketing).
- Management personnel.
- The internal “volunteer” teams.

The manager faces a paradox difficult to solve: the corporation social responsibility cannot be imposed by coercion and cannot exist independently of external actors. The challenge consists of committing the company and various actors on the road to societal responsibility, by drawing attention, adapting to various social and cultural

contexts, guarantying at the same time coherence at worldwide level.

On the one hand, social responsibility by its nature cannot be imposed, because it aims at improving human practices and behaviours with the purpose of widening the area of responsibility of each actor and the global responsibility of all parties involved.

On the other hand, since the study refers to multinational companies the assurance of coherent values and strategies both at the level of all branches, and the level of the relationship with the groups of interests is to be expected. Companies have to impose a certain discipline in their management so as to allow for the recognition but also for the sanction of those actors that do not comply with certain fundamental ethical requirements.

How can all the actors be mobilized into a common direction at the same time keeping in mind various social and cultural contexts? Where is the border between negotiable and not negotiable and how can the appreciation of value go along with sanctioning? The solutions depend on the maturity and conscience of the company's entities, as well as on the pressure exerted upon reputation; however, the necessity of establishing a balance between inducement and coercion is obvious.

#### Incenting the employees

It consist of developing a climate of trust and esteem among the employees, favouring and rewarding those behaviours that comply with company's values and strategies, developing everyone's capacity to contribute to the strategy and fulfillment of the objectives by:

- Encouraging the employees' responsibility;
- Active listening to and permanent dialogue with the employees;
- Favouring self-diagnosis of social responsibility practices;
- Sharing and transversal exchange of corporate social responsibility practices;
- Conferring value to team commitment towards reaching global performance;
- Rewarding remarkable results.

#### Incenting the suppliers

It supposes requirements on behalf of the multinational company regarding the

suppliers; i.e. they should be persuaded to adopt and enforce the same standards as those applied by the company, the cooperation with them being ceased in case of noncompliance with the commitment.

Multinational corporations have numerous suppliers especially those in the retail sector – for instance, Carrefour has 50,000 suppliers while the automobile manufacturer General Motors has 10,000 suppliers. This is why, taking into account the costs of the systematic control process, most companies control the suppliers *a posteriori*, that is only if certain cases of nonconformity behaviour on behalf of the suppliers are signaled. An environment of trust is thus created and the company is not perceived as a watch dog by the suppliers but at the same time the corporation is exposed to certain risks. Therefore, a number of measures become essential, as follows:

- Observing suppliers' policies, performance, objectives and values;
- Watching the suppliers and their behaviour in terms of social responsibility/sustainable development and selecting the "responsible" ones;
- Assisting the selected suppliers in a non-financial manner;
- Partnerships with the local institutions and NGOs which can in their turn control the suppliers' activity;

#### Incenting consumers and customers

Educating and growing the consumers' awareness (especially in terms of over costs resulted from environment protection related activities) as well as the customers' represent a major challenge for those corporations that have chosen the path of social responsibility. The company shares this responsibility of educating and growing population's awareness with the educational system, the local community and the family.

### **5. Instruments of social responsibility management**

In order to implement social responsibility in the corporation and to fully integrate it in the organizational culture, the management has a number of instruments as follows:

Table 1 The 10 instruments of integrated responsibility management

Internal charta	The chart of decisions and commitments. Brand's characteristics
Impact chart	Identifying the problems specific to societal responsibility and the risks already present or threatening the company
The corporate social responsibility/sustainable development committee	Programme, evaluate, stimulate
CSR indices matrix	Selected criteria starting from referentials, in order to fulfill the CSR/sustainable development chart
The mechanism of consulting the groups of interests (stakeholders)	Ways of listening to and consulting with the groups of interests that allow for a permanently updated inventory of their expectations ("societal watch")
Internal programmes behaviour	Internal expression and valorization, formation and progress
Extra-financial evaluation	Performance indices that complete the financial information
Interactive Internet/intranet	It asks for the interested public's opinion and answers to it (Sustainable development/societal report and "best practices")
Partnership related communication	Open presentation of partnerships results

Source: Patrick d'Humiers, *Le développement durable*, Editions d'Organisation, 2005, p. 195

#### 4. Conclusions

We believe that the corporate social responsibility can be considered a world profitable business strategy that brings benefits both to society and the initiating organizations. Success consists in finding a balance point between the awareness of the society's problems, the needs of the different target groups and the management, financial and material capacity of the organizations.

The consequences of the social responsibility increase are essential for the positive development of the economies. The consumers must be educated continuously in this direction for the role they play daily and develop, respecting the moral principles without decreasing the intrinsic economic reason of the buying act in order to satisfy the major objective of each company, that is, to create loyal consumers.

Thus, the great challenges of the Romanian business environment are going to be given or indicated by the reformulation of the mission and objectives, the implementation of new strategies, the development of a quality culture, the detachment of the political area, the promotion of a responsible and performant management. The social responsibility is a concept with a large application which can prove to be efficient in the Romanian structures of business, too. Although the debates do not highlight an urgency as far as the integration of the social responsibility is concerned, the practice has proved that

when it is really incorporated in a structure, it can generate tight connections or links in the decisional process and added value in the value chain of the different groups of interests.

The process of the integration of the social responsibility in the structures of an organization must be made in an integrated manner. In this context the efforts must also be directed towards finding out other modalities, ways, managerial patterns that should make effective this process. The managerial practice offers us a large enough palette of patterns that can be adapted to the system and structures of business environment.

#### 6. References

- [1] Allen, M., 1999, *The direct and indirect influences of human values on product ownership*, Journal of Economic Psychology, nr.20
- [2] Cristache, N., 2008, *Relații Publice*, Editura Didactică și Pedagogică, București
- [3] Oprea, L., 2007, *Responsabilitate Socială Corporatistă*, Editura Triton, București
- [4] Redman, E., 2006, *Three Models of CSR*, research paper, The Roosevelt Institution



## Regulation and deregulation of the financial markets

Cristina Duhnea

Silvia Ghita Mitrescu

Oana Nitu

Ovidius University of Constanta

[cristinaduhnea@univ-ovidius.ro](mailto:cristinaduhnea@univ-ovidius.ro)

[sghita@univ-ovidius.ro](mailto:sghita@univ-ovidius.ro)

[oana.oprisan@yahoo.com](mailto:oana.oprisan@yahoo.com)

### Abstract

The regulation and oversight of the financial markets is made necessary by both their complexity and the imperfect real economies in which they play a lead role. The paper makes an analysis of the evolution of the regulation and deregulation of the financial markets.

**Key words:** financial market, regulation, deregulation, European Union

**JEL classification:** G28, G15

### 1. Introduction

Financial market regulation's main purpose is to promote financial institution stability. Its secondary objective is to block the effects of asymmetric information<sup>1</sup>, where some market agents are in possession of information unavailable to others. This regulatory function is especially important to individual investors, who lack the capacity to procure such information through research or rating agencies. Thirdly, regulation must promote fair competition on the financial markets. To this end, regulation must fight the insider trading phenomenon, and to

ensure sufficiently high financial institution capitalization, especially in banks<sup>2</sup>.

The financial market regulation took different shapes and directions, depending on the respective macroeconomic and political environments. Also influencing regulation were the financial integration and globalization phenomena present in the world's economy during the last decades.

### 2. Regulation deregulation of the financial markets comparative analysis

The oversight organization can be either a dispersed structure (such as on the American and UK markets) or as a highly concentrated one (as is the case in Germany).

An increasing number of countries show a tendency to task a single institution<sup>3</sup> with the regulatory and oversight responsibilities. In countries such as the USA and Japan, with a single financial system, the issue of regulation/deregulation has different implications than in the European Union, where additional complexity regarding the adequate regulation of the financial services market arises from the existence of parallel European and national systems.

---

<sup>1</sup> L. White, "Technological change, financial innovation, and financial regulation, in the U.S.: The challenge for public policy", apărut în "Performance of financial institutions" de P. Harker și S. Zenios, Cambridge University Press, U.K., 2000, page 12

---

<sup>2</sup> Rod Apps, David. Goacher, "The monetary and Financial System", Bankers Workbook Series, London, 1996, page 152

<sup>3</sup> Ovidiu Stoica, "Mecanisme și instituții ale pieței de capital. Piețe de capital emergente", Editura Economică, București, 2002

The issue of establishing a single regulatory and oversight authority has been raised increasingly during recent years, given the support at the Union level for the universal bank model. *But how effective would such a single regulatory institution be: could it alone protect all investors, inspect financial institutions and provide market oversight in twenty-seven countries?* On the other hand, the current market fragmentation, including the regulatory institutions, contributes negatively to both intra-European trading and the pursuit for an integrated European capital market.

While the US capital market regulatory body has existed for decades, and the market structure is fundamentally unchanged since the '40s, the European Union institutions tasked with financial services oversight have lack the age and experience of their American counterparts. The challenges they face are however bigger and more complex, even more so after the introduction of the Euro and the EU expansion. In the 2000s, when the financial market grew to include emerging market sectors, existing issues were supplemented with concerns for steering the development of the new markets towards a healthy maturity.

The last few years have seen a trend in published works introducing the notion of deregulation, often presented as the opposite of regulation.

Assuming then that regulation describes the oversight and control of capital markets, we can see **deregulation** as a process involving the relaxation of the barriers imposed on trading and market participants, with the purpose of allowing for stronger competition, and in turn for better satisfaction of demand.

*This international deregulation trend includes market liberalization phenomenons, opening up national markets, and lifting existing restrictions.* From this perspective, we can also see a link between deregulation and the accelerated globalization of national capital markets<sup>4</sup>.

There are two main aspects of the deregulation process. Firstly, beginning with the capital flow liberalization in the '70s, there were major changes affecting strictly the rules and regulations for capital market trading (such as the abolishment of fixed commissions in 1975 and the start of primary and secondary market disintermediation, accelerated by the introduction of electronic trading systems). Secondly, other major changes concerned the fundamental laws governing capital markets, both national and international, towards integration.

*Deregulation manifested differently on the main capital markets, with the US and European cases as the most important ones.*

In progress for the last twenty years, the deregulation process contributed significantly to the acceleration of financial globalization, the positive effects of which were previously satisfactorily compared to their disadvantages. But the latest financial crisis, encompassing national economies since 2007, weighs the opportunity of deregulation with the need for protecting, providing oversight for and controlling the national capital markets.

The issue of regulation and deregulation in the EU is more complex than in the case of the US, since it must address two big domains: on the one hand, it has to consider regulating national capital markets, with their inherited structures, regulation models and trading traditions. On the other hand, it must strive towards regulating the single market resulted from the integration of the national ones.

The regulation of European Union financial markets is consequently tightly related to one of the main targets of the union's authorities - that of establishing a single market, including financial services. This purpose implied the deregulation of member states' national capital markets, and the re-regulation of the financial services market at the community level.

But the years following the signing of the Treaty haven't had a positive influence on financial integration and the creation of the single financial services market. Therefore, The European Commission initiated in 1999 the Financial Services Action Plan, which aimed to establish a combination of laws, amendments to

---

<sup>4</sup> Ovidiu Stoica, "Mecanisme și instituții ale pieței de capital. Piețe de capital emergente", Editura Economică, București, 2002, pag. 70

existing regulations, communiques and EC recommendations towards eliminating the flaws impeding the liberalization of the European financial services market, all of which was to take place within 5 years. The Barcelona meeting of the Council of the Action Plan for Financial Services resulted in the acknowledgement that besides existing regulation initiatives, also worth considering are the consultancy level and quality (Lamfalussy Report), the danger of over-regulation, the need for flexibility, the differences in financial services offered to companies (wholesale) and to retail, and the ways to collaborate across oversight activities.

Created with the intent to accentuate the EU financial integration, the Action Plan aimed for a coherent set of regulations, which were to accelerate financial integration and harmonize the national laws with the European directives for an efficient financial market.

During 2001-2004, under the Financial Services Action Plan (FSAP) several directives were drawn, concerning guaranties, market abuse, financial brokers, remote financial services marketing, financial conglomerates, issue prospects, occupational pension funds, IAS regulation, exchange quotation, public offerings, and harmonization of transparency requirements to allow for quicker cross-border listing.

Special consideration was given to market manipulation and privileged information trading<sup>6</sup>. These phenomena were the target of one of the earliest European financial services market directives, in 1999. After long debates, as part of the FSAP actions, a new directive regulating these issues emerged in 2003.

At the end of the Action Plan's run the 2004/39/EC was issued, concerning the financial instruments market (MIFID), viewed as one of the most important European capital market regulations.

The whole set of regulations resulted from the FSAP had the purpose of establishing a community level legal framework, which when implemented nationally would result in deregulation, and in turn in additional flexibility in across-borders trading, increased liquidity, more competitive European markets, a rise in total investments accomplished by helping the public to trade securities with maximum

efficiency and minimal costs, and introducing new trading methods. All this would allow for the proliferation of financial instruments best fitted to the needs of market participants.

We view the Action Plan as an important contributing factor to the acceleration of the financial integration in the European space. Producing visible results, it was the first successful regulatory initiative towards sketching a single financial services market.

From these positive results and concluding the debates initiated by the European Commission at the end of the FSAP, resulted a White Book titled "The Financial Services Policy for 2005-2010". It encompasses the principal action directions to finalizing the creation of an integrated financial services market. The policy's objectives concern less the legal framework itself, and more the qualitative aspects linked with creating an integrated financial services market, financial services market consolidation, removing remaining barriers to free, cheap capital circulation in the EU, the continuous implementation and evaluation of existing regulations, strengthening cooperation and convergence in oversight, and deeper connections with other financial markets during the financial globalization process.

The financial integration process initiated by the Maastricht Treaty resulted firstly in a deregulation process at the member states' national capital markets level, especially after the legal framework initiated by the FSAP was finalized. As intended, this deregulation process involved eliminating restrictive and protective national regulations, and replacing them with a set of prudent directives, applied in non discriminatory fashion in all member states.

The immediate and direct consequence of applying the European directives was increased competition between financial intermediaries in member states, which were able, after the introduction of the European passport, to extend their activities to other European Union countries.

Deregulation accelerated nationwide implementation following across the FSAP European and European-level re-regulation seemed, in early 2007, to lead the financial markets

towards an unprecedented European integration and an accelerated development. Unfortunately the changes caused by the international financial crisis begin to novel years 2007 2008 which brought the national financial markets in the European Union collaps. Sensitive topics such as hedge funds and private equities transactions returned to date because are considered partly responsible for triggering the crisis.

### 3. Conclusions

We think that the latest evolutions of the main financial markets put to danger the entire regulation work both in The European Union and other financial systems like United States, China and Japan and prove that “deregulation” is a tricky concept that can bust the development of the financial market towards a perfect economic environment but can also create chaos when the financial instability escalades and all the actors involved use the lack of regulation to minimize the loss.

The ongoing financial crisis must be a lesson and the future developments in the field of the financial markets regulation must, in our opinion take into consideration:

- A re-regulation process that bring in the financial markets new rules;
- Enforced protection for consumers against toxic financial instruments;
- Recreations of the financial systems by bringing back to basics the banks.

### 4. Bibliography

1. Ovidiu Stoica, “Mecanisme și instituții ale pieței de capital. Piețe de capital emergente”, Editura Economică, București
2. Rod Apps, David. Goacher, “ The monetary and Financial System”, Bankers Workbook Series, London, 1996
3. L. White, “Technological change, financial innovation, and financial regulation, in the U.S.: The challenge for public policy”, Cambridge University Press, U.K., 2000
4. [www.europe.int](http://www.europe.int)
5. GOLDBERG, L.G,LOTHIAN, J.R., OKUNEV, J.“Has International Financial Integration Increased?”, [Open Economies Review](#), Volume 14, Number 3, Page 299-317(19), 2003
6. European Trade Union Confederation, „ EU Policy towards Financial Market Regulation”, resolution adopted by the ETUC Executive Committee on 21 october 2009

## Management methods and techniques used in the companies to have a profitable business

Enea Constanța,  
*Universitatea Constantin Brâncuși din Targu-Jiu*  
Enea Constantin,  
*Universitatea Constantin Brâncuși din Targu-Jiu*  
mail: *eneacostante@yahoo.com*

### Abstract

Methods and techniques of management used in Romanian small and medium enterprises (SME) represent the understanding and management application of the business. To choose the best combination of methods and techniques to be implemented is a decision that must bring the business closer to achieving its objectives. The existence of more techniques and methods of management makes managers to use a specific set, a specific combination of methods and techniques, that proves the involvement that managers have in their managerial tasks. The importance of decision making is showed by Herbert Simon because management is as important and almost identical to decision making. He believes that „the factory of the future will be functional based on automatic decisions taken in the next office, that is also automated” [1].

**Key words:** profitable business, management methods, techniques

J.E.L. M10;

### Introduction

To write a future not too far from the present is becoming an adventure in these times of radical fast changes.

If the future will be predictable over longer periods of time, -tens of years- than decision making would not be so complex and difficult to achieve. Because of general instability of a social, economic, political nature, decision making and its result must be continuously improved.

The necessity of decision making as a current practice is based on future uncertainty on one side but answers the necessity of removing

the consequences of things that already have happened.

Decisions are the result of a process of stages that are considered to be next [5]:

1. Recognising the fact that there is a problem that cannot be resolved other than by a solution, a decision that will generate a rule or a principle ;
2. Establishing the minimum conditions that the answer must satisfy;
3. Identifying the solution that will satisfy a minimum of conditions;
4. Incorporating the decision in actions that lead to its realisation ;
5. Identifying the result after applying the decision taken as to the actual course of events.

This process is important and complex of decision making is specific to managers of all hierarchy and recently to knowledge workers, and experts. Decision making is generated by the need to resolve an existing problem and to foresee future situations that are similar and can happen in a given scenario.

Studying managerial practice, *decision, based on a time table* that are found to be viable, were considered to be the following [6]:

✓ *Strategical decisions:* Are found to be viable over a time table of 3 to 5 years; Are used by high level managers that have all the information of the business and its future; Are used to contribute to accomplishing objectives over a medium to long time frame.

✓ *Tactical decisions:* Are referred to periods of time between one and a half and two years; Are used by high ranking managers; They view both the ensemble and the distinct activities of the SME; They contribute to a realisation of policies, programs and plans for SME's.

✓ *Current decisions:* Time frame of a few months; Are used by medium and low level

managers; Used to accomplish individual objectives.

By the rate that decisions are made in a organisation we distinguish 3 categories:

✓ *Periodical decisions*: Are adopted especially in the production process; Are adopted in regular intervals of time; In the process of decision making there can be used mathematical elements.

✓ *Random decisions*: Are taken at irregular intervals of time; Decision quality depends on the potential of the decider.

✓ *Uniquel decisions*: Have an exceptional character; The quality of this decision type depends more than other decision types on the potential of the person deciding.

The decider based on his native and learned skills can partially or fully anticipate the possibility of making a decision. So we have two decision types:

✓ *Anticipated decisions*: Elements involved in the decisional process are known long in advance; Are specific to SME that are scientific ruled but also to evolved.

✓ *Unpredictable decisions*: Elements involved in the decision making process are known a short time before making a decision; Quality of the decision taken depends mostly on intuition.

Knowing the decision power of the decision taker, decisions can be:

✓ *Integral decisions* – that are adopted by the decision taker, without advisement by the superior manager. These are decision types specifically of current decisions, periodical and anticipated decisions.

✓ *Advised decisions* – are taken by the decision taker, but for their application a high level manager's advisement is necessary. Such decisions are mostly strategic, tactical that are forefiled over higher lengths of time.

The decision taker selects the optimal variety from the multitude of decisional variants, and can be a person or a group of persons. When the management is participative, meaning that decisions are taken by a group of persons, the decision is partial, case in which the time volume is bigger than when the decision is taken by a single person. In this case when decisions are taken by a single person, decision type is singular or individual.

Taking a decision is a complex process with high risk and great responsibility for managers of any hierarchy levels [ 6].

### **Choosing the best combination of methods and techniques of management**

The above has referred to the decision making process and its effectiveness, like the types of decisions existent in managerial practice are just an introduction in the more complex problem of an SME that asks how to implement the science that is management? What managerial techniques, are needed at a business level to have a profitable and capable activity?

Decisions are taken in the sense that they are needed even from the beginning of the SME and throughout its lifetime. It is the responsibility of high level managers to decide:

✓ What type of mixed activities will the new business have;

✓ What structure of organisation will answer better the primary objective?

✓ What are the features of the worker of the SME?

✓ What are the methods of management and its techniques that are applied in a Romanian SME?

To answer in more detail to the last question we consider the existence of a SME called SC X SRL, that has its primary activity, production of wooden panels and furniture from stratified wood, for the internal and external market. Since its beginning, high level managers and associates have considered opportunistic, for the Romanian market to build a business based on the production of furniture and panels from stratified wood. Because there is no continuous flux of internal or external requests, the decision has been taken to have other secondary activities such as the production of pallets, for transport, production of doors, and windows from stratified wood. The decision has proven to be effective, resulting in a growth of internal and external clients and growth of profits by SC X SRL.

For such a diversity of activities a single SME the high level managers have decided there is a need for an organisational structure that is more flexible, and in no case based on strict hierarchy. The most opportune method of management is knowledge management, where the workers were hierarched by their knowledge and leadership was not based on hierarchy or relations between the

employees but on knowledge and cooperation rather than subordination.

For a better functionality of SC X SRL its managers have applied usual techniques of management, indispensable for the best development of any activity. These are: session method, method of competence and responsibility, elaboration of the business plan especially for the financing of a new project from external sources, SWOT method and benchmarking. Benchmarking is hoped to become a usual technique of management because of its special effects that offer SC X SRL, after such a technique the business will know its standing comparative to other business and can improve its activities.

As a management method knowledge based management has been chosen considering the advantage of including both objective, partial and exceptional management types.

It is to be noted that for SC X SRL both techniques and methods of management are interlaced, and the decision of using one or the other is taken based on internal conditions existent at any given moment.

### Conclusions

Decision is the base instrument of a manager regardless of his level of hierarchy. To adopt the best decision in the case of any given problem is the dream of any manager. Intuition and charm experience and acquired knowledge help managers in their work to make the best decision.

The optimal method of combining methods and techniques that are applied at a managerial level of Romanian SME is a fact that happens, most of the times these decisions are decided of the succession of many events. And the decision to apply one or the other is taken after its initialisation in practice.

### Bibliography

1. D. S. Pugh, D. J. Hickson – *Managementul organizațiilor* – Ed. Codecs, București, 2008
2. Pascal Charpentier, Xavier Deroy, Odile Uzan, Rolande Marciniak, Stéphane Luong, Gerard Benoist Du Sablon – *Organizarea și gestiunea întreprinderii*, Ed. Economica, București, 2009
3. Eugen Burduș, Armenia Androniceanu – *Managementul schimbării* – Ed. Economică, București, 2005
4. Ovidiu Nicolescu – *Sistemul decizional al organizației* – Ed. Economica, București, 2009;
5. Peter F. Drucker – *The essential Drucker*, Ed. HarperCollins, New York, 2001
6. Peter F. Drucker – *Despre decizie și eficacitate*, Ed. Meteor Press, București, 2007.

## The Balance Point's Role In The "Cost-Volume-Profit" Analysis

Prof. Univ. Dr. Elena Ruse

University: Spiru Haret

College: Management Financiar Contabil Constanta

[latan\\_e@yahoo.com](mailto:latan_e@yahoo.com)

### Abstract

*Managers use the "Cost-Volume-Profit" (CVP) analysis as a support in decision making, some of which are strategic decisions.*

*The fundamental hypothesis of CVP analysis is based on:*

*1. Changes that occur in business volume entail changes in revenues and costs;*

*2. Total costs are split into variable costs and fixed costs;*

*3. The total variable costs structure includes direct and indirect variable costs of a product, like fixed costs including direct and indirect fixed costs;*

*4. The analysis of revenues development and total costs in relation to production volume is carried out within a relevant time interval;*

*5. Within the limits of the relevant time interval the analysis coordinates (selling price, unitary variable cost and fixed costs) are known and constant;*

*6. CVP analysis can be conducted on a single product, taking in consideration that the total ratios of different products would remain constant as the number of total units sold changes.*

**Key words:** cost-volume-profit, analysis, balance point

**Jel Classification:** M1, M41

Based on the distinction between variable and fixed costs, the analysis of the correlation between the volume of activity, costs and profit, is directed, essentially towards decision making regarding company management in business forecasting. Used since the end of World War I, the analysis of

this correlation can be done by calling on indicators like:

- The balance point (critical point);
- The safety interval and dynamic safety index;
- Coverage factor;
- Index of sampling;
- Volatility coefficient or operational leverage.

### The balance point in time:

The time  $t$  in a given period of time in which the balance point can be achieved can be determined using the formula:

$$t = \frac{T \times CA^*}{CA}$$

$T$ - the number of management periods taken into consideration.

Production is carried on for 12 months, and the time  $t$  in which the balance point is achieved will be:

$$t = \frac{T \times CA^*}{CA} = \frac{12 \times 5600,00}{12600,00} = 5,33 \text{ months}$$

which means 5 months and 10 days.

*The balance point will be achieved on the 10<sup>th</sup> of June.*

In time, the cumulated turnover rises to a point when the margin on variable costs fully covers fixed costs. At that time (june 10) the result is zero. From this moment until the end of the year, the variable costs margin will generate only profit.

Most of the time the activity of the business is not done at the same pace during



the year, and especially sezonal units make and irregular turnover during the year. The sezonal variations from the exercise do not affect the operating conditions of the business and do not influence the level of the critical turnover but

between time and level of turnover is impossible. Different achievement rates between quarters, show that the time of reaching the balance point has moved, it being achieved later.

Calculation of this time can be determined as follows:

- From the development of turnover;

change the moment when the critical point is achieved.

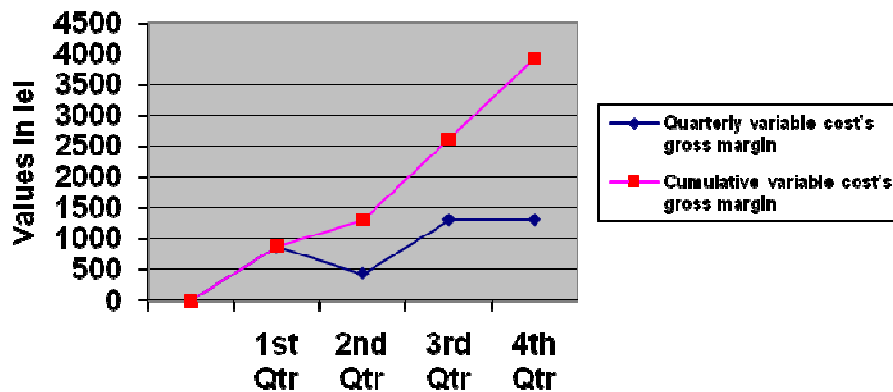
Taking into consideration the unchanged operating conditions, the critical point of 5600.00 lei will not be achieved on June 10 because the use of proportionality

- From the development of variable cost's gross margin.

Table nr. 1: Cost's gross margin

Period	Quarterly variable cost's gross margin	Cumulative variable cost's gross margin
0	1	2
1st quarter	872,54	872,54
2nd quarter	436,27	1308,81
3rd quarter	1308,81	2617,62
4th quarter	1308,81	3926,43

### The evolution of the cost's gross margin



Achieving the balance point earlier represents an additional safety margin for the business.

Calculating the balance point for a unsteady production involves determining a steady unit of production.

Where:

$\overline{m}_u$  is the variable cost's average gross margin per unit

The variable cost's average gross margin per unit can be determined using the formula:

The critical point can be mathematically determined using the formula:

$$Q^* = \frac{CF}{m_u}$$

$$\overline{m}_u = \frac{M}{\sum_{i=1}^n Q_i}$$

The company S.C. MEDA SRL sold during the managed period the following products:

Table nr. 2:

<i>Product's name</i>	<i>Quantity sold</i>	<i>Variable unit cost</i>	<i>Unit selling price</i>
0	1	2	3
A	9 buc.	963,73 lei	1400,00 lei
B	23 buc.	328,07 lei	600,00 lei
C	25 buc.	121,79 lei	300,00 lei

The fixed costs made by the company amounts 9072.80lei.

The variable cost's average gross margin per unit will be:

$$\overline{m}_u = \frac{14636.07}{9 + 23 + 25} = 256.77 \text{ lei}$$

The physical volume of production at the balance point will be:

$$Q^* = \frac{9072.80}{256.77} = 35.33 \text{ pcs}$$

The numbers are found in table nr. 3.

Table nr. 3: The unit and total gross margin

r crt	Indicators	Products sold			
		Total	A	B	C
	1	2	3	4	5
	Quantity sold		9	23	25
	Unit selling price		1400.00	600.00	300.00
	Unit variable cost		963.73	328.07	121.79
	Unit gross margin		436.27	271.93	178.21
	Turnover	3390.00	1260.00	1380.00	750.00

	Variable costs related to the sold products	1926 3.93	8673. 57	7545. 61	304 4.75
	Total gross margin	1463 6.07	3926. 43	6254. 39	445 5.25

The average selling price is determined:

$$\bar{P}_v = \frac{CA}{\sum_{i=1}^n Q_i} = \frac{33900.00 lei}{57 pcs.} = 594.74 lei$$

The critical turnover can be determined:

$CA^* = Q^* \times \bar{P}_v = 35.33 pcs. \times 594.74 lei = 21012.16 lei$  The critical turnover can also be determined using the following formula:

$$CA^* = \frac{C_F}{M} \times CA = \frac{9072.80 lei}{14636.07 lei} \times 33900.00 lei = 21014.38 lei$$

### The structure of production at the balance point.

Determining the structure of the physical volume of production at the balance point is by the weight of each product from the total production obtained.

Table nr. 4: The structure of production at the balance point. Product name	Production obtained		The structure of production at the balance point
	Physical units	Relative numbers	
0	1	2	3
A	9	15,79%	6
B	23	40,35%	14
C	25	43,86%	15
Total	57	100	35

The structure of production at the balance point is:

Table nr.5: The structure of production at the balance point.

Product	The structure of production at the balance point	Selling price	Critical product's turnover
0	1	2	3
A	6	1400.0	8400,00
B	14	0	8400,00
C	15	600.00 300.00	4212,16
Total	39	-	21012,16

Changes in operating conditions may occur in the operating activities of the company, dependent or not on the company's management. These changes may influence the balance point and are determined by:

➤ *Company structure* – as a result of expansion or restriction of production capacity and which leads to the change of fixed

cost's level. Their rise, generated by the expansion in production capacity, will move the balance point, which means an increase in the company's effort to produce and sell more output to cover additional costs of investment. The reduction of capacity will determine a decrease in the fixed costs level and hence a reduced effort to reach the balance point;

➤ *Current operating conditions* – by changing the selling price of products, the

purchase price of raw materials, wages rates, working time, rules of consumption of raw materials, transport rates, energy, etc. These elements influence the variable costs margin. *A rise in the margin reduces the company's effort to reach the critical point as a decrease in the margin increases the company's effort.*

### **Bibliography**

[1] Burlaud A., Simon C.J., *Controlul de gestiune*, Ed. Coresi, 1999;

[2] Horngren C.T., Datar S.M., Foster G., *Contabilitatea costurilor, o abordare manageriala*, Editia a XI-a, Ed. Arc, 2006;

[3] Iatan Elena, *Contabilitatea de gestiune*, Ed. Muntenia, 2007;

[4] Iatan E., Avrigeanu E.A., *The role of "Cost-Volume-Profit" analysis in the decision making process*, International Conference On Business And Economy 06-08 Nov 2008, Constanta, Roma